Intercorp Financial Services

2Q25 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ivan Peele – *Inspire Group*

Luis Felipe Castellanos – *Chief Executive Officer of Intercorp Financial Services*

Michela Casassa – *Chief Financial Officer, Intercorp Financial Services*

Carlos Tori – *Chief Executive Officer, Interbank*

Gonzalo Basadre – *Chief Executive Officer, Interseguro*

Bruno Ferreccio – *Chief Executive Officer Inteligo*

PRESENTATION

Operator
Good morning and welcome to the Intercorp Financial Services Second Quarter 2025 Conference call. All lines have been placed on mute to prevent any background noise. Please be advised that today's conference call is being recorded. After the presentation, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow if you would like to ask a question. Also, you can submit online questions at any time today using the window on the webcast, and they will be answered after the presentation during the question-and-answer session. Simply type your question in the box and click Submit Question.

It is now my pleasure to turn the call over to Mr. Ivan Peele from Inspire Group. Sir, you may begin.

Ivan Peele
Thank you and good morning, everyone. On today's call Intercorp Financial Services will discuss its second quarter 2025 earnings. We are very pleased to have with us Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services; Ms. Michela Casassa, Chief Financial Officer, Intercorp Financial Services; Mr. Carlos Tori, Chief Executive Officer, Interbank; Mr. Gonzalo Basadre, Chief Executive Officer, Interseguro; and Mr. Bruno Ferreccio, Chief Executive Officer Inteligo. They will be discussing the results that were distributed by the company yesterday. There is also a webcast video presentation to accompany the discussion during this call. If you didn't receive a copy of the presentation or the earnings report, they are now available on the company's website ifs.com.pe. Otherwise, if you need any assistance today, please call InspIR Group in New York on 646-940-8843.

I would like to remind you that today's call is for investors and analysts only; therefore, questions from the media will not be taken.

Please be advised that forward-looking statements may be made during this conference call. These do not account for future economic circumstances, industry conditions, the company's future performance or financial results. As such, statements made are based on several assumptions and factors that could change causing actual results to materially differ from the current expectations. For a complete note on forward-looking statements, please refer to the earnings presentation and report issued yesterday.

It is now my pleasure to turn the call over to Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services, for his opening remarks. Mr. Castellanos, please go ahead, sir.

Luis Felipe Castellanos
Thank you. Good morning and welcome to our 2025 second quarter earnings call. First, I want to thank you for attending our call today.

We continue to see a positive performance of the Peruvian economy with an accumulated growth of 3.1% as of May. This momentum is driven by increased dynamism in sectors that link to consumption and sustained private investment, which is projected to grow by 5% this year. We continue to operate in a low inflation environment with a very stable exchange rate and with positive momentum for investment projects expected for the following month. We remain moderately optimistic about Peru's growth outlook as both private investment and consumption continue to trend positively. Consequently, the Central Bank has changed its internal demand forecast from 3.5% to 4.5% with a GDP growth of 3.1% for 2025.

While international context and next year's presidential elections in Peru could introduce some volatility, we expect persistently high commodity prices to help offset external pressures. In this environment, Peru remains well positioned in the region as one of the fastest growing economies.

Now talking about IFS. At IFS, we delivered a strong YoY recovery with an ROE exceeding 20%. This quarter's results were driven by solid performance in the core businesses across our subsidiaries, with particularly strong investment returns. These gains have allowed us to maintain a healthy ROE and reinforce our long-term targets. Interbank continues to show solid momentum in commercial banking, with a clear focus on mid-sized companies and strong synergies with Izipay, resulting in a gain of 90 basis points in market share within the segment.

In line with improved internal consumption, we're seeing greater dynamism in consumer activity, reflected in higher cash flow disbursements and increased credit card turnover. These trends signal early signs of growth in the consumer portfolio, although the pace remains slower than expected. As a result, NIM has remained stable, while cost of risk is performing better than anticipated, in line with improved household purchasing power, contributing to an increase in risk adjusted NIM.

Izipay and Interbank continue to seize business opportunities together, while Plin keeps increasing the engagement of users, fostering more primary banking relationships and supporting growth. Interseguro continues to grow its business with notable expansion in private annuities and life insurance as we continue to be market leaders.

Our wealth management segment, through Inteligo, delivered very strong results this quarter. The continued positive engagement with clients led assets under management to reach new highs, growing 14% YoY. In addition to this, investment results were particularly strong, driving ROE to high levels.

