Intercorp Financial Services

Second Quarter 2026 Conference Call

Wednesday, August 12, 2026, 10:00 AM ET

CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Intercorp Financial Services Second Quarter 2026 Conference Call. [Operator Instructions]

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 second quarter 2026 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. Gonzala 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 on (646) 940-8843.

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

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

Luis Felipe Castellanos
Good morning and thank you all for joining our second quarter 2026 earnings call. First, let me start with the macro and political environment. In the second quarter, economic activity in Peru moderated after the strong momentum seen earlier this year. Even so, the underlying picture remains constructive, supported by resilient domestic demand. Private investment is expected to grow 17.5% in the quarter, its strongest pace since 2012, excluding the post-pandemic rebound. At the same time, employment indicators continue to improve, supporting consumption.

On the political front, as you are all aware, Peru now has a new administration in place. The new government has set out a clear agenda for the coming months, focused on reinforcing the preparedness for El Niño phenomenon, strengthening security, reactivating economic growth through private investment, modernizing the public sector, and improving health care and social programs. These measures are consistent with the expectations for stronger private investment and consumption and support our view of GDP growth of above 3.4% in 2026.

While the international backdrop remains volatile, we are especially focused on El Niño-related risks in the country. We see it as a relevant risk for Peru with potential effects on primary sectors, infrastructure, supply chains, and certain customer segments. At IFS, we are monitoring this closely and maintaining a prudent approach to risk management. Based on our analysis, we expect any potential impact on our results to materialize starting in the second half of the year.

In this context, IFS delivered another solid quarter. Net income remained strong at PEN585 million and ROE reached 18.5%, above our midterm target. While earnings were lower than in the previous quarter, this mainly reflects a normalization of certain investment results and a gradual normalization in cost of risk as expected, following an exceptionally strong first quarter.

At Interbank, quarterly net income remained strong, and the underlying business continued to show positive trends. Loan growth was positive across segments with particularly strong momentum in consumer loans, where the pace of growth accelerated and in the small business, where we continue to grow above the market.

Overall, these higher-yielding segments are now expanding at a double-digit rate. We continue to strengthen our payments ecosystem through Izipay and Plin. These platforms are important levers to deepen relationships, increase engagement and support the growth of low-cost funding. Interseguro maintained strong momentum in long-term insurance, supported by annuities and life while preserving its leadership in annuities.

The business continues to leverage synergies with Inteligo and Interbank to advance more integrated solutions to our clients. Inteligo continued to grow at double-digit rate, reaching a new record in assets under management, supported by healthy client engagement and a strong advisory model.

Overall, this quarter confirms that we remain on track in terms of results and profitability, supported by a diversified platform, clear growth opportunities across businesses and disciplined execution of our model. Our strategy remains focused on profitable growth with the customer at the center of our decisions and continued investments in the capabilities that support long-term value creation, including investments in digital channels, data analytics, digital products, cybersecurity, and Gen AI.

Looking ahead, we believe IFS is well positioned to continue growing with discipline while sustaining profitability and strengthening our leadership in Peru over the long term. Now let me pass on to Michela, who will walk you through this quarter's results in more detail. Thank you.

Michela Casassa
Thank you, Luis Felipe, and good morning, and welcome, everyone, to Intercorp Financial Services second quarter 2026 earnings call. Let me begin with our quarterly key messages. First, we continue to consistently deliver strong profitability. In the second quarter, IFS reported net income of PEN585 million, an ROE of 18.5%, remaining above our midterm target and supported by solid performance across all of our businesses.

Second, higher-yielding loans accelerated during the quarter, growing 12% year-over-year and almost 6% in the quarter. Third, risk-adjusted NIM remained resilient at 3.5%, up 10 basis points year-over-year, while cost of risk normalized to 2.1% still below our risk appetite, but with a lower impact from the excess liquidity from the eighth release of the private pension funds, which took place until February this year.

Fourth, we continue to deepen primary banking relationships. As a result, our retail primary banking customer base grew 16% and our Net Promoter Score remained strong at 61 points. Finally, Insurance and Wealth Management continued to deliver strong growth with premiums up 9% year-over-year, mainly driven by annuities and life and assets under management up 14% year-over-year.

Let's start with our first key message. At Slide 4, entering into a brief update of the macro environment, GDP growth for the second quarter is expected at around 2.8%, reflecting a more moderate pace after the strong momentum seen in late 2025 and early 2026. This lower growth in GDP is mainly due to the fishing sector, which has impacted -- which was impacted by the global El Niño.

