Intercorp Financial Services, Inc.

Q2 2024 Earnings Call

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CORPORATE PARTICIPANTS

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Carlos Tori - *Chief Executive Officer, Interbank*

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PRESENTATION

Operator
Good morning, and welcome to the Intercorp Financial Services Second 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 questions online at any time today using the window on the webcast. And it 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 Peill from InspIR Group. Sir, you may begin.

Ivan Peill
Thank you, operator, and good morning, everyone. On today's call, Intercorp Financial Services will discuss its second 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. Carlos Tori, Chief Executive Officer, Interbank, Mr. Gonzalo Basadre, Chief Executive Officer, Interseguro, 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 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, 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 Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services, for his opening remarks. Mr. Castellanos, please go ahead, sir.

Luis Castellanos López-Torres

Thank you. Good morning, all, and welcome to our second quarter 2024 earnings call. I want to thank everybody for attending our call today.

I would like to start by addressing the macro situation in our country. In the first half of 2024, economic growth showed better numbers posting a 5.3% growth in April and 5% in May, mainly due to a recovery in the fishing industry with associated services. Also, just a rebound effect over the first half of 2023.

In terms of inflation, it has decreased consistently as in April it posted a 2.5% number, being the lowest among other countries in the region in that month, and in May, the inflation was 2%, continuing its downward trend.

Better market sentiment from consumers and businesses leads us to expect that GDP will be at around 3% plus for this year which is a recovery compared to last year.

Under this scenario, IFS is showing improvement in its results. Our core banking franchise continues to advance with strong growth in Commercial Banking and improvement in risk indicators. Although we still face volatility in our investment operations, overall, we continue in our recovery path.

At Interbank, we have been able to grow our market shares in loans and deposits, growing significantly in Commercial Banking, now consolidating as the third largest bank in mid-sized companies and in total deposits. Even though cost of risk remains high, there is clear improvement, showing a downward trend as we expected. Finally, Interbank and Izipay continued working to create synergies, while PLIN continues to engage more users.

At Interseguro, we have seen relevant growth in premiums mainly in private annuities and individual life, maintaining market leadership in annuities.

Our Wealth Management business has had a positive quarter in its core business as the assets under management have reached an all-time high.

As you all know, our strategic priority continues to be to achieve digital excellence for our customers. We want to become the leading digital platform with profitable growth. We want to create the best digital experience for our customers and to boost our core businesses by enhancing synergies among our companies in our platform and continuously develop our analytical capabilities, always leveraging on the best talent.

To this end, we have invested in building a leading digital proposition, adaptable and scalable, that is being rapidly adopted by potential and current customers. And we're offering 100% digital products and services to almost all segments.

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 as you know, are growth, digital excellence and focus on key businesses.

Finally, we wanted to share with you the award granted to Interbank from Euromoney as we have been named Peru's Best Bank, Best Digital Bank and Best Bank for Corporate Responsibility. This type of recognitions makes us proud, but also tells us that we continue on the right path.

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.

To begin, I would like to review the macroeconomic outlook for Peru.

On Slide 2, complementing what Luis Felipe just mentioned, we see signs of improvement in the macro environment, as GDP for the second quarter and specifically in the months of April and May, grew more than 5% above market expectations. It is estimated economic activity accumulated 2.7% growth in the first half of this year. This was mainly due to the recovery of the agricultural and fishing industries with associated services. Additionally, pension funds withdraws, and the availability of severance indemnity deposits contributed to activate internal consumption.

In that line, expected growth remains biased to the upside as we expect GDP to grow 3% in 2024. This considers the base effect versus 2023, the improvement of public investment, some positive impacts from private investment, and the recovery of labor-intensive activities.

On the other hand, Central Bank has reduced reference rate by 200 basis points from 7.75% at its peak to 5.5% as of today. Inflation is already within its target range at 2.3% in June with expectations anchored at 2.2%. This positions the Peruvian Central Bank among the first central banks to successfully control inflation. Additionally, the exchange rate continues to be the most stable currency in the region.

On Slide 3, consistent with the previous slide, we observed progress as domestic demand, consumer confidence and business trust materialize a change in their trajectory. As of April, we have seen growth in formal employment, especially in sectors linked to consumption and growth in real formal wages.

During June, public investment increased 4.2% in real terms which contributed to drive internal demand. Additionally, private investment accumulated two consecutive positive quarters during the first half of 2024. As so, the expectation for private investment in 2024 surpasses previous estimates, reflecting some optimism.

Despite this, the total system consumer loans showed a decrease of 2.1% on a year-to-date basis, and 7% on a year-over-year basis, which indicates that this segment is still not growing. However, total system loans increased by 1% driven by commercial loans and mortgages, which grew 1.6% and 2.8%, respectively, reflecting the increase in private and public investments.