We remain committed to place our customers at the center of our decisions. As you know, our key strategic priority at IFS is to achieve digital excellence for our customers, fostering private relationships. Our ambition is to become the leading digital platform in the country with a clear focus on key businesses and profitable growth, providing a comprehensive suite of services powered by a top tier customer experience and advanced analytics as our competitive advantage.

Looking ahead, we remain optimistic about IFS's prospects. The company has demonstrated resilience during the down cycle and the ability for a fast recovery. We are confident in our delivery to continue executing our long-term strategy.

Now, let me pass it on to Michela for further explanation of this quarter's results. Thank you.

Michela Casassa
Thank you, Luis Felipe. Good morning and welcome, everyone, to Intercorp Financial Services' second quarter 2025 earnings call. We would like to start with our key messages for the quarter.

We had a strong 2Q continued with the positive trends in our core businesses. Moreover, 2Q was boosted by solid investment results. Our net income reached 580 million soles at IFS with an ROE of around 21%.

The second key message, our commercial and payments ecosystem is growing, as evidenced by a number of indicators, one of which is our market share in commercial banking, growing more than 90 basis points in the last year.

Third, our quarterly cost of risk stood at 2.5%, which is 150 basis points below last year, stable at low levels while maintaining a relatively stable NIM.

Fourth, the cost of funds remains stable this quarter, although showing an improvement of 40 basis points on a YoY basis, primarily due to a better funding mix.

Fifth, we are strengthening primary banking relationships, and as a result, our retail primary banking customers grew 10% in the last year.

Last, we had solid core results in wealth management boosted by investments performance with other income growing 5.3x in the last year. Additionally, Insurance continues in a solid path of growth as written premiums increased by 77% YoY due to the growth in private annuities and life insurance.

Let's start with our first key message. Let me share an overview of the macroeconomic environment. GDP growth showed a slight deceleration in the second quarter, though it remains above consensus, with an expected rate around 3.0%. May growth was 2.7% bringing year to date expansion to 3.1%. Primary GDP contracted by 0.3%, while non-primary GDP grew 3.2%. Sector performance includes construction led with 6.0% growth, followed by agriculture, services and commerce, especially lodging and restaurants, all above 5.0%. Inflation continues under control, and the reference rate stands at 4.5% aligned with the Fed, and it is the lowest and most stable currency in the region.

With a real rate near 2.2%, the Central Bank has room to ease, though it's likely to wait for the Fed to move first. In 2024, the Peruvian sol depreciated less than 1.0% and has since appreciated by around 5.0% on the global uncertainty. GDP forecast is at 3.1%. The 2026 projection holds at 2.9%, keeping Peru among the region's fastest growing economies.

On the same line, business expectations remain stable in the optimistic range, while consumer confidence continues to improve, supporting domestic consumption. In fact, the Central Bank revised its 2025 internal demand forecast upward from 3.5% to 4.4% driven by strong private consumption and investment. Private investment is supported by self-construction, improved financial conditions and higher business confidence on top of the extensive pipeline of projects to come in mining and infrastructure.

Private consumption remains dynamic, fueled by wage growth and employment recovery, which is helping households receive tangible improvements in their economic situation. While the labor market growth has moderated, it remains positive. Former job creation continues across sectors with notable growth in services, 4.0%; commerce, 4.0%; and agriculture, 26.0%. Despite this, loans have yet to show significant growth with YoY and year to date expansion at system level below 2.0%.

Liquidity events, such as several funds withdrawals have not supported credit growth, and banks remain cautious. The second quarter was slightly more dynamic for commercial lending, but still below expected levels, giving the macro backdrop. We expect a more dynamic second half for the financial system with total loans growing around 5.0%, mainly driven by retail lending, although momentum may soften due to further withdrawals.

On slide six, we have some positive news to share. In the second quarter, we delivered strong earnings of 580 million soles, double what we reported a year ago and 30% higher than the last quarter. This brought our ROE to 20.7%.

On the banking side, results continued to improve, with earnings growing 1.5x over the past year. While the growth of the consumer portfolio has been slower than initially expected, the current portfolio mix continues to positively influence cost of risk, which remains at low levels. Additionally, increased client transaction volumes are contributing to fee generation.

On insurance, we continue to deliver strong results with good trends in its core business, especially in private annuities, which benefited from synergies with Inteligo, and in mandatory annuities, and finally, due to the D&S portfolio.

