Intercorp Financial Services

Third Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Intercorp Financial Services Third 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, instruction 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 Mr. Ivan Peill from InspIR Group. Sir, you may begin.

Ivan Peill
Thank you, and good morning, everyone. On today's call, Intercorp Financial Services will discuss its third 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 did not 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 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 all, and welcome to our third quarter 2024 earnings call. I want to thank you for attending our call today.

I would like to start by addressing the macro situation in our country. In the first eight months of 2024, economic growth performed positively with 3.5% growth in August, accumulating a 2.9% year-to-date GDP growth, mainly due to the recovery in consumption. A slightly improved market sentiment for consumers and businesses leads us to expect GDP growth of above 3% for this year, making Peru the country with the highest growth in the region.

This week, the Asia Pacific Economic Cooperation, APEC, CEO conference is taking place in Lima, highlighting the relevance of Peru within this important forum. It is a great chance to showcase Peru and its investment opportunities.

Looking ahead to 2025, we are cautiously optimistic about the future growth of Peru as we expect private investments in infrastructure and mining activity to reactivate. Business activity will continue to generate employment with a positive impact on the economy.

This quarter's results for IFS confirm that we are emerging from the most challenging phase of the credit cycle. On top of the liquidity events of the previous quarter, like the fourth release of pension funds and the availability of severance indemnity deposits, which accelerated the recovery, our results were supported by effective risk management, diversification of our income and the ability to make quick decisions with flexibility and efficiency. This is why we believe that in line with improved expectations of Peru, the positive trend should continue.

As mentioned, IFS has demonstrated resilience during this credit cycle. At Interbank, we have been able to grow our market share in loans and deposits, growing in commercial banking and now starting to grow again in the consumer portfolio. The cost of risk is converging to normalized levels as we see an improvement in our customers' ability to pay, paired with enhanced internal models and improved underwriting standards that should allow us to continue growing profitably.

Finally, Interbank and Izipay continued to capture business opportunities together, while PLIN continues to engage users, generating more primacy from our customers. At Interseguro, we have seen relevant growth in premiums, mainly in private annuities and individual life. We continue to be the market leader in annuities. Our Wealth Management business had a positive quarter in its core business, as assets under management reached another all-time high, and the investment portfolio had a good quarter.

Now, I wanted to take the opportunity to address two independent events that occurred concurrently at the end of last month, as we communicated to our clients through our official channels. First, an operational issue in Interbank which led to service interruptions between October 30 and 31. Normal service was restored within hours of such event.

Second, and then related to the first, an event whereby a third unauthorized party illegally accessed and exposed certain data from a group of clients. Upon verification, we confirmed that no data that allows transactions was exposed. We immediately reinforced security measures, including special monitoring of operations and client information, ensuring that both deposits and financial products are protected, and customers could continue to operate normally and safely.

As you know, our key strategic priority continues to be achieving digital excellence for our customers. We are focused on becoming the leading digital platform with profitable growth to create the best digital experience for our customers through the development of our analytical capabilities and always leveraging on the best talent.

Finally, I wanted to share some good news about sustainability. Our CSA score has seen a substantial improvement, reaching a score of 69 from 61. This is a reflection of our commitment to build a sustainable business. Going forward, we continue to be optimistic about IFS' outlook as we execute our long-term strategy.

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

Michela Casassa
Thank you, Luis Felipe. Good morning, and welcome, everyone, to Intercorp Financial Services 2024 Third Quarter Earnings Call.

To begin, we would like to review the macro outlook for Peru. Continuous improvement in economic indicators. On Slide 2, GDP for the third quarter grew around 4%, with August alone showing 3.5% growth. This result brings the first eight months of the year to accumulated growth of 2.9%, close to full year market expectation of 3%. Primary sectors drove the growth, accumulating 3.8% for the year, driven by improvements in the performance of several mining units.