Moving on, it's 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. We continue to grow our customer base by double digits for all the segments consistent with the recovery in the macro environment. Also, IFS' net income more than doubled in the second quarter when compared to the previous one, in line with the important reduction of cost of risk in the banking sector.

Second, create the best digital experience as now more than 80% of our retail banking customers are digital and our current NPS for retail banking is 61.

Third, we continue to focus on our core businesses with relevant market share in consumer banking loans at 21.8%, total deposits at 13.6%, ranking #3 in the Peruvian financial system and in annuities at 31% as market leader. Also, we continue to increase our market share of Commercial Banking to a 10.2%. And finally, in Wealth Management, assets under management grew 15% year-over-year, reaching a historical maximum.

Moving on, we will review four sections of our earnings presentation: sustainable growth; building a digital platform; key businesses; and finally, some takeaways.

Let us start with the first section, which focuses on sustainable growth.

On Slide 7, we wanted to share our key messages for the quarter. First, better banking and insurance results drove earnings to grow by two-fold quarter-over-quarter not only because of a decline in cost of risk, but also due to higher investment results. This results in an ROE that has doubled to 11.2% from the previous quarter, with a net income of PEN 286 million.

Second, cost of risk decreased by 70 basis points in the quarter and more than 120 basis points from the peak of the fourth quarter '23. As such, we see better results for Interbank with 4% higher ROE than the previous quarter.

Third, the cost of funds continues to improve, decreasing 40 basis points year-over-year and from the previous quarter, outperforming the system's average. This improvement is not only due to a decline in market rates, but also because of a proactive management of efficient funding, hence, enhancing the funding mix.

Fourth, we are tactically derisking the portfolio, given current system dynamics. And this is why there has been a significant growth in Commercial Banking with Impulso MyPeru, with over 15% growth year-over-year in commercial loans. Additionally, we have gained more than 80 basis points of market share in this segment over the past year, highlighting mid-sized companies that we have consolidated their position as #3, reaching 12.3% market share.

Fifth, there has been an important growth in insurance premiums that generated improvement in insurance core business and the recovery of investment results in higher net income.

Finally, in Wealth Management, assets under management continued to grow nicely, reaching a historical maximum, driving also fee income up.

As you can see, we are reporting IFS figures in its three operating segments: banking, insurance and wealth management. Payments will no longer be a separate segment as it has become an integral part of the core offering of and very synergic with the banking sector.

On Slide 8, we can see earnings at PEN 286 million in the quarter, although we are still below the levels of a year ago, we have doubled from the net income reported last quarter.

In Banking, the quarter-over-quarter comparison is very positive. Even though cost of risk is still high, we continue to see an important recovery trend that allowed net income to grow 58% and ROE to be at 11.1%, which is higher than the previous quarter by 400 basis points.

In the insurance business, there is a recovery in the investment portfolio. Adjusting by the nonrecurring events from the previous quarter, the net income has no significant changes.

Finally, on the Wealth Management business, there is a good dynamic with clients as assets under management continue to grow, but the investment portfolio hasn't performed as expected, compensating the improvement in fee income, resulting in an ROE of 2.7% this quarter. On a cumulative basis, the Wealth Management ROE is around 7%, having a higher net income of 10% when comparing to first half '23.

On Slide 9, we see a year-over-year growth of revenues of 2%, mainly due to a sustained better performance of insurance core business compensated by lower revenues from Wealth Management. On a quarterly basis, there is also a slightly higher revenue in banking, which we will explain in later slides.

On Slide 10, we wanted to follow up with the evolution of the asset quality of the loan portfolio.

First, we have increased our exposure to Commercial Banking, passing from 44% in the second quarter '23 to 47% of Interbank's portfolio as of the second quarter '24. Tactically taking advantage of Impulso MyPeru program, which has allowed us to grow with a better risk-adjusted result in small and medium-sized companies. This segment continues to perform well in our portfolio, even when excluding the guaranteed Impulso MyPeru portion.

Second, the mix of our consumer portfolio has changed. The unsecured portion, which comprises credit cards and personal loans has decreased, now representing 19% of the total loan book, down from 21% in the previous quarter and 24% a year ago. We have seen this trend happening also at market level with consumer lending decreasing year-over-year. Meanwhile, payroll deductible loans to the public sector employees, a very low-risk product, now represents 13% of the loan book. Consequently, we wanted to highlight that this quarter, we see the inflection point of the consumer portfolio, not only due to the change in mix, but also because of a better payment behavior from customers.

