

Intercorp Financial Services, Inc.

Q1 2024 Earnings Results

Tuesday, May 14, 2024, 10:00 AM ET

CORPORATE PARTICIPANTS

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PRESENTATION

Operator 1

Good morning, and welcome to the Intercorp Financial Services first quarter 2024 conference call. All lines have been placed on mute to prevent any background noise. Please be advised that today's conference 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 Q&A session. Simply type your question in the box and click "submit question".

It is now my pleasure to turn the call over to Anna DeAssis of InspiR Group. Ma'am, you may begin.

Anna DeAssis

Thank you and good morning, everyone. On today's call, Intercorp Financial Services will discuss its first quarter 2024 earnings. We are very pleased to have with us Mr. Luis Felipe Castellanos, Chief Executive Officer, Intercorp Financial Services; Ms. Michela Casassa, Chief Financial Officer, Intercorp Financial Services; Mr. Gonzalo Basadre, Chief Executive Officer, Interseguro; Mr. Bruno Ferreccio, Chief Executive Officer, Inteligo; Mr. Carlos Tori, Chief Executive Officer, Interbank.

They will be discussing the results that were distributed by the company yesterday. There is also a webcast video presentation to accompany 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 at (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, the 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, everyone, and welcome to our first quarter's 2024 earnings call. I want to thank you for attending our call today.

This is my first call with my revamped role as CEO of IFS that started May 1st. As announced, this new role will allow me to be more focused on growing our platform and creating synergies within our operating companies. Carlos Tori, formerly VP of Payments, has taken over Interbank's CEO role. He has deep expertise in retail, commercial banking and in payments. We believe that this new leadership platform will allow IFS to continue on its growing path with more focus to face

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on the upcoming challenges and opportunities. I will start by assessing the macro situation in Peru.

We began 2024 with a slightly better feeling than 2023. Economic growth was positive in the first two months of the year as El Niño was not as strong as expected although the recovery is delayed in consumer-linked sectors.

In terms of inflation, it has decreased consistently, entering back to the Central Bank's target range in April. In that line, the Central Bank has reduced the soles reference rate by 200 basis points from its peak to the current level of 5.75%. The combination of falling interest rates, elevated metal prices and better market sentiment leads us to expect GDP growth to be around 3% for this year, which is a recovery versus last year, but still with several challenges ahead.

Moving on to our business. Our key strategic priority continues to be to achieve digital excellence for our customers by providing them with a world-class, flexible, and secure digital platform. We're breaking down geographic barriers through 100% digital products and services that empower Peruvians. We want to become the leading digital platform providing profitable solutions with clear strategic focus on certain and key businesses.

We continue to develop our analytical capabilities, leveraging on the best talent. This is our strategy, and we will continue to focus on it with a long-term vision. IFS continues to show resilience in its core operations. We continue to grow our customer base on all segments as we consolidate the results of our digitalization efforts.

At Interbank, market shares across key business lines remained strong despite moderation in retail loans as we are still being very cautious with the cost of risk, mainly in the consumer finance segments. Even though cost of risk remains high, there is a marginal improvement. Interbank remains well provisioned and very well capitalized.

At Interseguro, we continue to grow premiums of individual life while consolidating market leadership in annuities. This quarter, Interseguro's results were impacted by the investment portfolio results and by certain accounting adjustments. Our Wealth Management business had a positive first quarter towards its recovery path as customers' AUMs and fee improved. Finally, on payments, the number of affiliates and transactional volumes continues to expand as Izipay's core business is complemented with value-added services. Interbank and Izipay continue working on creating synergies while Plin continues to engage more users.

We acknowledge that this quarter results are below expectations and potential. We're probably at the bottom of the credit cycle, but we remain confident about IFS' outlook going forward as we monitor the macro conditions while we continue to build on our long-term strategy with emphasis on our key strategic priorities, which are growth, digital and focus on key businesses.

Now, let me pass it on to Michela for further explanation of our quarterly results. Thank you.