The nonprimary sector also accumulated 2.7% in the same period, reflecting increased consumption of both goods and services. We also wanted to mention that the IMF has updated its growth estimates for both 2024 and 2025. They have adjusted the estimates for LATAM countries upward for 2024, but downward for 2025. Peru is expected to lead the region with a 3% GDP growth in 2024. For 2025, the IMF projects a 2.6% growth with a stronger first half due to the pre-electoral year, which typically reduces dynamism in the second half.

Furthermore, monetary policy remains one of Peru's main highlights. We were among the first in the region to control inflation, hence, one of the first to cut the reference rate, reducing it by 275 basis points from the peak of 7.75% to the current 5%. We believe the Central Bank still has room to continue reducing rates as long as the FED continues to cut, as expected.

Finally, we continue to see a stable currency as the depreciation of the sol for the year was only 2%, while the rest of the region was over 10%.

On Slide 3, consistent with the previous slide, we observed optimistic leading indicators. We see business confidence improving during the year. The Central Bank in its latest report is expecting private investment to grow 2.3% this year and has increased its expectations for 2025 from 3% growth to 4.1%, in line with a more optimistic view of the Peruvian economy. This is good news, as the expectation of the level of investment for the following years is increasing.

First, because of our reactivation of infrastructure projects, which are expected to remain at high levels over the next three years; and second, due to mining projects, both in existing mines to optimize and extend their remaining life into new projects and expansions. Some examples are Tia Maria, Toquepala, Cuajone, Yanacocha. And for infrastructure, the Linea Dos del Metro, the Anillo Vial Periferico, among others.

On the other hand, consumer confidence remains on the positive side. As of August, we have seen a gradual recovery in formal employment and a year-over-year growth in real formal wages. This trend is positively impacting on private consumption as one of the factors driving internal demand.

It is important to mention that part of the recovery in consumption was also accelerated by the pension fund withdrawals and the availability of severance indemnity deposits. Consequently, there has been a recovery in the purchasing power of people, still slow, but already improving consumption levels.

Finally, continuing with a positive note, Moody's and Fitch have changed their outlook for Peru from negative to stable, this quarter.

Moving on. In this context, we continue to build on our three key strategic priorities, which are: first, we aim for profitable growth to become a leading digital platform. We continue to grow our customer base double digit across all segments, consistent with macroeconomic recovery. IFS has continued with its solid recovery, registering a net income that more than doubled in the third quarter, compared to the same period last year, and already achieving over 15% ROE in the third quarter.

Second, we strive to create the best digital experience with more than 81% of our retail banking customers being digital and improving NPS for retail banking to 66 points as of the end of September.

Third, we continue to focus on our core businesses, maintaining a significant market share in consumer banking loans at 22%, ranking second in the market. Our retail deposit market share exceeds 15%, and we lead the market in annuities with over 31% market share.

Finally, in Wealth Management, assets under management continued to grow at double digits, reaching 19%, year-over-year, and surpassing previous maximums.

Moving on, we will review four sections of our earnings presentation: sustainable growth, digital update, 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, improving banking and investment results drive quarterly earnings recovery to grow by twofold year-over-year, reaching PEN 390 million net income at IFS level. This results in an ROE that is now above 15%, an improvement from the previous quarter and in our path to our medium-term ROE goal.

Second, lower cost of risk translates into better results for Interbank with a decrease of 90 basis points for the quarter and 210 basis points from the peak in the fourth quarter of 2023. As such, we see better results for Interbank with an ROE above 14%, higher than the previous quarter and last year.

Third, the cost of funds continues to improve, decreasing 70 basis points, year-over-year, outperforming the system's average by 20 basis points. This improvement is mainly because of proactive management of efficient funding, with growth around 13% year-over-year in deposits, both retail and commercial, leveraging on our synergies with Izipay, hence, enhancing the funding mix. We have continued to gain market share in retail deposits now at approximately 15%.

Fourth, although this quarter loan growth has been moderate, we had good news as cash loan disbursements rebounded by 8% from the previous quarter. Additionally, we have continued gaining market share in key products with a 40 basis point quarterly increase in Commercial Banking and 10 basis points in Consumer Banking.