Even so, we expect activity to improve in the second half, supported by resilient domestic demand, private spending, favorable commodity prices, and greater political stability. For the full year, GDP is expected to grow 3.4% in 2026 and 3.2% in 2027 already incorporated the impact -- the expected impact from El Niño, which most analysts estimate at between 0.7 and 1 percentage point of GDP.

Growth should continue to be supported by non-primary sectors, particularly construction, commerce, and services. Inflation rose to 4.1% year-over-year in July and monetary policy remains supportive with the reference rate at 4.25%. We expect inflation to remain around these levels throughout the year before returning to the Central Bank's target range in 2027.

At this point, we do not expect additional rate cuts. Peru continues to offer strong fundamentals and attractive long-term opportunities with growth expected to remain above 3% over the next 2 years and with an upside potential given the new government leading the region.

On domestic demand, the outlook has improved. The Central Bank revised its 2026 projection upward to 5.9% from 4.9%, mainly reflecting stronger expectations for private consumption and investment. This is consistent with confidence indicators. Business confidence climbed to 69% at the end of the second quarter and with the result of the election and is the highest level in the past year, while consumer confidence recovered to 51% in July.

Together with solid fundamentals and better terms of trade, this gives us a constructive view on growth for the coming years. Having said that, we are also preparing for the potential impact of El Niño. Water temperatures have continued to increase and the probability of a strong to extraordinary event has risen from almost zero to a combined probability of 80% for the fourth quarter 2026.

We are maintaining a prudent risk management approach with constant portfolio monitoring by segment, sector and geography while staying close to clients more exposed to potential El Niño-related disruption in specific areas, including agriculture and fishing where we have Niño clauses in place.

We have successfully navigated previous El Niño episodes and have a comprehensive contingency plan that allows us to respond quickly and support customers when needed through working capital solutions, grace periods and reschedulings while preserving disciplined risk standards.

Finally, we are already seeing this better backdrop reflected in credit demand. Banking system loans accelerated to 8% year-over-year as of June, mainly led by retail loans, which is consistent with the recovery we are also seeing in our own consumer and small business portfolios growth.

On Slide 6, IFS delivered another solid quarter with net income of PEN585 million and ROE of 18.5%. Compared to last quarter, earnings declined 3%, mainly due to the normalization versus the first quarter of strong financial transaction results and a gradual normalization in cost of risk with the effects of the excess liquidity from private pension funds withdrawals fading away.

On a year-over-year basis, it is important to remember that the comparison includes extraordinary investment results recorded last year at both Inteligo and at the holding company level. At the bank, last quarter benefited from sovereign bond gains, strong FX results, dividends from IFS and an unusually low cost of risk.

Year-over-year, however, earnings recovered 23%, supported by lower provisions, higher income from loans, stronger fees with ROE at 15.6%. At Interseguro, performance remains strong, mainly supported by a solid insurance result, particularly in annuities as well as higher interest income, excluding inflation effect and the absence of impairments during the quarter.

At Inteligo, results remained solid, supported by good performance from the investment portfolio, which delivered a 9.4% return over the last 12 months. The year-over-year decline mainly reflects the strong portfolio return achieved in the second quarter of last year.

Overall, it was a solid quarter across all IFS business lines with core operating performance as the main driver of profitability. On Slide 8, IFS revenues increased 3% year-over-year and declined slightly versus last quarter. The year-over-year comparison is again affected by the unusually strong investment gains recorded in the same quarter of last year of both Inteligo and the holding company, which created a high comparison base.

At the bank, revenues declined modestly quarter-over-quarter, mainly due to lower financial transaction results after a particularly strong first quarter and some funding cost pressure. Year-over-year, revenues increased 9%, supported by higher loan volume income and stronger fees.

At Interseguro, revenues improved year-over-year, mainly supported by better insurance results in annuities and life. Compared to last quarter, revenues were lower, reflecting the inflation adjustment during the period. Excluding these effects, revenues would have increased 3% quarter-over-quarter. At Inteligo, fee income remained stable, while investment portfolio results continue to normalize with returns of approximately 9% over the last 12 months.