Michela Casassa

Thank you, Luis Felipe. Good morning, and welcome again everyone, to Intercorp Financial Services' 2024 first quarter earnings call.

Today, we will review four sections of our earnings presentations. And before we start, let me get a little bit deeper into the macro outlook for Peru. On Slide 3, complementing what Luis Felipe

just mentioned, we see early signs of recovery in the macro environment as GDP for the first two months of the year grew 2.1%. Inflation is finally within the Central Bank's boundaries at 2.4% in April and the exchange rate has remained relatively stable.

As you know, the Central Bank started to cut rates the second half of 2023 and has continued to do so reducing 200 basis points from 7.75% at its peak to 5.75% as of today. We expect 2024 to be a year of recovery for the Peruvian economy with an expectation of 3% GDP growth, mainly due to a base effect versus 2023, as no major disruption was caused by El Niño. Second, recovery on public investment after the first year of the newly elected regional governments and finally, to some positive impacts from private investments.

On Slide 4, we observe signs of progress as leading indicators show moderate improvement. Consumer confidence remains stable while business trust starts improving its trajectory. Moreover, the expectation for private investment in 2024 surpassed previous estimates reflecting some optimism.

We wanted to mention that even though economic data is starting to reflect a better sentiment, S&P recently downgraded Peru from BBB to BBB-, which had an effect in the ratings of several entities in the financial sector. Interbank was the only bank to maintain its previous rating while all other financial companies were downgraded one notch, including IFS.

Moving on, in this context that we continue to build on our three key strategic priorities, which are first, profitable growth to become a leading digital platform, growing customer double digit for all the segments while still in a challenging environment; second, create the best digital experience as 77% of our retail banking clients are digital and our current NPS for banking is 61; third, we continue to focus on our core businesses with relevant market shares in consumer banking loans at 21.8% and in the acquiring business at 43.5%.

We have grown market shares in banking retail deposits at a record 15.1% now ranking number three in the Peruvian financial system and in annuities at 31.3% as a market leader. Finally, in Wealth Management, assets under management continue to consolidate growing 11.5% year-over-year.

Now let's move on to the first section of the presentation which focuses on sustainable growth. On Slide 7, we wanted to share our key messages for the quarter. First, better banking results partially compensate extraordinary impacts on insurance business associated to the investment portfolio and some accounting adjustments. This results into an ROE of 5.6%. Second, gradual improvement of cost of risk decreasing by 55 basis points in the quarter translates into better results for Interbank with 30 basis points higher ROE than the previous quarter. Third, we continue the tight management of costs reflecting solid efficiency levels for IFS. Fourth, assets under management growth and a subtle recovery of investment portfolio in Wealth Management results in more than 7% higher ROE than 2023. Fifth, as mentioned before, Insurance net income was impacted by non-recurring events, still maintaining 5% return over the investment portfolio. And finally, we keep strengthening synergies within IFS, as the float coming from Izipay merchants to Interbank accounts grew around 40% year-over-year.

On Slide 8, we can see earnings at 141 million soles in the quarter, explained mainly by around 100 million non-recurring events related to insurance investment portfolio, of which around 42 million are a provision related to Rutas de Lima and some accounting adjustments related to IFRS

17. The other three businesses had a slight improvement when compared with the fourth quarter and mixed results when compared with a year ago.

In the year-over-year comparison, banking still presents high cost of risk levels, while the standout is the Wealth Management business multiplying its net income by threefold resulting with an ROE of 11.2%. Excluding the non-recurring items, earnings rise to 240 million and ROE elevates to almost 10%, though still below the levels of 2023 and the midterm targets.

On Slide 9, we see a year-over-year growth of 2% on revenues, mainly due to a better performance of Wealth Management as the proprietary portfolio starts to recover and slightly higher margins in banking, which we will explain in later slides.

On Slide 10, we wanted to follow up with further insights on the risk profile of the loan portfolio. First, 45% of Interbank's portfolio is concentrated on commercial banking, which continues to perform well, with cost of risk returning to the level seen a year ago below 1%. This is mainly because of our conservative approach on commercial banking, focusing on low-risk clients and with quite a limited participation in small and micro companies. This approach has allowed us to balance the risk of our overall portfolio maintaining a lower PDL versus our peers.