Fifth, sustained growth in insurance premiums generates improvement in insurance core business, as life insurance and private annuities grow nicely in a year-over-year basis under local GAAP. Finally, in Wealth Management, assets under management continued to grow nicely, reaching a historical maximum, driving fee income up, while also gaining market share in Interfondos, our mutual fund company.

On Slide 8, the PEN 390 million net income in the quarter is double the net income reported last year and 36% above the previous quarter. This improvement implies an ROE above 15%, clearly in our path to our medium-term ROE goal, as previously mentioned. In Banking, the quarter-over-quarter and year-over-year comparisons are very positive.

First, the cost of risk is closer to normalized levels; and second, better margins were achieved through a reduction in the cost of funds and increased yields from the investment portfolio. This has allowed net income to grow 52% compared to last year, reaching an ROE of 14.4%, which is over 400 basis points higher than the previous year, but still below our target.

In the Insurance business, core business remains solid, while the recovery of the investment portfolio generates better results on a year-over-year basis.

Finally, in the Wealth Management business, the good dynamic with clients continues as assets under management hit a record level, driving fee income upwards. Also, the investment portfolio had a better performance in line with the market. As such, there is a significant improvement in the quarterly figures, rebounding 5.6x, moving ROE closer to 14%.

On Slide 9, we see a recovery in revenues in this quarter, mainly due to an improvement in margins at Interbank, driven by a reduction in the cost of funds and a better yield in investments. On top of that, there is an important improvement in revenues from Inteligo, as fees continue to grow and the investment portfolio had a good quarter. Finally, we see good performance of core business at Interseguro with a better return over the investment portfolio in the quarter.

On Slide 10, we wanted to point out that the cost of risk and NPLs have nearly reached normalized levels at 3.1% and 2.9%, respectively. Both indicators have followed a downward trend as anticipated, but at a faster rate than initially estimated as the liquidity events from the previous quarter accelerated the improvement in asset quality ratios. Moreover, the improved macro environment is slowly starting to enhance people's purchasing power and increase their disposable income, leading to better payment behavior from customers.

With that said, let's walk through some additional insights. First, we have increased our exposure to commercial banking, moving from 44% in the third quarter '23 to 47% of Interbank's portfolio as of the third quarter '24. This segment continues to perform well, as approximately 11% of the commercial portfolio is backed with guarantees from the Impulso MyPeru program, which generated growth at a lower cost of risk. As we mentioned earlier, given the current situation, the focus of growth has been concentrated on lower risk products, which shifts the mix of our consumer portfolio tactically.

Credit cards and personal loans have decreased, now representing 18% of the total loan book, down from 23% a year ago. Meanwhile, low-risk products such as payroll deductible loans to the public sector employees and mortgages have increased to 13% and 22%, respectively. This shift has allowed the cost of risk from retail to reduce around 200 basis points in the quarter and almost 300 basis points from a year ago. It has also impacted on the NPL coverage ratio for retail, having a lower coverage ratio when compared with a year ago, an effect which is purely due to the mix of the portfolio and not to lower coverage ratios in each specific retail product.

Finally, we are taking advantage of our analytics capabilities. Over the past year, we have focused on enhancing our internal models by analyzing several variables and incorporating more transactional data. This approach aims to promote growth in a healthy manner. Consequently, the right allocation of loans will result in a more stable cost of risk for the future. However, we remain cautious, given that the economic activity has not yet fully recovered.

On Slide 11, complementing the previous slide, the rescheduling outstanding loans have continued to decrease 15% from the previous quarter and 22% versus a year ago, now representing around 17% of the consumer loans portfolio. In previous calls, we mentioned how the payment behavior for performing loans was quite different from customers with rescheduling's. But given the improvement in the payment behavior of clients, the difference has become smaller, as rescheduled loans are now collecting almost 92%.

Now this improvement is, in part, on the back of the liquidity events of the second quarter, such as the availability of severance indemnity deposits and pension funds withdrawals. However, it is also the result of our proactive strategy in origination, risk management and collections. We are constantly improving our collections capabilities and communications through digital channels, making our payment solutions more available to clients.