Additionally, this quarter, with a better-looking macro environment, the cost of risk is reflecting a downward trend, decreasing to 4% from 4.7% of the previous quarter and from the peak of 5.2% in the fourth quarter '23. There is good news as these levels are not only lower than the previous quarters but are also slightly better than our estimates.

Finally, the change in trend is also reflected in the NPLs, which peaked in the first quarter '24 and have started to decline to 3.7% in this second quarter maintaining a lower NPL compared to our peers.

On Slide 11, complementing the previous slide, the reschedulings have slightly decreased, now representing around 19% of the retail unsecured portfolio.

As mentioned in previous calls, the payment behavior for performing loans is quite different for customers with reschedulings. The unpaid portion for regular customers is only 1.4%, while it is around 10% for rescheduled clients for installments that mature as of June.

Now, we have observed an improvement in the payment behavior of customers on the back of the liquidity events of the second quarter such as availability of severance indemnity deposits and pension funds withdraws, and also because of proactive actions taken in collections. This is evident in the reduction of the unpaid installments by the rescheduled clients passing from 15.8% to 10.5%.

Finally, on this section, on Slide 12, as always, we wanted to highlight the tight cost management we continue to pursue, with 4% increase in total expenses at IFS level versus the previous year and only 3% increase from the banking segment. With this, the efficiency ratio is 38.6% for IFS and 39.7% for Interbank.

Moving on to the section of building a digital platform.

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 June '24, digital sales reached 68%, up 4 points from last year. And digital customers reached 81% of retail customers who interact with our digital channels without going to the stores, up 6 points from the past year. Furthermore, our digital self-service indicator is 77%, and our NPS in our retail customers is 61.

As part of our digital value-added proposition to enhance customer experience, we want to give you a quick summary of the recent developments on PLIN.

The interoperable P2P system continues to enable PLIN to accelerate its growth as volume expands by twofold in 1 year and users reached more than 9 million by the end of June, with Interbank participation stable at 44%. Moreover, our active users have grown to 2.2 million, a 33% increase compared to last year, and this should result in a higher engagement of clients with Interbank.

The campaigns such as “Ya pe, plinéame” and Plin POS have allowed Interbank to increase in transactions by 2.8x.

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.

Insurance and Wealth Management digital indicators show positive developments as well with digital self-service reaching 66% at Interseguro, SOAT digital sales reaching 82% and digital premiums for Vida slowly gaining relevance reaching 13%.

On Wealth Management, digital transactions for fund management reached 50% at Interfondos and ERNI users reached 23% of total Interfondos customers.

Now let's move on to show you some more details on the performance of our key businesses.

On Slide 19, we continue to grow double digit in lower risk products and segments such as payroll deductible loans and mortgage with 24% and 15% year-over-year growth in disbursements, respectively.

Also, we are growing heavily in Commercial Banking with lower risk as Impulso MyPeru is allowing us to grow in SMEs where our value proposition has had nice traction multiplying disbursements more than twofold when compared to last year. Important to mention that more than 90% of disbursements to SMEs have the guarantee of Impulso MyPeru. Also, Commercial Banking portfolio as a whole grew 15% on a year-over-year basis and 12% from the previous quarter, above the system, as we reached 10.2% market share in this segment. Also, we wanted to highlight the growth of mid-sized companies as we are now consistently ranked #3 in this segment.

Finally, in line with the market trend, because we remain cautious in the loan book, there is still impact in cash loans disbursements, decreasing 48% year-over-year, as well as on credit and debit card purchases. However, we see a recovery of this last one of more than 20% during July.

On Slide 20, we wanted to update you on the development from the Impulso MyPeru program. As mentioned before, this program does not provide funding, but gives more than -- gives from 50% to 98% guarantee levels to credits given to SMEs and mid-sized companies, and the allocation of the guarantee is conducted through auctions where the bidding variable is the interest rate offered to clients.

During the second quarter, we have disbursed more than 1,400 million soles. Overall, almost 2 billion soles have been disbursed of which almost 65% has gone to SMEs and the remaining to mid-sized companies. Risk-adjusted profitability has improved, and this increase in volumes and clients represents also an opportunity to further cross-sell in financing as was the case with Reactiva.

On Slide 21, although risk-adjusted NIM is still low, we observed an important improvement of 50 basis points aligned not only with the shift of the loan book mix, but also with the reduction of cost of risk in both retail and commercial banking, given the growth of Impulso MyPeru and the liquidity events mentioned before.

Additionally, there is still an impact on yields due to the lower rates driven by Impulso MyPeru and with the shift of the loan book mix. Unsecured loans, which include credit cards and personal loans, decreased to 19% year-over-year. In that line, we see lower yield on loans of 20 basis points, reaching 10.6% and the NIM reduced by 10 basis points.