On Slide 9, expenses increased 11% year-over-year, broadly in line with the investments we continue to make to support the growth and transformation of our businesses. The increase was mainly driven by personnel expenses, partly associated with the expansion of Interseguro sales force as well as investments in key talent to support execution and by technology as we continue strengthening digital capabilities, cybersecurity, infrastructure and data and analytics. The year-over-year increase in the ratio also reflects positive nonrecurring revenue effects recorded last year, which created a higher revenue comparison base.

Despite this increase, we continue to sustain best-in-class efficiency with the cost-income ratio at 37%. Overall, this continues to reflect our ongoing focus on expense discipline while investing in the capabilities needed for long-term growth.

Now let's move to our second message on Slide 11. We are seeing higher-yielding loans regain momentum, growing 12% year-over-year and close to 6% during the quarter. The encouraging news this quarter is the acceleration in consumer lending.

Consumer loans grew 9% year-over-year in June compared to 5% in March. This was supported by stronger activity with cash loans disbursement up 37% year-over-year and credit card turnover up 21%, in line with improving confidence and a more constructive macro backdrop.

Small businesses continue to grow steadily or 31% year-over-year with disbursements up 54%. This remains an attractive segment for us, supported by our combined value proposition of banking and acquiring.

Overall, the combination of consumer and small business growth is supporting the recovery of higher-yielding loans, which now represent 22% of total loans. We are encouraged by this momentum, but we remain cautious, particularly given the higher probability of El Niño and the greater exposure of consumer and small business clients to potential weather-related disruptions in certain areas of the country.

On Slide 12, loans grew 6% year-over-year or 7% when adjusted for FX, reflecting a positive trend in both commercial and retail banking. In retail banking, consumer loans with a 9% year-over-year growth previously mentioned, supported by the acceleration we just discussed, while mortgages continue to grow steadily and payroll deductible loans remained broadly stable.

On the commercial side, the portfolio also continued to expand, supported by growth in small business and also commercial loans, in line with our strategy to deepen relationships with key clients and continue capturing opportunities in segments where we see attractive returns.

Turning to our third key message on risk-adjusted margins remained resilient. On Slide 14, cost of risk is normalizing while asset quality remains sound. Cost of risk increased to 2.1% from the unusually low 1.4% reported last quarter but remain well below the risk appetite and the 2.5% recorded a year ago.

We see this as a normalization towards more typical levels, not as a deterioration in credit quality. Around 30 basis points of the increase versus last quarter came from normalization, while roughly 10 basis points were related to portfolio growth and mix, particularly toward higher-yielding segments. This is consistent with the portfolio mix we are building. Higher-yielding segments naturally carry higher cost of risk upfront, but also higher yields and attractive risk-adjusted returns.

On the retail side, cost of risk increased from 2.7% to 3.3%, which remains comfortably within our risk appetite. Consumer credit quality continues to perform broadly in line with expectations and recent vintages continue to show healthy behavior. In Commercial Banking, cost of risk increased to 0.8%, which remains within the range we consider normal for the business and is still consistent with healthy asset quality trends across the portfolio.

At the same time, given the higher probability of El Niño, we are doing detailed monitoring and follow-up across the portfolio, staying close to clients and sectors that may be more exposed to potential weather-related disruptions. So far, we are not seeing signs of deterioration in asset quality. Our focus is preventive to anticipate potential risk pockets, stay close to clients and take timely actions if conditions change.

On Slide 15, let me spend a moment on NIM and risk-adjusted NIM. Started with reported NIM, we saw some pressure during the quarter, mainly explained by 2 factors. First, funding costs increased 20 basis points quarter-over-quarter. Around half of this increase was related to higher treasury funding associated with our forward arbitrage strategy and inflation-related adjustments, which we view as mostly temporary.

The remaining 10 basis points reflected a change in the deposit mix as funds related to pension fund withdrawals began to decline, together with keeping extra liquidity as a conservative measure during election and also the full effect of the bond issuance that we did during the first quarter.

Second, yield on assets declined 10 basis points, reflecting a larger cash position associated with treasury forward strategy. But on the positive side, yield on loans remained stable during the quarter for the first time, which is encouraging as growth continues to shift towards higher-yielding segments, particularly also in the mass market segment of retail.

Moreover, during the month of July, we have already seen a partial recovery of NIM and an increase in yields. In terms of risk-adjusted NIM, we still see a slight improvement year-over-year. However, the decline versus the last quarter was mainly explained by the normalization of cost of risk after the unusually low level recorded in the first quarter. But with NIM recovering in the next quarters, we should also see a recovery in risk-adjusted NIM.