On Slide 12, we wanted to show the evolution of fee income, which has increased at IFS level by 5% from the last quarter, driven by an 8% increase in banking fee income and a 2% increase at Inteligo, in line with higher assets under management. At the banking level, the increase in credit card fees is the main driver, thanks to the gradual recovery in turnover.

Finally, on this section, on Slide 13, as always, we wanted to highlight that efficiency remains a top priority. There is a 3% increase in total expenses at IFS level versus the previous quarter and 2% from the Banking segment, mainly due to variable costs. The cost-to-income ratios are still within the expected levels at 38% for IFS and 39% for Interbank.

Now let's move to the digital update. On Slide 16, we continue the positive trends in our digital indicators, which continue to show a nice evolution, when compared to the previous year. Interbank's digital experience is defined as everything you need in a single app. We have made relevant progress in our journey towards becoming more digital, developing the necessary capabilities to meet our customers' needs and providing them with the best experience.

As a result, we have seen substantial growth in both digital customers and digital sales increasing to 81% and 67%, respectively. We are working on new developments in the app, including new features, look and feel enhancement, the use of Gen AI for claims resolution, among others.

We also have app adoption campaigns, driving both app downloads and active user engagement. All these efforts had a positive impact on our customer experience reflected in NPS. Finally, we are stable at around 76% in digital self-service, as we have maintained always-on communication actions, which are focused on educating customers about new self-service functionalities through the app and on our virtual assistance.

As part of our digital value-added proposition, we believe we are creating value in primary banking relationships with PLIN. PLIN is an accelerator, as 60% of the average monthly transactions of customers that use Interbank as their primary bank are explained by transactions sent and received with PLIN. We have been implementing commercial actions focused on usage and increased transactions through various campaigns, which have resulted in an accelerating growth of PLIN. The number of transactions expanded by twofold in the last year as active users increased by 31% and the average number of transactions by user increased by 57%.

Moreover, there have been developments in the app, such as the PLIN Zone and PLIN promos. As a result, we generate more engagement by enhancing our customer experience. A customer that uses Interbank as their primary bank has 1.6x more products, 1.4x more deposits, 98% less churn and finally, more client satisfaction or NPS.

On Slide 18, 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 flow. The results are evident, as we follow four key figures: 31% yearly increase in Izipay cash flow coming to Interbank accounts and 43% increase in flow from merchants; 2.8x yearly increase in transactional volumes and 57% growth inflow from micro merchants, thanks to Izipay Ya.

Finally, on this section on Slide 19. Insurance and wealth management digital indicators show positive developments as well as digital adoption is increasing. In insurance, we continue to focus on enhancing the digital experience for our clients and expanding our distribution to new digital channels like WhatsApp, driving digital adoption. The development of internal capabilities has allowed us to increase digital self-service to 65%. Similarly, our digital sales have reached 82% and digital premiums for Vida slowly gaining relevance have reached 14%.

In Wealth Management, Interfondos digital transactions reached 53%, and ERNI users now account for 25% of total Interfondos customers. To achieve these results, we have focused and will continue to work on enhancing communication and sales through digital channels and on the development of products with special characteristics tailored for digital clients.

Now, let's move on to show you some more details on the performance of our three key businesses. On Slide 21, we are gaining market relevance in our key businesses. The reactivation in consumption and the increase in cash loan disbursements have driven our recovery in the retail segment. Our market share in consumer and retail loans is at an inflection point, having increased by 10 basis points each on a quarterly basis.

Furthermore, throughout the year, we have focused on growing our commercial loan book. We have leveraged Impulso MyPeru to increase market share of commercial loans with government guarantee. Moreover, sales finance remains one of our key products, with market share growing from 14.6% just 12 months ago to more than 17%, ranking second in the market.

Overall, commercial loans market share has increased nicely to 10.6%, an all-time high, which is 100 basis points above last year.

Finally, we have been working to enhance our value proposition to clients, aiming to increase our primary banking relationships, which is positively impacting our deposits. As a result, our market share of payroll inflows continues to grow, and retail deposits market shares has risen above 15%.