Furthermore, this quarter brings positive news as the cost of funds consolidates change in trend, decreasing 40 basis points to 3.6%, with an accumulated reduction of 60 basis points from the peak of the fourth quarter last year. As you know, our sensitivity to changes in rates is higher in the funding side, as we have more short-term deposits, both institutional and retail. This is why when rates increased our cost of funds was hit, but now that we see lower market rates, we benefit more than others.

In that sense, this improvement is attributable not only to lower market rates as the short duration of interest-bearing deposits allows for faster repricing, especially in local currency deposits, but also to a better funding mix as the proportion of time deposits over retail deposits is decreasing given a proactive management of efficient funding. Consequently, the cost of deposits has decreased 20 basis points in the quarter and 60 basis points year-to-date.

More positive news is that the share of deposits in total funding remains stable, and the retail deposit market share continues to increase, highlighting growth from saving deposits throughout the year.

Finally, our loan-to-deposit ratio of 99% is in line with the industry average.

We have also been working to generate further synergies with Izipay as we encourage the growth of our payment ecosystem. Focusing on increasing transactional volumes, offering merchants value-added services, continue to pilot low-risk loans to merchants and use Izipay as a distribution network for Interbank products as well as a source to increase float.

The results are evident as we follow four key figures: 27% yearly increase in Izipay flow coming to Interbank accounts and 40% increase in float from merchants. Moreover, there is a 2.2x yearly increase in transactional volumes and 17% growth in float from micro merchants, thanks to IzipayYa.

Now, moving to insurance on Slide 24.

Premiums were up 8% in the quarter and around 25% year-over-year as market share of annuities remained at 29%. Individual Life continues to grow nicely with an 18% increase year-over-year. Private annuities are the fastest-growing product, having more than doubled in the last year and increasing their share of premiums to 25%. This growth is driven by some clients switching from time deposits as banks now offer lower rates.

On the other hand, retail insurance remained stable with credit life and card protection experiencing good growth.

On Slide 25, regarding the Investment Portfolio, the return on the investment portfolio increased 40 basis points compared to the previous year mainly due to higher interest received from Fixed Income Investments and an increase in Rental Income.

And finally, on Wealth Management, we continue to see growth in assets under management with a yearly growth of 15% and 5.5% on a quarterly basis, reaching the historical maximum of $6.8 billion. On the back of that, there is an important recovery of fee income on a quarterly and annual basis reaching PEN 42 million, which represents a 22% growth year-over-year and an 11% growth from the previous quarter.

Now let me move to the final part of the presentation, where we provide an update on ESG operating trends for 2024 and some takeaways.

On Slide 28, we want to share our Sustainability update.

On the environmental front, we've completed an initial climate risk assessment at Interbank, providing a robust foundation for future climate-related strategies. Our sustainable loan portfolio has expanded to more than $200 million, reflecting our commitment to green financing. To this end, a strategic partnership with EnelX will further enhance our ability to identify and offer green loan products.

In the social front, we keep strengthening our digital solutions aiming to reach more Peruvians. Regarding our financial education platform, Aprendemás, we have already reached over 1 million Peruvians. In addition, our dedication to talent management has also been recognized by Merco and Great Place to Work.

In the governance front, to foster a strong sustainability culture, we have implemented our first Sustainability Supply Chain Forum reaching 100 key providers. Second, our employees have been actively engaged in ESG material topics through five Sustainability Talks, and we supported local entrepreneurs by hosting 2 sustainability fairs at Inteligo Group.

Finally, as Luis Felipe previously mentioned, Euromoney has also awarded Interbank for: Peru's Best Bank for showing strong financial performance across key metrics such as business development, increased digital solutions and corporate governance, second, Peru's best digital bank for our focus on digital innovation, and third, Peru's Best Bank for Corporate Responsibility, underscoring the positive impact of our initiatives on society and the environment.

On Slide 29, let me give you an update on our operating results for the second quarter 2024 and the comparison to guidance.

We continue to present sound capital levels with total capital ratio of 15% and core equity Tier 1 ratio of 11.2%, both above our guidance.

First half 2024 ROE is 8.4%, still below midterm range but recovering to 11.2% in the quarter. With a better cost of risk, the year-end ROE should be above 12% as guidance. We anticipate that the ROE of Interbank and Inteligo should be higher in the second half of the year, and we continue to target our midterm profitability ROE of 18%.

Loan growth of around 4.5% is aligned with the guidance and expect to remain aligned throughout the year, supported by strong growth from commercial banking above the financial system and gaining market share.

NIM for Interbank was 5.3% during the first half of the year. We expect it to slightly recover during the year as cost of funds decrease will continue in line with lower market rates and the efforts previously described.