On the consumer portfolio, we have three different risks. First, the unsecured consumer portfolio, which is the one impacted during 2023, and as of today representing 21% of the total loan book. Second, mortgages, which are 22% of the loan book and third, payroll deductible loans to the public sector employees, a very low risk segment which represents 12% of the total loan book. This quarter still within a challenging macro environment, cost of risk remains high at 4.7% with retail cost of risk at 7.9%.

The good news is that these levels are lower than the previous quarter and slightly better than our estimates. Additionally, the three-month deterioration rate has improved year-over-year, which means there is good performance from the new harvests. And finally, the coverage ratio for the retail portfolio remains strong above 176%.

On Slide 11, we continue to monitor the behavior of consumer loans. The reschedulings still represent around 20% of the portfolio, although it has slightly decreased. Now the payment behavior for performing loans is quite different for customers with reschedulings. The unpaid portion for regular clients is only 2%, while it is around 16% for rescheduled clients for installments that matured as of March, slightly higher than what we saw in December.

Finally, on this section on Slide 12, as always, we wanted to highlight the tight management of costs we continue to pursue with only 2% increase in total expenses at IFS versus the previous year and no increase from the banking segment. With this, the efficiency ratio is 37.3% for IFS and 38.7% for Interbank.

Moving on to the section on building a digital platform. We continue to develop digital solutions to our clients in all segments. We have invested to build a world-class leading and scalable digital proposition which is rapidly being adopted by existing and new customers. Interbank's app users base has experienced significant growth, increasing to over 2.6 million and Izipay's merchants are 1.4 million.

On Slide 15, we have positive news in our digital indicators which continue to show nice trends when compared to the previous year. As of March '24, digital sales in banking reached 63%, up

3 points from last year, and digital customers reached 77% of retail customers who interact with the bank during the last 30 days and this is up 5 points in the past year.

Furthermore, our digital self-service indicator has improved sharply from 7 points from 69% to 76% and our NPS improved slightly to 61 points. Insurance and Wealth Management digital indicators show positive developments as well, with digital self-service reaching 63% in insurance and SOAT sales reaching 82% and digital premiums still small but growing, reaching 13% at Interseguro. On Wealth Management, digital transactions for fund management reached 45% at Interfondos and erni users reached 21% of total Interfondos customers.

Now let's move on to show you some more details on the performance of our four key businesses. On Slide 18, given the macro scenario mentioned before, we have remained cautious in the loan book, growing double digit in lower risk products such as mortgages and payroll deductible loans with 10% and 13% year-over-year growth in disbursements, respectively.

The tightening of credit standards continues to impact credit and debit card purchases as well as the personal loan disbursement. On the other hand, Impulso MyPeru is allowing us to grow in commercial banking with lower risk. Hence the important growth in SME disbursements and commercial banking stock on a year-over-year basis.

On Slide 19, in line with this conservative strategy in the retail segment, our market share in consumer and retail loans has slightly decreased still with strong positioning, while market share increased to 14.6% in payroll inflows from 13.7% one year ago. The focus on commercial loans and the impact of Impulso MyPeru is reflected in the market share of commercial loans. Moreover, sales finance is one of our key products as market share continues to grow, up from 11% just 12 months ago to almost 17%.

Additionally, we have been working hard to enhance our value proposition to clients on the liability side, which has resulted in higher retail banking deposit market share at 15.1%, now ranking third in the financial system. Aligned with the current macro conditions, the government has launched Impulso MyPeru, designed to stimulate economic growth.

This program does not provide funding but gives 50% to 98% guarantee levels to credit given to SMEs and mid-sized companies. The allocation of the guarantee is conducted through auctions where the billing variable is the interest rate offered to clients. So far, we have been awarded more than 1,400 million soles, of which almost 1 billion have been already disbursed: 36% to SMEs and the remaining to mid-sized companies.