Finally, our wealth management business delivered a very strong performance this quarter. The core business continues to grow steadily, supported by consistent assets under management expansion. Additionally, we benefited from strong investment results this quarter. All in all, this was a strong quarter across IFS, with investment gains and resilient core operations driving profitability.

On slide 7, we show you the continuous positive quarterly earnings and ROE trends. Since early 2024, we've seen a positive trend in both earnings and ROE. As of the first half of 2025, earnings are 2.4x higher than the same period last year, and our accumulated ROE stands at 18.4%.

At the bank, the recovery remains on track. While NIM and consumer loan growth are progressing slower than planned, we are seeing encouraging trends in other areas, particularly low levels of cost of risk and improvement increase. Moreover, Inteligo has delivered very strong results, along with good performance from Interseguro’s real estate portfolio.

Another positive highlight is the growing diversification of IFS earnings. In the first half of the year, the bank contributed less than 70% of total earnings, showing the increasing relevance of our other segments.

Let's now turn to slide 8 where we take a closer look at IFS revenues, which grew 19% YoY. At the bank level, we continue to see stability of NIM mainly due to slower than expected growth in the consumer portfolio, which impacts average yield, offset by ongoing improvement in the cost of funds and by a low cost of risk aligned with the portfolio mix. On the fee side, the bank posted 14% growth supported by both commercial banking fees and increased retail activity, particularly higher credit card purchases. Inteligo also delivered a 17% increase in fees reflecting continued AUM growth and the strength of its core business. Interseguro and Inteligo had both strong revenue trends, as mentioned before.

On slide 9, expenses at IFS grew 10% YoY, reflecting strategic investments aimed at supporting long term growth. These include accelerated spending in technology focused on resilience, user experience, cybersecurity, increased capacity and AI, as well as efforts to strengthen leadership across key teams, recognizing the importance of talent in executing our strategy. As a result, the cost-to-income ratio at the bank level reached 42% while at the IFS level strong top line performance kept the ratio at a benchmark level of 36%.

Now, let's move on to our second key message. On slide 11, we wanted to give you an update on the consumer portfolio. The current mix continues to lean towards lower risk segments, supported by growth in affluent clients and improved risk profile in the mass market segment, while this has helped keep the retail cost of risk at low levels. As of June 25, cash loan disbursements increased by 80% YoY. In credit cards, transactional activity continues to grow as turnover rose 15% YoY, although this hasn't translated into higher balances. The share of full payers increased from 22% in the second quarter 2024 to 30% in the second quarter this year.

We started to see some growth in the overall consumer portfolio, which expanded by 0.6% in the last quarter, a trend that has accelerated in July. However, the pace remains lower than expected, reflecting both supply and demand dynamics.

On the supply side, we've maintained a cautious approach to ensure healthy growth. On the demand side, ongoing liquidity events such as the severance funds withdrawals have provided extra liquidity to clients. While consumption remains active, many clients are still not ready to take on additional credit. That said, we continue to explore higher yielding segments, but always with a prudent approach.

On slide 12, we show you the evolution of loan growth and market share. Total loans grew 6% YoY, outperforming the system by a multiple around 3x, and resulting in a gain of 30 basis points in total market share. In commercial banking, we gained 90 basis points of market share supported by 3 key drivers. First, sales finance remains a strategic focus, growing by 20% YoY, consolidating our position as the second largest player in the system. Second, we continue to deepen customer relationships, offering more products and growing our balances with our most relevant clients, reflected in a 240 basis point gain in mid-sized companies market share. And third, our synergy with Izipay is helping us reach more clients with a strong value proposition, both in mid-size companies and small companies through IzipayYa where we have gained 30 basis points market share and still see room to grow.

On the retail side, loans were up 1.2% YoY, led by high income segments. Mortgage continues to grow steadily, while consumer lending remains more challenging, especially in a more competitive environment.

As part of our strategy, we are strengthening our payment ecosystem with Plin and Izipay. We have continued working to generate further synergies as we encourage the growth of our payment ecosystem, focusing on increasing transactional volumes, offering merchants value added services and using Izipay as a distribution network for Interbank products as well as a source to increase growth. In this manner, Plin active users grew 13% over the last year, and our digital retail customers reached 83%.

Moreover, IzipaYa and Izipay continue to gain traction with volumes from IzipaYa increasing 1.7x, resulting in more flow coming to Interbank. Consequently, small businesses deposits have grown by 20% now representing around 10% of our wholesale deposits and 24% of our wholesale core deposits. Finally, Interbank share of Izipay flows now stands at around 39%.