Cost of risk for banking was 4% in the quarter, slightly better than our expectations, due to the improvement in the forward-looking variables and below our guidance, also mentioned in previous calls. Cost of risk should continue this path as we expect year-end numbers to be better than guidance.

And finally, we continue to see good efficiency levels at IFS in line with guidance, but slightly impacted by revenues and not by cost, as we are strictly monitoring and managing them, especially at the bank, which has reached a cost income ratio below 40%.

Let me finalize the presentation with some key takeaways: first, we have seen improving banking and insurance results, driving earnings recovery; second, there is a significant growth in commercial banking loans; third, lower cost of risk translates into better results for Interbank; fourth, continuous improvement in cost of funds; fifth, double-digit growth in insurance premiums and finally, a strong increase in asset under management in Wealth Management.

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

QUESTION AND ANSWER

Operator
At this time, we will open the floor for your questions. First, 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 number 1 on your touchtone phone. 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 queue, please press Star, then 2. Again, to ask a question, please press Star, then 1. And we'll pause momentarily to compile a list of questioners.

And the first question will come from Ernesto Gabilondo with Bank of America. Please, go ahead sir.

Ernesto Gabilondo Márquez

Thank you. Hi, good morning, Luis Felipe and Michela and good morning to all the team. Thanks for the opportunity. My first question will be on the wealth management business. So probably, it's a question for Bruno. We continue to see that the earnings RPU is very volatile. I think this was the only subsidiary in what you said as you explained because of the performance of the investment portfolio. So, I would like to see your thoughts on if there's like some future strategy to manage more stable earnings in the subsidiary?

And my second question will be on asset quality. So, we noticed the NPLs increased quarter-over-quarter, but cost of risk declined, and one of your peers recently anticipated that the microfinance sector and some specific SMEs and retail segments could remain challenging in the second half. So, I wanted to hear from you if you are sharing the same thoughts? And if you think that those risks are already considered in your assumption for the cost of risk trending down.

And my last question is if you can elaborate a little bit more on the potential drivers for the second half to achieve the ROE above 12% again in the second half? Thank you.

Luis Felipe Castellanos
Okay. Ernesto, thanks very much for your questions. To get organized, let's go first with Bruno.

Bruno Ferreccio
Yes. Good morning, Ernesto. So, with regards to Inteligo's results, a couple of things. First, highlighting what Michela already said through the presentation, is that we've been seeing very strong growth in assets under management since basically starting the fourth quarter of last year and going through this year, and that trend continues. So, I think that's -- we would anticipate fee income to continue to build strongly in comparison to the previous periods. So, that would be one source of stable revenues.

The other, with regards to the portfolio on your specific question, a few things that we've been doing. First of all, we have been increasing our fixed income holdings and at the same time, making sure that those are booked in a way that they don't impact our P&L on a monthly basis because what we're trying to do is generate income from that, and so, in the past, we had a lot of that impacting P&L instead of net equity, okay, so, we've made that change, and we continue to do so. The second part of it is we've been derisking our portfolio. But as you know and from what we've been seeing in the market for, I don't know, the last 1.5 years or so, we have to be patient with that because we don't want to realize losses or sell and rebalance our portfolio at a bad time. So, we've been very careful and taken the opportunity to do so throughout this year. And going forward, we think that our portfolio is going to be in a much better place. And hopefully, we are going to continue to be able to reduce the volatility that we have seen basically in the last 12 to 18 months in the portfolio.

Luis Felipe Castellanos
Thank you, Bruno. And Ernesto, on your two questions, let me first give it a crack and then I'll pass it on to Michela or Carlos, so they can complement.

But yes, our cost of risk is coming down basically for -- I would say a couple of factors. First, we've been taking actions throughout last year that obviously that takes some time, but it's already showing up. So, the profile of our portfolio is different to what we had some months ago. And the customers that had high PDLs have already been provisioned. So, the portfolio has cleansed in that front. Second, we've been targeting lower-risk customers. So, that also has an effect. And third, there's been a month, but still a month, but at least recovery of the economic conditions overall. So, that's what makes us expect that this improvement bump will continue in the coming months as we continue to derisk the portfolio tactically and strategically. I would say, tactically because we decided to go strongly over other segments, including corporate banking and medium-sized banking and also higher income segments. And I guess that we've been positively surprised by the traction that we've had with those types of customers. So, that's something that has impacted positively the results of the bank.

And then jumping a little bit on your third question. If this path continues and the cost of funds continue to go down as we do expect that -- only those two factors will have a positive impact on the ROE itself. So, as Michela mentioned during the call, we do expect that Interbank's ROE and Inteligo's ROE, given a stabilization of market conditions, will boost ROE for the second half of the year. I'll stop there and maybe Michela and Carlos can complement anything that I have not mentioned.