On Slide 22, we observed a moderation in loan growth this quarter. However, there was positive news in the cash loan market, as we experienced a slight recovery in disbursement. Overall, the loan book grew by approximately 1% in the quarter and 3.3% compared to a year ago in a market which is not growing. On the commercial side, the book continues to grow, gaining relevance in the mix, though at a slower pace this quarter.

We continue to leverage the Impulso MyPeru program, which allowed us to grow in the SME and midsized companies with government guarantees. This program peaked in the second quarter, and we expect it to gradually decrease over time. Consequently, this quarter, we have only disbursed PEN 500 million compared to average disbursed in the previous quarters.

Additionally, we continue to focus on growing in supply chain finance, as mentioned in the previous slide. Overall, the commercial banking portfolio grew 12% year-over-year and 2.2% from the previous quarter, outperforming the system and gaining market share.

On the retail side, we see two important trends. First, we are experiencing growth in mortgages. Since July, we have seen a boost in our loans, gaining 27 basis points in market share, over the past year.

Second, we are at an inflection point in cash loans, with an 8% improvement in disbursements from the previous quarter, still with a conservative approach to growth. The enhancement of our internal models, including customer centricity vision, help us generate a more comprehensive value proposition for our clients, allowing us to grow in a healthy manner.

On Slide 21, risk-adjusted NIM continues to increase, 60 basis points in the last quarter and 130 basis points from the bottom by the end of last year, in line with the reduction of cost of risk mentioned before. Moreover, we also see an improvement in total NIM of 10 basis points in the quarter, changing the trend of the previous quarters.

Meanwhile, there is still impact on yields due to the shift of the loan book mix. Consumer loans, which include credit cards and personal loans, decreased from 23% to 18%, year-over-year. Consequently, we see lower yield on loans of 10 basis points, reaching 10.5%.

However, we have been proactive in managing our investment portfolio to mitigate this effect, taking advantage of market opportunities to generate additional margin. Furthermore, this quarter brings positive news as the cost of funds continues a downward trend, decreasing 10 basis points to 3.5%, with an accumulated reduction of 70 basis points from the peak of the fourth quarter '23.

As you know, our sensitivity to changes in rates is higher on 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. 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.

Deposits grew by around 13% in the last year and 6% in the last quarter, with saving deposits showing growth of 18% and 6% in the same period. As a result, deposits have become more relevant for funding, increasing from 76% to 81% in the last 12 months.

Hence, the cost of deposits has decreased by 20 basis points in the quarter and 80 basis points from last year. This is a result of our focus on the proactive management of efficient funding KPI that increased by 300 basis points in the last quarter. Finally, our solid loan-to-deposit ratio of 94% is in line with the industry's average.

Now moving to insurance on Slide 25. Given the low penetration of insurance in Peru, the potential for growth of this market is important. This quarter's premiums were up 7% and around 13% year-over-year, as market share of annuity climbs above 31%. Individual life and private annuities continued to grow nicely, with year-over-year increases of 23% and more than 100%, respectively. Private annuities have positioned themselves as an attractive investment product. We are also observing growth in retail digital products, despite a cleanup within the SOAT and vehicle segments due to high claims rates.

Also, we wanted to share some good news. In October, Interseguro secured a share of the disability and survivorship insurance business through a public tender, effective from January 2025 until December 2026. This should add to earnings in the next couple of years.

Finally, on Wealth Management, we continue to see growth in assets under management with a yearly growth of 19% and 5% on a quarterly basis reaching, again, a historical maximum of $7.1 billion.

Interfondos has had an important year so far. The digital developments with ERNI have allowed us to grow more than 50% in the year, outperforming its peers in gaining market share, now at an all-time high at 17%. On the back of that, there is an important recovery of fee income on an annual basis, representing a 22% growth, year-over-year.

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. Our commitment to sustainability has led to a significant improvement in our CSA score, as Luis Felipe previously mentioned. We've improved by eight points and reached a percentile of 93%, being the highest grade in the country.

On the environmental front, we've taken a significant step forward by publishing our first climate report. This report includes our first qualitative assessment of climate-related risks to our banking business. We've also expanded our green loan portfolio to $330 million, demonstrating our commitment to sustainable finance.