On Slide 16, as discussed on the previous slide, cost of funds reached 3%, 20 basis points higher than the last quarter. Efficient funding declined to 37% as funds related to pension funds withdrawals started to decrease, although it remained above the 34% reported a year ago. On the commercial side, efficient deposits continued to grow strongly, up 22% year-over-year, supported by our payment ecosystem and deeper transactional relationships with clients. Importantly, deposits continue to represent more than 80% of total funding, which remains a key strength of our balance sheet.

At the same time, the year-over-year trend remains favorable. Cost of funds is still 20 basis points below last year's 3.2%, while cost of deposits declined 20 basis points year-over-year to 2.4% supported by a better funding mix. Looking ahead, we expect the funding mix to continue improving gradually, supporting a lower cost of funds over time, and contributing to the recovery in margins.

Moving on to our digital strategy on Slide 18. We continue to build more transactional relationships with our clients and support the growth of low-cost funding. Our payments ecosystem, mainly through Izipay and Plin remains a key part of this strategy, helping us increase transactional volumes, offer value-added services, and deepen the use of Interbank products across our client base.

We continue to see strong traction from the synergies between Izipay and Interbank. Izipay float to Interbank increased close to 50% year-over-year, while total float to Interbank accounts grew 40%, reinforcing the value of our integrated ecosystem for business clients. In parallel, deposits in small business grew 32% and now represent around 36% of wholesale low-cost deposits. The One App Negocios is also becoming an important lever to strengthen our value proposition and drive greater transactionality.

Transaction volumes in the app increased 117% from January to June, equivalent to 7% quarter-over-quarter, showing encouraging early traction in usage. Plin also continued to gain traction, reaching 2.8 million monthly active clients and monthly transactions up 45% year-over-year. P2M payments remain a key driver of recurrence, now representing 60% of transactions while pure POS payments grew 65% year-over-year.

On Slide 19, we continue to strengthen primary banking relationships with retail primary banking customers growing 16% year-over-year. Interbank Plin transactions reached 234 million, up 44% year-over-year, reinforcing higher engagement and daily usage. Digital engagement also continued to improve. Retail digital customers reached 86%, while commercial digital customers increased to 76%, supported by more targeted digitalization initiatives.

This quarter, our digital assistant, AVI became a first digital point of contact for clients not yet using the app, helping digitalize over 16,000 clients. All of this reinforces our commitment to delivering a simpler, safer, and more convenient experience for our customers. Finally, Net Promoter Score remained strong at 61 in retail and 76 in commercial, up 10 and 11 points versus December, supported by the agility and simplicity of our apps and consistently strong service quality.

In insurance, we continue to enhance the digital experience for our clients and expand sales through digital channels. Internal capabilities have helped increase digital self-service to 73%, while direct digital sales grew 27% year-over-year. And in Wealth Management, we continue improving in the Interfondos app with the goal of evolving it from a transactional tool into a more comprehensive digital adviser for mutual fund clients. Engagement continues to increase with digital users reaching 39% and digital transactions representing 60% of total platform activity.

Let's now move to Insurance and Wealth Management, where both businesses continue to deliver strong growth. On Slide 22, Interseguro continued to deliver strong growth in long-term insurance with contractual services margin increasing 10% year-over-year. This was mainly supported by annuities and individual life, which remain key growth engines for the business.

Short-term insurance premiums also grew 8% year-over-year, reflecting steady performance across the portfolio. On investments, results increased 28% year-over-year with ROI at 7.1%. The quarter-over-quarter normalization was mainly related to inflation adjustments in the portfolio. Excluding this effect, the return would have been 6.7%. Overall, Interseguro continues to show strong execution and a well-diversified insurance platform.

On Slide 23, Inteligo continues to show solid momentum with assets under management, including deposits, reaching a new record high, close to $10 billion, up 14% year-over-year. This growth was supported by market performance and continued client engagement. Fee income remained broadly stable and when adjusted for FX increased 7% year-over-year. Overall, Wealth Management continues to deliver strong growth, supported by an important advisory model and healthy demand for investment solutions.

Now let me move to the final part of the presentation, where we provide some takeaways. And before moving to our operating trends, let me summarize where we are focusing our growth efforts. In banking, growth is focused on segments where we see attractive risk-adjusted returns.