Michela Casassa
Yes, maybe a little bit more in relative terms, Ernesto, is that when you look at our portfolio, I mean, Luis Felipe already mentioned that the riskier part of the consumer book has decreased. It has already derisked, okay, so, this is the first consideration that is clearly showing in the downward trend of cost of risk of credit cards and personal loans, and we have seen this very clearly this quarter. And the second portion, which I think is very relevant given the macro scenario is our different strategy in commercial banking, which has always been much more conservative. First, because of the incidence of the small businesses in our portfolio. Remember that we only have like 3%, 4% market share in SMEs, the small ones, and given that we've been lending in Impulso MyPeru, the cost of risk of that segment has significantly decreased. So, it has decreased, I don't know, like 700 basis points over the past year, okay, so, we don't have a big portfolio in the micro segment, which is the one that is hit because only now you start to see the problems in that segment that was held first by Reactiva, then by the multiple extension that the Reactiva program had for that specific segment.

And the second portion of our more conservative approach in commercial loans is in the midsized companies, where when you look at our PDL ratios, it's the lowest in -- between the four big banks in the countries. It has always been the case because we are conservative, and we focus on the better risk profile clients. So, I guess you see a continuous deterioration of PDL ratios in the system of midsized companies and small businesses. But it's not the case and not to that extent in the Interbank portfolio. And linked to that, the trend in the ROE for the second half is actually coming from two specific things: the ROE of Interbank that with a lower cost of risk starts to get closer to the target level. So, we have seen already, no, a double-digit ROE Interbank this quarter, and that ROE should just continue to grow in the next quarter because of a lower cost of risk. And the second one is Inteligo. Of course, there is a little bit more of uncertainty there, given market conditions, but we expect a much higher ROE for the second half of the year and Inteligo when you compare it to the first half. I'm not sure whether this covers it up, Ernesto.

Ernesto Gabilondo Márquez
No, very detailed. Super helpful. Thank you very much Luis Felipe, Bruno and Michela.

Operator
The next question will come from Carlos Gomez with HSBC. Please go ahead.

Carlos Gomez-Lopez
Yes. Hello. Good morning and thank you for taking my question. I want to ask you first about the -- you mentioned Reactiva and the guarantees and the fact that the new program also has guarantees. What was your experience with the performance of the Reactiva program? I mean, do the guarantees significantly reduce your cost? And does the government incur significant cost in that type of program?

Second, we know that there was a savings bank that failed in the quarter. How do you see the financial system in general? And are you concerned perhaps by some of your counterparty risks?

And finally, could you elaborate on the reason to integrate Izipay and not have it a separate segment anymore? It was actually quite useful to be able to monitor. Thank you.

Luis Felipe Castellanos
Yes. Carlos, can you repeat your question number two, please? I didn't get it very well.

Carlos Gomez-Lopez
I think my question was in regards to I think Caja Sullana was the one that failed, and whether you are concerned about other institutions in the financial system in Peru.

Luis Felipe Castellanos
Okay. Okay. Great. Let me start addressing that question. So, I think that we are not concerned about the financial system. I think that the system, the Peruvian system is very well regulated. It's very well provisioned. It's very well capitalized. Obviously, with so many months of low growth, even last year, we had a small recession, things are complicated for some institutions, especially the ones targeting the higher risk segments. But it's not something that is affecting the majority of the institutions. I would tend to believe and understand that these are isolated cases. So, there's not a significant concern. I think that supervision by the SBS is working well, and they are very preventive in making sure that things don't get complicated for customers. So, that's on that part of the question.

And our exposure to those types from the Interbank perspective for those types of institutions is negligible, extremely limited. So, there's no concern on that front from the Interbank perspective as well.

Then on the experience of the Reactiva and Impulso, I'm going to pass it on to Carlos as well as question number 3. However, it's two different things. Reactiva was something that was built to face COVID. We had a positive experience, but different to Impulso, which is a program targeted to boost recovery from last year's issues. So, there are two different programs. In both cases, our experience has been positive. But let me pass it on to Carlos Tori, so he can complement that. And on your question about Izipay and Interbank as well.

Carlos Tori
Thank you, Luis Felipe. Exactly, the -- let me go through Reactiva first. It was a program during COVID which came with funding from the government. A very, very low-cost rates and long term. The experience has been good, obviously, both for our clients and the system, as well as for the banks. The loans were very small. So, the operational process of disbursing and getting back the guarantees from the Board and set up wasn't perfect, but it worked well. And we still have a small outstanding, but that portfolio basically is being repaid, most of it at the end of this year, and there's going to be very little left for first quarter of next year.