On the social front, we've continued to prioritize diversity, equity and inclusion. Programs like GoWomen, Inspira and Sin Fronteras have empowered employees and clients from diverse backgrounds. Finally, on the governance front, we've updated our policies to align with best practices and international standards. This commitment to transparency and accountability is a cornerstone to our sustainability strategy.

On Slide 29, let me give you an update on our operating results for the third quarter 2024. We continue to present sound capital levels, with total capital ratio almost at 16% and core equity Tier 1 ratio higher than 12%, both well above our guidance and our capital requirements. ROE is gradually improving, reaching more than 15% in the third quarter and 10.6% for the first nine months of the year, still below midterm range, but closer to our guidance. We expect that with the improvement of the cost of risk, the recovery in the investment portfolio and the reactivation of consumer loan, we should be in line with guidance.

Loan growth of 3.3% is below guidance, but we expect a rebound in the last quarter of the year, supported by strong growth from commercial banking, mortgages and the recovery of the consumer portfolio.

NIM for the quarter was 5.3% during the first nine months of the year. Cost of risk for banking is already at 4.0% for the nine months of 2024, better than our expectations and below our guidance. The 3.1% of the third quarter is also closer to our normalized cost of risk. We continue to see good efficiency levels at IFS, in line with guidance.

Let me finalize the presentation with some key takeaways. First, improving banking and investment results, drive earnings recovery at IFS. Second, lower cost of risk translates into better results for Interbank. Third, better funding mix impacts positively cost of funds and NIM. Fourth, moderation in loan growth with improvement of cash loans disbursements. Fifth, sustained growth in insurance premiums. And finally, strong increase in assets under management, in wealth management, gaining market share in Interfondos.

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

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your telephone keypad. If you are using a speaker phone, please pick up your handset, before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*", then "2". And at this time, we'll pause, momentarily, to assemble our roster.

And the 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 on the Wealth Management business, and thanks for the opportunity to ask questions. My first question will be on your NIM expectations. As you mentioned, you're expecting that to be relatively flat this year. However, starting to think about next year, if we see that the economy is bouncing back, how should we think about the NIM trend, especially if at some point, we have more credit card appetite?

And my second question will be on asset quality. Just also wondering how you see cost of risk evolving over the next years. As you have mentioned, cost of risk was at 4% in the first nine months of this year, but at 3% this third quarter. And you have mentioned in previous calls that IFS cost of risk should be normalizing to 3%, 3.5% levels. So just wanted to hear, double-check how you're seeing this trend going forward.

And my last question will be on the fee income side, how do you see growth for this line? Especially considering that you will have Izipay revenues, higher assets under management and then we started to see a better performance in the wealth management business. Thank you.

Luis Felipe Castellanos
Okay. Thank you, Ernesto, for your very detailed questions. I think they are so detailed that I'm going to go straight to Michela, so she can build upon those specific numbers. But thanks very much. Michela, please.

Michela Casassa
Good morning, Ernesto. Thank you for the questions. Let's start with NIM. As you have seen in the current numbers, NIM has improved 10 basis points. What we are expecting for 2025 is a recovery of NIM, mainly due to a couple of trends. First, cost of funds, which has already decreased substantially, will have a full year effect during 2025, which is very positive.

And the second part is the portfolio mix. As you mentioned, the high-yield portion of the portfolio, which is consumer loans, credit cards and personal loans, has decreased this year substantially. But we are starting to see slight growth. So we are expecting growth for 2025, and that should help yield on loans, thus, together with cost of funds, impacting positively NIM for 2025.

On asset quality, I guess, this quarter, it is already a normalized level, now with 3%. Now have in mind that this 3% comes with a couple of things that are still not within our, let's say, risk profile target. First, again, the consumer loan book is smaller than we would like it to be. And the second impact is that we have a portion of the commercial loan book, which is guaranteed by the state.

So I guess that going forward, what we expect is that still, there is room for improvement in the specific cost of risk of the consumer loan book, which will push cost of risk downwards, but the portfolio mix and the maturity of the guarantees from the state will push cost of risk upwards.