Following with the third message, we continue to see a low cost of risk and relatively stable NIM. On slide 15, we'd like to highlight the continuous strength of our asset quality metrics. Cost of risk remains low across segments. In retail, it stands at 4.2%, a level that is 300 basis points below last year. In commercial banking, cost of risk remains stable at around 0.6%. These trends reflect both an improving macroeconomic environment and healthier client payment behavior. In fact, the 2.5% consolidated cost of risk for the second quarter is aligned with the first quarter, excluding the one-off impact from Telefonica.

In commercial banking, that effect drove a temporary decline in the quarter. Without this effect, we see a slight increase in cost of risk still within expected levels. In retail, which stands at 4.2%, mainly driven by the portfolio mix, which has shown a meaningful improvement versus last year, with the consumer portfolio going down from 11.7% cost of risk to 7.2%. This aligns with improved client risk profile and product mix discussed earlier. New vintages are also showing stable area indicators. Within the total portfolio credit cards and payroll loans have maintained an 18% share for 3 consecutive quarters. Finally, NPL ratios remain stable and coverage levels are solid above 140%.

On slide 16, we show the evolution of yields and margins. Loan yields declined 70 basis point YoY, reaching 9.9% in the second quarter, but stable versus the first quarter. This was mainly due to the lower market rates and loan book mix. That said, the good news is that yields stabilized during the last quarter, supported by some improvement in consumer portfolio and a positive trend in small business lending. Despite the pressure on yields, NIM has remained relatively stable in the last year, thanks to the reduction in cost of funds, which upset the decline in asset yields. It's also worth noting that we carried additional cash during the quarter in preparation for the call of Interbank subordinated bond, which had an 8 basis point impact on NIM this quarter, thus we will start to see an improvement in NIM in the coming quarters. All in all, risk adjusted NIM improved 80 basis points YoY, in line with the lower cost of risk we mentioned earlier. On a QoQ basis, risk adjusted NIM improved 10 basis points.

Now we will deep dive into the cost of funds and funding mix. On slide 18, the cost of deposits declined by 60 basis points YoY, supported by lower market rates and a healthier funding mix. Cost of deposits remain stable quarter over quarter, but the annual trend is clearly positive, and we see further potential for reduction going forward. Deposits have also become a more relevant part of our funding structure now at around 80%. Growth has come from both retail and commercial segments, with total deposits up 7.4% YoY, well above the system's 4.8%, resulting in a market share gain reaching 13.9% of total deposits. As a result, our overall cost of funds fell by 40 basis points compared to last year, although it remains stable during the quarter. Finally, our loan-to-deposit ratio stands at 96% in line with the industry average.

On slide 19, we take a closer look at Interbank's low-cost funding strategy. Our approach focuses on capturing saving deposits and current accounts with low or zero interest rates supported by initiatives that enhance the value-added services we offer to clients. Synergies we dissipate have played a key role, allowing us to deliver a more comprehensive service and increase the float retained in Interbank accounts. This has contributed to a 12% increase in commercial banking low cost funding. Institutional accounts have also supported this growth, benefiting from personalized services and efficient funding solutions.

On the retail side, we continue to strengthen customer engagement and improve the customer experience to foster primary banking relationships. As a result, retail low-cost funding grew 8% YoY, and the share of time deposits over total retail deposits declined from 34% to 32%. Altogether, these efforts led to a 12% YoY increase in total low-cost funding, raising its share from 32% to 34%.

Moving on to our digital strategy on slide 21, we continue to create significant value and primary banking relationships through our digital developments in Plin. Over the last year, we have been able to increase our retail primary banking customers by 10%, now representing more than 33% of our retail client base. Plin reached 2.4 million active customers monthly, each making an average of 25 transactions, up 25% compared to last year. In total, we closed the second quarter with a 44% increase of monthly transactions YoY.

A key driver of this engagement is our focus on P2M payments, which now represent 70% of total transactions. Within this, QR POS payments grew steadily, reaching 2.2 million monthly transactions at 51%. We also launched "Plin Metropolitano" expanding our use cases and accelerating adoption.

Additionally, we believe we have solid key performance indicators that continue to improve. For example, our inflow payroll accounts hold around 14% market share, retail deposits are at approximately 15% market share, and credit cards about 26%. All of these metrics are supported by an NPS of retail banking of 54 reflecting our commitment to customer satisfaction and loyalty.