Impulso is a different program. It does have a guarantee for the government depending on the size of the loan. It goes from like 60% guarantee to like 90%. But it comes with our funding and the -- so the economics on those loans obviously reflect a lower risk, but also have more economic return for the banks. So, it's a different program, does give the clients longer-term funds, which is very helpful for them, and it gives the economy a boost. But it's a different program, I would say, better and more sustainable. It's probably more comparable to similar programs that we see in other countries in the region. And it could be a program that stays along the next couple of years. So, very different from Reactiva, both positive.

Carlos Gomez-Lopez
Well, actually, I'm curious about your credit loss experience in these programs. And I understand they are different types of companies.

Carlos Tori
No, it was very low, very low credit loss, much lower than the--

Carlos Gomez-Lopez
But that's after -- after the guarantee, I would imagine or before the guarantee?

Carlos Tori Grande
Both, actually. But yes, after our guarantee. Yes. Yes. Yes. I mean after our guarantee much lower than the rest of our portfolio and before guarantee, it's similar to our portfolio.

Carlos Gomez-Lopez
Yes, that's good. Okay, thank you.

Carlos Tori
And then on Izipay, so the rationale behind the acquisition of Izipay and the vision going forward, has always been integrating it to the business of the bank. There are a lot of synergies, particularly with our commercial banking segment, in terms of bringing in the flow and having the float and strengthening the relationship with the clients. And also on the payment side, there are a lot of synergies in terms of which systems and which networks we use to transfer payments and the funds. So, we've been going forward with that strategy. We've made some more changes to foster those synergies and working together. So, we feel like the stand-alone financials of Izipay no longer reflect the actual results because there are different things going on. We will continue to show the operational numbers and transactions and things like that. But yes, so that's the reason why we haven't shown the Izipay numbers, I hope that explains it. Having said that, we have seen, as Michela mentioned, a very strong increase in flows from Izipay to the bank and obviously, strengthening relationships on our commercial clients in those flows.

Carlos Gomez-Lopez
And do you continue to operate? Now I was going to ask on Izipay, do you continue to operate with your former partner, with Scotia Bank?

Luis Felipe Castellanos
No, no. Actually, Carlos, that -- what Carlos mentioned, we acquired 100% of Izipay many months ago. So that's why we --.

Carlos Gomez-Lopez
No, no, no. I understand that. So, the question is whether -- whether that has meant that Izipay's relationship with Scotia has stopped or become smaller?

Carlos Tori Grande
No, no, no. We continue to offer them some services. We offer services to many financial institutions. And yes, the relationship with ScotiaBank and Credit Scotia has remained stable. There are different things that go up and down. We give them several services, but it hasn't decreased due to the change in ownership. No.

Carlos Gomez-Lopez
Okay, that's great. Thank you so much.

Operator
The next question will come from Alonso Aramburu with BTG. Please go ahead.

Alonso Aramburú
Yes, hi, good morning. Thank you for the call. I wanted to ask about loan growth and margins. And the relationship between the two. You mentioned Michela that you expect NIMs to improve in the second half of the year. I'm just wondering how much of that is on the asset side, a higher yield potentially as your loan growth accelerates in the retail side, how much of that is in the funding side? That's where it continues to come down and the funding cost continues to decline. And related to that, when do you expect a pickup in growth in credit card from this channel? Thank you.

Luis Castellanos López-Torres
Okay. Michela?

Michela Casassa
Hola, Alonso. Hello, good morning. Let's start with NIM. What we are seeing for the second half of the year, I mean it's tough, okay, because the dynamics because of the portfolio mix, the yield is still slightly going down. But there are a number of things that should help a little bit yield on loans, but we believe most of the recovery should come from the cost of funds, okay, but the thing that could help yield on loans is that we are expecting the decrease in the consumer loan portfolio to start stabilizing, so not that much decrease. And the second thing is that in -- if Impulso MyPeru does not renew, and we don't have more funds to do that, we will start replacing and growing with some loans which have a little bit higher yield, okay, so, that should help. But for sure, for what we've seen in the first half of the year because of what has already taken place in our funding base and our cost of funds, we expect that trend to continue and to be the main positive contributor to NIM.

Now, on the growth of credit cards and personal loans, actually, that is also a little bit tricky because up until the official figures that we've seen at system level of June, those two products have continued to shrink, and we're talking about all the banks, no, we are all shrinking. And this is mainly due to a number of reasons. Now for sure, the liquidity. So, the severance funds and the private pension funds are making people, are helping people to repay their debts. That's good on provisions. It's not good for growth. But the second thing is also that we have not seen yet a strong recovery of employment or enough demand, like a sustainable one that would push clients to start taking new debts, okay, we have seen a recovery. And in July, it has been very important in credit and debit card turnover, so the usage of credit and debit cards. So, that's positive news because that is the base then for financing. But I guess July will also be a month of decrease at system level because you have, besides what we have seen in June, also the extra salary for dependent employees. So, I guess it's going to be a decrease in what we are expecting in our estimates is just a stabilization and not yet a growth up until year-end.