Consumer loans grew 9% year-over-year, while small businesses continued to expand strongly, up 31%, supported by solid disbursement trends and our combined digital value proposition of banking and acquiring through the One App Negocios. Commercial loans also showed positive momentum, growing 7% year-over-year on an FX-adjusted basis as we continue deepening relationship with key clients and leveraging Izipay synergies to strengthen transactionality.

In Insurance, long-term products remain the main growth driver with CSM stock increasing 10% year-over-year, supported by annuities and individual life. And in Wealth Management, assets under management, including deposits, reached a new record high, close to $10 billion, up 14% year-over-year. Overall, these trends reinforce our ability to grow in attractive segments across IFS while maintaining a disciplined approach to profitability, funding, and risk.

On Slide 26, let's go through our first semester operating trends. Our ROE for the first semester reached 18.9%, above our guidance. While we are encouraged by this performance, we are not changing our guidance at this point and continue to expect full year ROE above 17%. We believe this is the prudent approach, particularly as we monitor potential El Niño-related risks during the second half of the year.

In terms of loan growth, as of June, we were up 6% or close to 7% adjusting for FX appreciation. We continue to expect high single-digit growth for the full year. And finally, we remain focused on efficiency at IFS. Our cost/income ratio is around 37%, well in line with our guidance range.

Let me close with the presentation with our key takeaways. First, we are consistently delivering strong profitability. Second, our higher-yielding loans are accelerating. Third, we see a resilient risk-adjusted NIM. Fourth, we are strengthening primary banking relationships. And finally, Insurance and Wealth Management continue to deliver healthy growth. Thank you very much.
Now, we welcome any questions you may have.

QUESTION AND ANSWER

Operator
Thank you. At this time, we will open the floor for questions. [Operator Instructions] 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, Carlos, Michela. Good morning to all your team. Congrats on your results and thanks for the opportunity to ask questions. My first question will be on this potential threat of El Niño.

We believe some of your peers will be already creating upfront provisions related to El Niño in this quarter. So can you remind us how much provisions you created for El Niño 2 years ago? And how are you evaluating this time the potential impact of El Niño? That's my first question.

And for my second question is on your ROE expectations. As you mentioned, the first half, the ROE is already above the 17% guided. You mentioned that you don't want to increase it because you want to be prudent because of El Niño.

But if you created additional provisions in the second half, do you still think you can achieve your 17% ROE? And looking beyond this year, how should we think about the sustainable ROE of IFS in the medium term? Thank you.

Luis Felipe Castellanos
Okay. Ernesto, thank you very much for your questions. Let me start by the latter one. Yes, we do -- we -- again, as you mentioned it right, we want to be prudent. There are a lot of moving parts even though we're very pleased with the way the platform and the businesses are performing, we're taking a prudent approach because not only inflation is remaining sticky high, and that could have an impact in the second half. But also El Niño is something that we are evaluating.

As Michela mentioned, we are monitoring where our first interest is to remain close to our customers to be able to help them pass through whatever comes. So that prudent approach take us that even though we have not finalized our analysis in terms of potential impact to think that despite potential provisions coming from El Niño effect, we could continue guiding towards the 17% plus ROE that we have been discussing.

And then in terms of the specifics of the El Niño effects and numbers, let me pass it on to Carlos, who obviously being at the bank has been much closer to building on this analysis. So Carlos, if you can help us with the first question, please.

Carlos Tori
Yes. Thank you, Luis Felipe. Hello, Ernesto, thank you for your question. El Niño, we're closely monitoring it. Obviously, it will have an impact, but there's -- so we don't expect a large impact in the corporate clients. The agri industrial clients and fishery will probably have less sales and less production, but they will be able to overcome it.

There will be less activity, but all of them have an El Niño phenomenon clause in their financing. So what this does is they don't have to pay capital on a year of El Niño, which allows them to manage their finances. So we don't expect a big effect in the large companies.

We do expect some impact in the consumer book, particularly in the areas where there will be rains and stuff like that. We will probably see some forward-looking credit provisions in the third quarter and fourth quarter as we get closer to that.

We've been looking obviously at what happened in 2023 and 2017. But I don't think we're in the same scenario as 2023. 2023, El Niño came really fast. It was a coastal El Niño we found out probably a week or 2 weeks before. And the country was recovering from post-COVID high inflation.

There were a lot of problems in 2023 in addition to El Niño. So I don't think it's representative, plus we had a much higher risk portfolio back then. We're going into this El Niño with a more lower risk portfolio. So I would say probably 2017 is closer to what we expect, but we were a much smaller bank as well.