On slide 22, we continue to see good trends in our digital indicators compared to last year, as we remain focused on developing solutions that meet our customers' evolving needs. As a result, we've seen steady growth in digital adoption. Our retail digital customer base increased from 80% to 83% while commercial digital clients now stand at 74%. We've also made progress in self-service and digital sales. Our self-service indicator reached 78% and digital sales climbed 71%. These improvements are supported by our "Always ON" communication strategy, which focuses on educating customers about new self-service features through the app in our virtual assistant. While the latest NPS reading we have, corresponding to April, showed a drop, our internal data fully reflects a clear recovery.

Finally, solid results with growth in the core business of wealth management and insurance, on page 24 we highlight the strong performance in our wealth management business this quarter. Inteligo continues to show solid momentum. Assets under management have grown at double digit pace, reaching new highs and now totaling $7.8 billion. Fee income continues to improve, up 19% YoY, adding to the positive trend in results.

Additionally, Other income grew 5.3x YoY, and 2.4x quarter over quarter, supported by a 12 month return on investments of 17%. That said for the second half of the year, we anticipate a normalization towards more typical levels. As of June, Inteligo's accumulated ROE stands at 31%. For the full year, we expect results to normalize and remain within our guidance branch.

On the digital front, we continue to enhance our Interfondos app, which is our mutual funds app, with the goal of shifting its role from a transactional platform to a true digital advisor for our mutual funds clients. As a result, we have seen a sustained increase in both the app adoption, with a 7 point YoY increase and digital transactions, which grew by 6 points annually, and now represent more than half of all client transactions.

Now moving to insurance on slide 26, we continue to see good momentum in the contractual service margin, which grew 17% YoY, mainly driven by individual life. In the second quarter, reserves from individual life and annuities increased by 31% and 14% respectively, supported by strong new business generation that more than offset the monthly amortization of the CSM. Individual life remains a key focus for us, given its low market penetration. Although traditional channels keep growing at high rates, we've been also diversifying our distribution strategy to include digital ones and simplifying the product to reach new segments and keep supporting growth. Additionally, short term insurance premiums grew by over 110%, driven by the D&S premiums acquired through a two year bidding process from the Peruvian private pension system.

On the investment side, results remained stable. The return on the investment portfolio reached 6.1%, primarily supported by interest increased from fixed income portfolio and investment funds.

In insurance, we continue to focus on enhancing the digital experience as well for our clients and expanding our sales from digital channels. The development of internal capabilities has allowed us to increase digital self-service to 68% from 66% of the previous year, and the direct sales to grow 11% in the last year.

Now let me move to the final part of the presentation where we provide some takeaways. Before we move on to our operating trends, we'd like to share where we are focusing our growth efforts. On the retail side, we continue to see growth in mortgages as we continue to gain market share, now at 15.8%. We're beginning to observe early signs of recovery in the consumer loan portfolio. That said, the pace of recovery has been slower than we initially expected.

In commercial banking, we are seeing solid progress supported by three main strategies. In insurance, we are maintaining our focus on long-term products. While the market remains challenging, individual life has shown encouraging growth this past quarter.

Finally, in wealth management, asset under management continues to grow at a healthy pace, up 14% YoY, reaching a new record level, a reflection of both market performance and continued client engagement.

On slide 30, let me give you a review of the operating trends of the first half. Capital ratios remain at sound levels, with a total capital ratio of around 17% and the core equity tier one ratio close to 12%. Our ROE for the first half of the year was 18.4%, above our guidance. As mentioned before, we expect the second half to go back to more normal levels, and the year-end ROE to be closer to 17%.

For loan growth, we grew 6% as of June, in line with our guidance and above the system. We expect a slight recovery in NIM over the remainder part of the year, although it continues to face some pressure. On the positive side, cost of risk is expected to remain well below guidance, helping to offset lower margins. As a result, we anticipate a slight improvement in our risk adjusted NIM for the full year. Finally, we continue to focus on efficiency at IFS as our cost to income was around 36% within guidance.

On slide 32 we highlight our strong sustainability performance for the second half of 2025. On the environmental front, a sustainable loan portfolio reached 400 million supporting projects with measurable environmental benefits. We also advanced our renewable energy efforts with 33 financial stores now IREC-certified. Additionally, all corporate banking executives managing the agricultural portfolio have been trained in climate technologies, an important step in our sustainable finance strategy.