Carlos Tori
Just to complement that, Alonso or just summarize. We have been issuing more cards in the last couple of months. So, we're growing our portfolio. And the usage has been good. So, activation is up, and clients are taking the value proposition. But as Michela mentioned, there has been low use of financing on those cards. One part of that has to do with the segments that we're going at, which also Luis Felipe mentioned, we're going a little bit lower risk. But also, there's been a lot of liquidity in the consumer segment over the last couple of months. First, due to CTS. The other is the funds from the AFPs, which have been -- we're in the middle of that or probably around 60%

of the disbursements have been done. Gratificaciones in July is always a very liquid month and that will continue for a couple of weeks. So, it will be interesting to see what happens after that. We feel comfortable with the risk decisions that we have made, but we would expect a little bit more financing on those new cards over the next couple of months.

Alonso Aramburú
Great, thank you Michela and Carlos.

Operator
The next question will come from Andres Soto with Santander. Please go ahead.

Andres Soto
Good morning to all and thank you for the presentation. My question is regarding the long-term strategy and how do you see your loan book over the medium term? Historically, Interbank has an outsized exposure to consumer lending. After what we have seen in this credit cycle, has anything changed in that sense regarding your appetite for continue having this type of exposure and also considering that you have other initiatives targeting SMEs? Can we expect IFS after these have a different composition? Or do you think that all those factors are rather cyclical and once the economy recovers, we should see a reshuffling of your loan book towards more closer to historical levels?

Luis Felipe Castellanos
Yes, hi Andres. Thanks very much for your question. We've actually always mentioned that we like a balanced approach to our portfolio, like a 50% commercial, 50% retail. Obviously, some opportunities came in the last year that de-balanced that a little bit more on consumer, but the view doesn't change. We want to go on a balanced portfolio strategy. I think that's what has done IFS successful in the past, and that probably will be in the future. Obviously, certain conditions of the country are changing as probably certain segments will be growing more than others. And that's something that we need to review. But as of now, it doesn't change. We are going to go over our big new five-year plan strategy review and strategic planning process starting actually these days and it will go for a couple more months. So, we're going to debate that. Obviously, Carlos Tori, in his new role brings new ideas and will be welcome and discussed. And when we finalize that process probably we'll be able to share it. But so far, we believe Peru continues to be a country of opportunities. The balanced approach is what we have, and that's what we will entertain during the following months as we continue to deploy our strategy. I think growth in core segments, digitalization and best use of analytics is our continued strategy.

Andres Soto
Thank you, Luis Felipe. And from that perspective, you previously mentioned that when you look at the long term, we should expect IFS to have a different composition in terms of NIM and cost of risk. Can you remind us of what do you see as sustainable levels for those variables to target your 18% ROE for the consolidated entity?

Luis Felipe Castellanos
Yes. I can remind you of the 18% ROE. I don't have the details on the other. I don't know, Michela, we have long-term numbers for that, but 18% should be your driver, Andres. Michela, I don't know if you can complement that.

Michela Casassa
Yes. No. Maybe the only thing Andres, that I will add is that, I mean, cost of risk should be, I mean, closer to 3%, okay? Most likely, it's going to be above 3%, okay, because of the portfolio mix and

the things that we are thinking of growing in the different maybe risk profile, okay, but I mean, the last number we have reported is still 4%. Now this number should go back in closer to 3% or slightly above 3%. Also, in the midterm.

Andres Soto
Thank you, Michela. And do you have any expectation on when cost of risk will normalize to this level?

Michela Casassa
Actually, you have seen already the movement from 4.7% to 4%. We expect to end the year -- I mean mid-3s, so close to 3.5%. So, we expect quarter-over-quarter to continue the decline.

Andres Soto
That's very helpful. Thank you both.

Operator
At this time, we will take any webcast questions. I would now like to turn the call over to Mr. Ivan Peill from InspIR Group. Please go ahead, sir.

Ivan Peill
Thank you, operator. At this time, there are no webcast questions. So, I'd like to turn the floor back to Ms. Casassa for closing remarks.

CONCLUSION

Michela Casassa
Okay. Thank you very much, everybody, for joining our call, and we will see each other again in November for our third quarter results. Thank you. Bye-bye.

Operator
This concludes today's conference call. You may now disconnect.