On Slide 21, we observe a reduction of 20 basis points on NIM reaching 5.3%, which aligns with the shift of the loan book and the increase of cash balances. Unsecured loans, which includes credit cards and personal loans, decreased from 24% to 21% year-over-year, resulting in a decrease in yield on loans of 10 basis points. On the positive side, risk-adjusted NIM improved in the quarter in line with a lower cost of risk. Furthermore, this quarter brings positive news as the cost of funds starts to show change in trend, decreasing to 4.0% as shown in Slide 22.

This is attributable to better funding mix and lower market rates as the short duration of interest-bearing deposits allows for faster repricing. Moreover, cost of deposits has seen a decrease of 40 basis points in the quarter. Positive news is also that the deposit share in total funding remains stable and that retail deposit market share continues to increase. Finally, our loan to deposit ratio of 96% is in line with the industry's average.

On payments, we want to give you a quick summary of the recent developments, starting with Plin in Slide 23. The new landscape of interoperable P2P system has enabled Plin to accelerate its growth as transactions expand by fourfold in one year and users reach more than 15 million by the end of March, with Interbank participation stable at 46%. Also, the volume has multiplied by 2.6 in the same period. Plin and Yape interoperability started in April and QR code interoperability was added in September. This development is helping to bring more Peruvians into the financial system, reducing the use of cash which continues to be high in the country.

On Slide 24, the acquiring business continues to grow in all segments as the synergies between Izipay and Interbank is key for our payment strategy. The enhanced value proposition Izipay has to offer has resulted in an increase of 17% of merchants year-over-year, reaching 1.4 million, while transactional volume grew 11%. In the case of IzipayYA, our solution for micro merchants, important growth continues. The number of micro merchants has grown 42% and the transactional volumes 40% year-over-year.

On Slide 25, Izipay represents a profitable operation as the number of affiliated merchants and transactional volumes continue to expand. Revenues continue to grow slightly on a yearly basis, although there is a decline of 13% in the quarter due to the effect of the christmas season on the previous quarter. EBITDA has seen a contraction due to margin compression in a more competitive landscape.

We have been working to accelerate the growth of our payment ecosystem, focusing on increasing transactional volumes, offering merchants value-added service, continue to pilot low risk loans to merchants and use Izipay as a distribution network for Interbank as well as source to increase float.

We are starting to see results from this strategy as evidenced by the following four key figures: 20% yearly increase in Izipay flow coming to Interbank accounts and 40% increase in float from merchants, 1.6 times yearly increase in transactional volumes and 7% growth in float from micro merchants thanks to IzipayYA.

Now moving to Insurance on Slide 26. Premiums were up 3% in the quarter and more than 16% year-over-year as market share of annuities raised to 31.3% as of March '24, above 7.1% from the previous year. Individual life and private annuities business lines continue to grow nicely year-over-year or 18% each, increasing their contribution to total premiums. On the other hand, retail insurance had a contraction in the first quarter, mainly due to three reasons: change in SOAT broker, lower loan activity at Interbank and cleansing of vehicle insurance.

Finally, on Wealth Management, we continue to see growth in assets under management with a yearly growth of 11.5% and 3.5% on a quarterly basis. On the back of that, there is a recovery on fee income on a quarterly basis. At last, we see more consistent investment results that align with a well-diversified portfolio. Now let me move to the final part of the presentation where we will provide an update on ESG, operating trends for 2024 and some takeaways.

On Slide 29, we want to share our sustainability update. We are proud to have been recognized for our sustainability efforts both at national level occupying the first place in the Merco ESG responsibility and at international level being included in the S&P's 2024 Sustainability Yearbook. Additionally, last week we have been included once again in the S&P/BVL Peru General ESG index.

In line with our responsible business strategy, we continue to build a sustainable platform following our three main pillars. In the environmental front, we finance new green lines for up to 11 million dollars related to sustainability certified agricultural and forestry activities. In the social front, all four of our subsidiaries were once again recognized by Great Place To Work, this time in the general and women-focused rankings for 2024.