On the social side, we continue to promote inclusive growth. Interbank ranked number two in the Great Place to Work Diversity, Equity and Inclusion ranking with the Interseguro and Inteligo Group also recognized. Interbank and Interseguro were also ranked among the top 10 Best Places to Work for Women.

Through IzipaYa, we are supporting over 1.2 million entrepreneurs, while more than 1600 programs are now covered by our inclusive insurance products, Vida Cash and Rumbo. Additionally, over 3600 entrepreneurs have received financial training through Escuela, Izipay's education platform. Finally, we published our Equator Principles Report reaffirming our alignment with international standards for responsible environmental and social risk management in project finance.

Let me finalize the presentation with some key takeaways. First, we have had a strong second quarter. Second, growing commercial and payment ecosystem, while consumer portfolio is starting to slowly recover. Third, low cost of risk continues and stable NIM. Fourth, there is a positive trend in funding mix. Fifth, we are strengthening primary banking relationships. And sixth, we've had solid results in wealth management and insurance.

Thank you very much. Now we welcome any questions you may have.

QUESTIONS AND ANSWERS

Operator
Thank you. At this time, we will open the floor for your questions. Second, we will take the questions from the conference call and then the webcast questions. If you would like to ask a question, please press the star key followed by the one key on your touchtone phone now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the question in queue, just press star then two. Again, to ask a question, please press star then one.

Our first question will come from Ernesto Gabilondo with Bank of America. Please go ahead.

Ernesto Gabilondo
Thank you. Hi. Good morning, Luis Felipe, Michela, Carlos, and good morning to all your team. Congrats on your results and the recovery of the wealth management business and the good asset quality trends, and thanks for the opportunity to ask questions.

My first question will be on your NIM expectations. You were saying we can expect some NIM expansion in the second half. Can you elaborate a little bit more on that? And how do you see the trend next year, especially if credit card or the retail segment starts to accelerate?

My second question will be on asset quality. As you mentioned, you expect to remain below the guidance. I just want to double check if the guidance is around 3% for this year and how should be the trend for cost of risk through the next years, especially as you resume growth in the retail segment?

And my last question is on expenses. We saw they came at double digits. As you mentioned, you have been investing in technology, but how should we think about the OPEX growth for the second half and for the next years? Next year should it grow more in line with inflation, or 100 basis points above inflation? Just also wanted to have an idea of the trend on expenses. Thank you.

Luis Felipe Castellanos
Okay Ernesto, thanks very much. The first parts of your questions are obviously related and the velocity of recovery of our consumer book that will touch upon NIM and asset quality, but let me pass it on to Michela and Carlos, so they can complement the answers, given that they are mostly related to that.

Michela Casassa
Okay, good morning, Ernesto. Let me start with NIM and asset quality, and then I'll pass it on to Carlos. Two main reasons pressuring NIM in the first half of the year, the first one is the portfolio mix. Now, as you have seen, we have been growing nicely, three times the market. Though, the mix of that growth has been slightly skewed towards more mortgages and commercial banking. So, this is the first thing that has been pressuring NIM. We expect that trend to change a little bit in the second half of the year, and I think more evident during 2026 as the consumer portfolio resumes growth. We've seen a 0.6% growth in the second quarter, we have seen in July a little bit of acceleration on that, so that is the first thing that should change a little bit the trend in NIM.

A second factor that has impacted NIM in the first half of the year is the fact that we've had some extra liquidity as we were preparing also to pay the sub bond that we had maturing on July. So, we have calculated an impact, which is close to 10 basis points of impact on NIM because of that. That has been repaid during July, so we should see that impact in the third quarter.

So, from the number you see today, we are expecting an improvement in NIM in the second half of the year. Not sure whether we will reach the target the 5.4, but we should be close to that. And what we expect for 2026, although we don't have the exact number as we have not given any estimates yet, we expect the trend of the portfolio mix with more consumer loans to continue to positively impact yields does mean as we still see some further even if less than before, but we still see some further room for improvement also in the cost of funds.

And asset quality goes hand in hand with that explanation. The 2.5 is a very low level of cost of risk, when you compare that with the levels that we had pre-covid, which were closer to 3%. At that point in time, if you want the high yield portfolio, so credit cards, personal loans and small businesses accounted for more than 20%, close even to 25%, as of today that accounts for 18%. So, the portfolio mix is having also a say in the asset quality.