So we're monitoring. I think the focus right now is to be close to our clients during these next couple of months, the larger fishing agricultural clients and then probably when the rains start in December, January, February, being very close to our consumer clients and being able to work through their loans. I don't know if that answered your question, Ernesto.

Ernesto Gabilondo
Yes. This is very, very helpful, especially as you were saying, it's a different economic situation like 2 years ago in 2023, you have the recovering of post-COVID, high inflation, have a riskier

portfolio. So all of that, you don't have it today. But still being prudent, are you evaluating to create upfront provisions in the fourth quarter as usually the El Niño effect is usually materializing during January, February.

So how much did you created last time? Do you think you need to create the same amount for this time, or it will be different because of what you mentioned? Just to have an idea of how you're thinking about this potential impact of El Niño.

Carlos Tori
We don't want to commit to a number right now. We'll do that in the third quarter and the fourth quarter. As we're seeing it today, probably the El Niño, the phenomenon will be stronger than 2023 in terms of the amount of rain that we're going to receive. I believe the impact in our portfolio will be lower based on everything that we mentioned -- that I mentioned before.

So plus the expectations of growth, how that country is doing, we believe there will be an impact. There will be a short-term impact, in terms of what we are building and what the expectation of what the country will do in the next couple of quarters. So we will have a number, obviously, in the third quarter. We are monitoring. We have an idea, but I do not think we should share it until we have it finalized.

Luis Felipe Castellanos
Yeah. But sorry, to sum up, you are right. Even though the impact will come probably closer to January, February, next year, we do see a scenario where we will be booking the forward-looking provisions in the second half of next year.

Carlos Tori
Yeah, absolutely, yeah.

Ernesto Gabilondo
Perfect thank you so much.

Carlos Tori
Thank you.

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

Yuri Fernandes
Hello everyone. Good morning and thanks for the presentation. I will ask just one question regarding margins. Michela already mentioned a little bit the funding and the other moving pieces. But I guess a highlight for me here that I was not expecting was margins coming down and the funding cost going up in a more stable outlook. So if you can help us with some explanation, some guidance here, what should we expect on margins? And also refresh what drove this weakness this quarter? Thank you.

Luis Felipe Castellanos
Okay, Yuri, thanks very much for your question. I think you are right, those, we have seen pressure this quarter by very specific reasons. And we do expect a recovery for the latter part of this year in line with the actions that we are taking, the rebuilding of the higher-yielding loans and getting out certain pressures that we have had at the end of this quarter. So to go into

detail, I guess, Carlos or Michela can go a little bit more in the explanation that you are looking for. So I guess it is Carlos.

Carlos Tori
Okay, Perfect. Yeah. So on the cost of funds side, there were a couple of effects that were not that big, but they are accumulating in the second quarter. The first one, which we were not expecting is we have some funding that is inflation picked and April was a very high inflation month. So that impacted cost of funds for the quarter.

The other impact that we had is, as you know, we issued bonds in the first quarter, and the second quarter was the first quarter that we had the full impact of those bonds. We are amortizing or paying out the old bonds in the fourth quarter. So that also will be a short-term effect. So the inflation was short term. The bonds was short term.

Also, we found in the market, we saw in the market opportunities for forward arbitrage, which was profitable and came in, in terms of fees, but that required more funding. So that increased the cost and affected NIM, but overall income obviously was positive. And the other impact that we had in cost of funds is that we had the elections period, and we were conservative in terms of the liquidity we held in May and June. And obviously, that is also a short-term impact. So yes, it was affected. I do not believe there is anything structural. And as Luis Felipe and Michela mentioned, we expect that to recover in the next couple of months and quarters.

In terms of margins, we have been growing the higher-yield portfolio well. Credit cards and loans have grown over the last three months consistently. We expect that to continue, small businesses as well. So we should see a recovery on both sides of that equation. I do not know, Michela, if you have anything to add, but I think that is probably the gist of it.

Michela Casassa
Yeah. Just one more piece of information is that the positive impact of the forward arbitrage strategy, we see in the results of financial operations. And if you see the accumulated income coming from that has grown as of June, 26% year-over-year. So that, the negative you see in NIM, the positive you see in another line of the total revenues of the company, only that.

Yuri Fernandes
Thank you very much.

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

Carlos Gomez
Hello. Thank you for taking my question. And congratulations on the quarter. We are entering a new presidency in Peru. And I guess what I would like to know is, I mean, obviously, the environment is very good. There are high hopes. What in particular are you expecting from this administration? What should we be looking at in terms of positive or negative news for the sector?