Also building upon our group-wide platform, Izipay participated in an Intercorp pilot that brought digital and financial inclusion to more than 1,000 bodegas around the country and plans to expand during the rest of the year. In the governance front, Interbank became the only bank in Peru part of the UN Global Compact Forward Faster initiative in which we have been committed to disclose our progress in sustainable finance. Additionally, Interbank was recognized as number one in customer experience in the Peruvian banking sector by both CX Index and IZO Solutions.

On Slide 30, let me give you an update on our operating results for the first quarter '24, in comparison with the guidance. We continue to present sound capital levels with total capital ratio of 15.1% and core equity tier one ratio at 11.3%, which after dividend distribution are above our guidance. ROE of 5.6% in the quarter is still below midterm range, has been impacted by cost of risk and non-recurring investment results. Year-end recovery of ROE will depend mostly on the recovery of these two factors.

Loan growth of 2.2% is below our guidance but above the financial system, reflecting our ongoing market share gains in key products. It is worth to mention that this is aligned with a conservative approach on unsecured loans as consumer loans decreased by 2.4%. NIM for Interbank was 5.3%, slightly below guidance. We expect to recover during the year as cost of funds decrease in line with lower market rates. Cost of risk for banking was 4.7% in the quarter, slightly better than our expectations for this quarter due to the improvement [technical difficulty], also improving from previous quarter.

As mentioned in the last conference call, we expect a gradual recovery, so in the following quarters we should see a better payment behavior from the consumer portfolio. We continue to see good efficiency levels at IFS in line with guidance as we are strictly monitoring and managing costs, especially at the bank, which has reached a cost income ratio below 39%. On Slide 31, let me finalize the presentation with some key [technical difficulty] takeaways.

Operator 1

Pardon me, we seem to have lost a connection. We will work on it. Just hold on for a second. Thank you for your patience.

Operator 2

Excuse me, this is the operator. Mr. Luis, if you could open up your audio, Ms. Michela has disconnected. And again, this is the operator, Mr. Luis, if you could open up your audio, Ms. Michela's video has disconnected. We will need to have your audio open so that she can finish her remarks. Thank you.

Luis Felipe Castellanos

Hello? I'm sorry, can you hear us now?

Operator 2

Yes, and excuse me, this is the operator. Ms. Michela's line is now reconnected. Thank you.

Luis Felipe Castellanos

Okay. Sorry for that. So Michela, I think you need to repeat the takeaways. Sorry to everybody.

Michela Casassa

Okay, let me go back to Slide 31, to finalize the presentation with some key takeaways. First, macro environment is showing first recovery signs in 2024. Second, the investment portfolio was impacted by non-recurring events and by mark-to-market and we expect a recovery over the year. Third, selective growth in retail banking with a slight improvement in cost of risk. Fourth, Impulso MyPeru enables growth in commercial banking at low risk. Fifth, tight management of costs reflected in solid efficiency levels. And finally, we continue strengthening our digital positioning and presence in payments.

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

QUESTION AND ANSWER**Operator 1**

Thank you very much. At this time, we will open the floor for your questions. First, we will take the questions from the conference call and then the questions from the webcast. If you would like to ask a question and you are connected through a phone line, please press “*” “1” 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 questioning queue, please press “*” “2”. Again, to ask a question please press “*” “1” now.

For the webcast viewers, simply type your question in the box and click “submit question”. We will pause momentarily to compile a list of questioners. And our first question is coming from Alonso Aramburu from BTG. Alonso, please go ahead.

Alonso Aramburu

Yes. Hi, good morning, and thank you for the call. Two questions on my side. First, you mentioned some early signs of economic recovery. Can you maybe comment if you're seeing some early signs of demand for loans, whether that's improving or not? And second, regarding your payment business, are you growing volume and merchants in numbers year-over-year but fees are flat? Can you comment maybe on the dynamic of fee income and competition at Izipay? Thank you.

Luis Felipe Castellanos

Okay. Thanks, Alonso, for your questions. Let me pass it on to Carlos Tori, so he can also make his debut in answering questions as recently appointed CEO of Interbank.