Guidance was to be around 3%. We have had stable cost of risk of 2.5 excluding Telefonica in the first quarter and in the second quarter. As the consumer loan book resumes growth, we should see a slight increase in the cost of risk in the coming quarters and in 2026, but I guess that the doubt have today is the speed at which that is going to take place, quarter by quarter.

And maybe let me stop there and pass it to Carlos whether he wants to complement and also answer the expenses part.

Carlos Tori
No, that was very, very detailed. Thank you, Michela, I mean, we have already started to grow the consumer book slowly, and that will continue. The good news is that credit card turnover and cash loan disbursements have increased, so 15% increase on card turnover, which eventually will become an interest earning assets. That takes a while, but that's good news.

As Michela mentioned earlier, the cost of risk is low, but that will increase slightly. At the end of the day, what we need to look at is income net of risk. So, risk adjusted NIM is probably a better measure, and that will continue to increase slightly. So, on that front, I think that's a lot of it.

On the expenses, as Michela mentioned on her presentation, we separated the increases in three different parts. So, technology is one, personnel is the second one, and the third one is just marketing and others. I'll start with the third one, that's the easiest one. That will continue to increase with the business. So, we see 15% increase in credit card turnover that has some costs, miles, some points and marketing, so it always grows slower than what the turnover increases and will continue to grow with the business. There's no change there.

Then in personnel, we had some senior positions open at the end of last year, and we have been filling those. Basically, there's some positions in technology, analytics and both in commercial banking and risk and retail banking as well. So those positions have been filled, and we will continue to look for talent in analytics and technology. So, the rate of increase won't be the same, it will probably be lower, but there is some probably a little bit above inflation and mostly related to how the business grows.

And then in technology, we're undergoing a good investment program, which is not only investment, but has some expenses both in personnel and just a process that will continue through the second half of the year. And also, we've been seeing a lot of transactions increase. We’re growing Plin at 50% per year. Plin didn't exist four years ago, and that's probably the largest transaction that we have, so we continue to see an increase in transactions. So, technology puts a little bit of pressure on expenses, but our target remains 40% efficiency ratio in the medium term, probably not for the second half of this year, but going forward, that's what we're looking at. And we need to grow the income to cover the expenses that we're doing in technology.

Luis Felipe Castellanos
To Carlos' points about personnel and technology go through also to the other subsidiaries. So Interseguro and Inteligo are also heavily investing in improving their valuable position for the digital platform. So that's a pressure that we're seeing all across that subsidiaries of IFS. Our focus is to be very diligent in how we do those investments and expenses and making sure that the business cases come aligned with relevant income. So, as Carlos mentioned, the medium target of efficiency for the bank, which is 40%, and for IFS, which is around below 37% continues.

Ernesto Gabilondo
Oh, thank you very much. Just to follow up on this one, as you were explaining the trends for the second half, looking beyond this year and thinking more in 2026, how should we think about the OPEX growth? Is it similar to the trends of the second half? Or do you think it should start to normalize a little bit more, growing a little bit above inflation? How do you see that?

Carlos Tori
So, we've clearly had a step up this year, so it probably won't be the same rate of increase, but it will continue to increase. It has a lot to do with how the business and the transactions increase. So, if we continue to grow, the OPEX will continue to grow. We are investing in a lot of analytics and Gen AI that is more efficient than doing it in another way, but it brings additional OPEX. So, it should be closer to the

rate of increases that you have seen in the past, but it will depend on how our business grows.

Ernesto Gabilondo
Okay, perfect. Thank you very much.

Luis Felipe Castellanos
Michela, sorry, I think I cut you off. I don't know if you have something else to add there.

Michela Casassa
No, no, no, absolutely. That was it.

Operator
Again, if you have a question, please press star then one. And at this time we will take the webcast questions. I would like to turn the call over to Mr. Ivan Peil from InspIR Group. Please go ahead, sir.

Ivan Peil
Thank you, operator. We don't have any questions at this time. We'd like to briefly prompt investors and analysts to submit questions via the webcast, if you have any.

CONCLUSION

Operator
There appear to be no further questions on the audio side or the webcast. I would like to turn the floor back over to Ms. Casassa for any closing remarks. Please go ahead.

Michela Casassa
Thank you very much. Thank you everybody for attending our conference call today, and hopefully we will see again during our third quarter results conference call. Be safe. Bye, bye.

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.