So basically, we are not yet giving guidance for next year. But what we are expecting is cost of risk to be around what we have seen. I mean, between what we have seen this quarter and slightly above that.

And the third part, fee income. I guess this quarter has been a good reflection of what we should expect for next year. And as you mentioned, the drivers of the recovery of fee income are the growth in the consumer loan book for sure, fees coming from Izipay and Inteligo.

We are expecting a much nicer growth year-over-year, during 2025, versus what we saw this year because this quarter, fees are growing nicely, but still when you look at the year-over-year accumulated numbers, there are still some negative impact there. I'm not sure whether I fulfilled the three questions.

Ernesto Gabilondo
Yes, super helpful, Michela. Thank you very much. Just a last question on your ROE expectations. So you are reiterating that you can expect an ROE around 12% or above 12% this year. But when do you expect to reach your sustainable ROE? I think you were expecting something around 18% at some point. When do you think we can get to those levels, '26, '27?

Michela Casassa
We are still closing numbers, Ernesto. But I guess that the question there is the bank and, specifically, the recovery of the consumer loan book. I guess we should be close to the 18% ROE levels, maybe more like by year-end, next year. But it is difficult to see yet the full year 2025 already at the midterm range. So maybe the last quarter of 2025, we still need to check. But I guess, I mean, we are getting closer to that. And it's a matter of cost of risk continues now in the trend that we have seen in this quarter and the recovery of the consumer loan book.

Ernesto Gabilondo
Perfect. Excellent. Thank you very much.

Luis Felipe Castellanos
Thank you, Ernesto.

Operator
The next question will come from Yuri Fernandes with JPMorgan. Please go ahead.

Yuri Fernandes
Thank you, Luis Felipe, Michela and everybody. And also, congrats on the ROE recovery here and the good set of results. I have a question regarding your credit card that, back in the day, was super important. And I think it remains super important, but has been losing share on your total loan book. What should we see, and what do you need to have more appetite and start growing the credit card book again? Because this was another quarter of quarter-over-quarter decrease. I guess it was down maybe 5%. So just trying to understand where is the inflection point, what you need to see, what is the economic data, what has changed in the industry, whatever you can talk about this product? And then I can ask a second question. Thank you.

Luis Felipe Castellanos
Okay. Yuri, thank you very much. Let me pass it on to Carlos Tori, who can build upon your question.

Carlos Tori
Thank you, Yuri, for your question. Yes, credit cards remain very important for us. We have seen over the last couple of quarters, the whole market shrinking a little bit more due to the economic environment than anything else. So we follow that path. I believe we have reached or are very close to the inflection point, and we are looking to grow our portfolio. But as I mentioned on the last call, we want to be very cautious on how we do it. We don't want to rush into growing that. We want to keep our cost of risk controlled. So we are seeing some growth on some segments. Our value proposition on our credit cards remains very strong, and we continue to look for that.

So, we expect probably, the last quarter of the year is always higher consumption because of Christmas and all the events related to that. So we'll probably see some increase over that, and we'll try to maintain consistent but cautious growth on that portfolio. But yes, it continues to be our purpose.

Luis Felipe Castellanos
Yes. I guess we're all anxious about growth, obviously, but as Carlos mentioned, we are just emerging from a very hard part of the credit cycle for the country as a whole. So as he mentioned, the economy needs to continue its recovery path, and the consumer purchasing power and ability to pay should show us more strength so we can become less conservative. And obviously, we've been working in our models. So that strategically will help, but we're going to be cautious because, again, the economy in Peru is in its recovery path, but we need to remember that 2025 is a pre-electoral year, there’s usually some volatility there, and I think that we're cautiously optimistic but cautious as well.

Yuri Fernandes
Super clear. If I may, just on the card product, how should we think about the margins and the risk-adjusted margin of the card products? Is this accretive for your total NIM and risk-adjusted NIM? Once we start to see you're feeling more comfortable with this product, should this be a tailwind for your margins?