Carlos Tori

Hello Alonso, how are you doing? Thanks for your question. On the first one, in terms of the economy and loans, we have seen, well, everybody expected the year to start very negatively with El Niño, right. So just not having El Niño was positive. But we have also seen the Central Bank controlling inflation and lowering rates and a slight growth in GDP. So, all of that helps. Consumption is growing slightly, and we have been able to, or we're confident on our new vintages of loans are performing well in terms of the last six, nine months of vintages.

We're still going through the older vintages in terms of credit risk, but the new portfolio is performing well. We are being cautiously confident in terms of growth. We want to start growing again, but we want to do it in the products and segments where we are comfortable. We have

been growing more in commercial banking and we have been able to build on the ImpulsoMy Peru program for SMEs so that is helping us grow and hopefully the GDP growth and inflation will continue to GDP grow and inflation to continue to be under control. So that's kind of what we're looking at. And then in terms of your questions for Izipay, well, there's basically, I would say two, maybe three things that impact the competition dynamic.

The first one is there's more competitors. There used to be two acquisition players, Niubiz and Izipay. Today there are five. There are three new competitors. So, there is pressure on pricing for sure. We have been able to hold our market share and we have had to be more aggressive on pricing in certain segments. We're trying to have a mix of keeping our market share but not going too aggressive on pricing in certain segments.

As Michaela mentioned, some of the value, or a large portion of the value of Izipay, is not only on the fees that you charge to the merchants, but on having the flows of those sales come to Interbank and the relationship and the other products allows you. So that is one thing that affects dynamics, and the other one is the economics with credit cards and debit cards. And that is something with the brand that is always changing and moving in terms of how much pricing you give to each type of credit card. So those are two things that are pressing on margins, but we have been able to successfully keep profits stable while growing transactions and keeping our market share.

One good thing about the payments market is that it continues to grow a lot in terms of more payments going through digital instead of cash. And that is a positive in any way you look at it, in terms of flows, in terms of float to the bank, and also in terms of the cost that you're not having in terms of moving cash around in our branches and our ATMs. So, still very positive on that front.

Alonso Aramburu

Thank you, Carlos, and congratulations on the new role.

Carlos Tori

Thank you.

Operator 1

Thank you and again let me remind you if you're connected to us through a phone call and would like to ask a question please press "*" "1". And at this time we can continue by moving to the webcast questions. So I will turn the call over to InspIR Group.

Anna DeAssis

Thanks, operator. The first question comes from Juan Nicolas Pardo from Credicorp. Could you go through the details of the investment portfolio events that took place during the quarter?

Luis Felipe Castellanos

Okay, let me pass it on to Gonzalo so he can help us addressing the investment portfolio results. Let me just do a brief introduction. I guess, the non-recurrent that was reported includes some accounting changes that represent approximately 20% to 25% of the reported number, and then the investment portfolio effects. So now Gonzalo can help us with the specifics of the investment portfolio.

Gonzalo Basadre

Sure. Thanks, Luis Felipe. As you mentioned, the 100 million soles is composed of actually three different things, first is the accounting change you mentioned is around 23 million soles. Then we have an impairment regarding Rutas de Lima, as Michela mentioned, that's around 42 million soles. And then for 33 million soles it's a loss on the valuation of some investments.

Remember our portfolio of above 16 billion soles in assets. We infrequently have a loss of this magnitude, this is not very common because most of our investments are fixed income and held to maturity but from time to time we may have this kind of either losses or in other cases, gains.

Luis Felipe Castellanos

Thank you, Gonzalo.

Anna DeAssis

The next question comes from Yuri Fernandez from JP Morgan. Can you please explain in detail the 100 million soles potential non-recurring? My apologies. The question, oh, we're moving to another question. That question was taken away.

The next question comes from Jose Ignacio Mejia. Regarding your banking operations, our analysis shows that your delinquency rate adjusted by charge-offs has been increasing at a significant pace over the last months, while the NPL coverage ratio is at a historical low point. Given these trends, when can we expect to see an improvement in loan quality and a subsequent reduction in loan provisions?

Luis Felipe Castellanos

Sure, let me answer that. I guess obviously we're going through the credit cycle. Based on what we're seeing, we think that we might be hitting the bottom. So, it's probably this and the next quarter. We are already, as Carlos mentioned, seeing early signs of recovery. So hopefully, based on our models and our expectations of the economy, we will see marginal improvement going forward.

Actually, this quarter was a marginal improvement versus last quarter. Given what Carlos mentioned about vintages and the evolution of the economy, probably this trend should continue. Maybe, maybe not as fast as we expected given that the economic recovery is lagging in terms of consumer activity and consumer confidence. However, we're probably already on the path of a slight recovery.

Michela Casassa

Let me maybe just add something related to the NPL coverage ratio, which as of the first quarter was 141% for the bank. Particularly the coverage ratio for retail banking was 176% which is a pretty high coverage ratio, considering that it is more than 200% for the consumer unsecured portfolio knowing much lower for mortgages and payroll deductible loans.

So you see a decrease in this level over the past two years. But this is because we had some, let's say, expert criteria provisions that were made during COVID that brought those levels to, let's say, historically high levels, and they have been normalizing over the quarters.

Luis Felipe Castellanos

Thank you, Michela.

Anna DeAssis

The next question comes from Rodrigo Freire, an independent investor. I would like to know the ROE expectations for Q2.

Luis Felipe Castellanos

Sure. Well, it's actually pretty hard to give you an exact number, however, given what has been mentioned during the call probably this was a low ROE number for this quarter. And assuming that we will reach our 12%, around 12% for the year, we should start seeing a recovery in the upcoming quarters, including next quarter.

But at the end, the whole year should bring us to what we guided for. So numbers should start coming up. The big question mark continues to be the market volatility and the pace at which consumer payments start to improve.

Anna DeAssis

The next question comes from Diego Guzman from BTG Pactual. Does your ROE guidance for 2024 includes this 100 million one-off? That can be an early range of guidance of a 2025 ROE with a smooth operation with a new NIM mix and strategic reality.

Luis Felipe Castellanos

I'm sorry, can you repeat the question, please?

Anna DeAssis

Of course. The question is, does your ROE guidance for 2024 includes this 100 million one-off? That can be an early range of guidance of a 2025 ROE with a smoother operation with a new NIM mix in a strategic reality.

Luis Felipe Castellanos

Sure. Yes. We expect where we stand today that we will be able to recoup this one time through our normal activities. Again, that will be subject to market conditions, but that continues to hold as true. And then I think it's early to tell 2025 range for ROE.

However, we do expect that as the macro conditions normalize, we will be targeting to go back to what we believe is our sustainable ROE, which is around 18% for IFS. However, when we will be targeting that depends on the evolution and we'll keep you posted.

Anna DeAssis

Luis, we lost you on the last sentence. We could not hear you.

Operator 2

Excuse me, this is the operator. I've opened up Mr. Luis's audio. Can you speak again, sir?

Carlos Tori

I think they've lost connection. I'll answer if there's any remaining questions.

Anna DeAssis

At this time, there are no further questions. Thank you, Carlos. I will turn the call back to the operator.

Carlos Tori

It was the last question. Did you all hear the last answer? I thought it was full, but if you have a follow up on that, I'll be happy to answer it.

Anna DeAssis

There are no follow-ups. We just missed the last sentence. We heard most of the answer.

Carlos Tori

Okay. All right. Thank you.

Operator 1

Thank you very much. And there appears to be no further questions at this time so I would like to turn the floor back over to Ms. Casassa for any closing remarks.

Michela Casassa

Thank you very much, everybody.

Carlos Tori

Hold on one second. Can you hear Michela now?

Michela Casassa

Hello?

Operator 1

Yes, we can hear her now. Thank you.

Michela Casassa

Thank you everybody for joining our call. We'll see each other again in the second quarter results. Bye-bye.

Operator 1

Thank you very much. This concludes today's conference call. You may now disconnect and have a great day.