Michela Casassa
If I can, Yuri. It is accretive. Yes, for sure. Credit cards now I mean, the new level of rates in risk-adjusted yields is, for sure, one of the highest. And this is one of the reasons why NIM is a little bit impacted. So, I guess, in line with what Carlos and Luis Felipe have just mentioned, the importance of the recovery of that portfolio is vital, let's say, for their recovery in the yield of loans of the bank and of the NIM.

Yuri Fernandes
And for 2025, how should we think about margins for you? I remember, in the past call, they were somewhat positive on funding cost and being a tailwind for NIM. Is that the case? Could we see NIM keeping expanding from here as we are seeing this quarter?

Michela Casassa
Yes. Yes, Yuri, for sure. Yes, as cost of funds is already now at a lower level. And as long as the portfolio mix starts to shift, not towards higher NIM, it should recover during 2025. Maybe,sorry, if I can add, I was only going to say that we've seen a further improvement in October, already.

Yuri Fernandes
Good news, Michela. Thanks very much, guys.

Luis Felipe Castellanos
Thanks, Yuri.

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. I have two questions. The first one, also in terms of loan growth. You have been able to gain market share, this year, basically, you're outpacing the system. Is this a trend that should continue next year, or next year, we should see IFS growing more in tandem with the rise of the Peruvian financial system? Or even below, considering you have hard comps in your commercial portfolio?

And the second question is related to the data breach that we saw at the end of last month. I would like to understand if there was any short-term impact with that in terms of deposit outflows or clients shutting down accounts or something like that. Anything of that that we would anticipate for the fourth quarter results?

Luis Felipe Castellanos
Okay. Thank you, Andres, for your questions. First on the second one, that's been very recent. We have not seen any material change in our operations. Customers continue to operate normally. So we don't anticipate anything, so far.

And then in your first question, as we've always mentioned, our aim is to outpace the market. It's like on a sustainable way. We, year in, year out, like to scratch a little bit more market share, and that's our objective for 2025. Obviously, it will depend on many factors. I think we have ample room for growth in our commercial book, given our market shares are not that high in that segment. And in the retail book, it will depend on the recovery of the consumer portfolio.

Obviously, we're very focused on that, but that should also happen. So if you ask me, like big strategic view is to continue growing faster than the market as we've been doing in the recent years for 2025, and the years onwards, we'll continue to be the same.

Andres Soto
Thank you, Luis Felipe. So based on your previous comments regarding loan growth in the fourth quarter, can we expect sort of this year end at mid-single digits? And for next year, it would make sense to, for you to grow at high single digits, or is it that too optimistic?

Luis Felipe Castellanos
I think it's too early to tell right now, Andres. We are not providing guidance, obviously, at this time of the year. We're all setting down in our budgeting process and working on that front. So as soon as we have more clarity on that, obviously, we will communicate it to the market to the appropriate channels.

But I wouldn't anticipate, hopefully, like overall, the trend for Peru's GDP should continue to be positive with the caveat of the pre-electoral year coming on. And that system should grow faster, obviously, than GDP, as it has been the case. And if we scratch a little bit of market share, you kind of infer what we will expect, but as soon as we complete our work, we will surely communicate it.

Andres Soto
That's helpful. Thank you, Luis Felipe.

Luis Felipe Castellanos
Thank you, Andres.

Operator
At this time, I will turn the call over to Mr. Ivan Peill from InspIR Group. Please go ahead, sir.

Ivan Peill
Thank you, operator. The first question comes from Juan Nicolas Pardo Ayala, from Credicorp Capital Asset Management. Any sanctions are expected from the regulator coming from the data breach event?

Luis Felipe Castellanos
Hi. Thanks very much for the question. We don't know yet. Obviously, we are collaborating with the authorities in all their requirements. We'll go through the process. We are not anticipating anything yet.

CONCLUSION

Ivan Peill
There appear to be no further questions at this time. I would like to turn the floor back to Ms. Casassa for closing remarks.

Michela Casassa
Okay. Thank you very much, and thank you, everybody, for joining IFS third quarter conference call. We will see everybody back again next year. Thanks. Bye-bye.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.