The second thing is in this new environment; would you consider entering businesses in which you are not currently present? I am thinking in particular about microfinance or pension fund management. Is that something that interests you?

And finally, again, to go back to the margin, and thank you for the detailed explanations. Should we understand that those pressures coming from the elections and perhaps tighter liquidity have eased in the third and fourth quarter? I think you have already answered, but still.

Luis Felipe Castellanos
Thank you, Carlos, for your question. The political environment or the macro environment overall, we have a positive sentiment regarding the Peruvian economy evolution as a whole. Obviously, what we have seen from the government, it is a market-friendly government. It has; it is very early days in terms of they just took over at the end of July. However, I think they have appointed a good set of ministers that are a mix of experienced people with lots of technical expertise as well.

The focus is concentrated in fighting in security, promoting investments, trying to make structural reforms. So in terms of the team that they put together and in terms of the announcement they have done in the inaugural speech from the President before Congress. The expectation is positive.

I think that the next step, we have to take it day by day, the next step will be the way they present before Congress, the action plan, and the legislative actions they want to take. One very important focus is organizing the country to be able to face El Niño in a better situation. So again, the sentiment and it is expressing the confidence level, both of the consumers and the business community that we have seen late July in terms of the indicators. So overall, positive. But, obviously, very early in that situation.

In terms of looking at different businesses, okay, we are always open for business and looking at new alternatives. The time will come when we decide to continue expanding our operation. And it is not only a matter of the change of presidency. We have been very active throughout the years, even after COVID, through COVID, a couple of years ago as well in buying businesses and expanding as long as the equation of risk profitability pays off and we can bring something to the table, we can help the Peruvian clients, the consumers, along with our purpose of making sure that they can achieve what they are looking for in their life, achieve the dreams of the call, will be there.

Anything related to financial services is something we are exploring. Obviously, we do not have something specifically in mind right now that we can comment. But IFS is one of the leading platforms in the region and one of the leading platforms in Peru. So we are always looking at different alternatives. And in terms of margin, I think lots have been said, but maybe I can like pass it on again to Carlos so he can double point some of the things that he mentioned, so you can get a little bit more of the feeling in terms of how are we looking into it.

Carlos Tori
So yeah, in terms of margin, what we are seeing is we are growing on the higher-yielding segments, and that should continue to happen over the next couple of months. We have good traction in our credit card portfolio and our loans as well as our small businesses. So that is something that as a mix changes, the income is going to improve. It is not immediate. No, we have already seen some growth, but it has not, you have not seen it for the whole quarter.

You probably see a little more impact the next quarter with higher levels. But, and then on the cost, I went through it pretty, I think there is a couple of one-timers that will take care of themselves. And obviously, we continue to be very disciplined and focused on both our cost of funds and our pricing on our loans. So yes, that is, I think, I do not know, if you have a more specific question on one of those.

Carlos Gomez

Sure. So I was specifically asking about what you mentioned in the original presentation about higher funding costs ahead of the election, again, not unusual because we had a very contested election the previous time. So that should be over right now. So I was wondering if there is less liquidity pressure. That's one question. And the other that I did not ask is, what would you assess your current sensitivity to policy rates would be in case that the Central Bank in Peru moves up or down or your sensitivity to Fed rates? Thank you.

Carlos Tori
Yes. Just to answer the first one, I'll let Michela help me with the sensitivity. It's not necessarily that rates went up before the elections, but we did carry more liquidity. We had more deposits to be able to manage any changes. At the end, thankfully, we didn't need anything, but I think it was good looking forward that we had all the liquidity that we need and excess.

So, we didn't need it and maybe it was a little bit inefficient for a couple of days, but that's why we had it. But there was no increase in cost necessarily. It's just a mix. And then in terms of sensitivity to the rate, Michela, if you can tell us the exact number, please?

Michela Casassa
Yes. The theoretical number that we have for the sensitivity is that for each 100 basis points increase in rates, we have close to 10 basis points negative impact on NIM due to the fastest repricing of liabilities in our balance sheet.

Then as I always mentioned, in all the things that we've seen that has never taken place because there are a number of factors that come together that make things different, but the theoretical number is the one that I mentioned.

Carlos Gomez
And that is sensitivity to Sol rates, presumably right?

Michela Casassa
See, dollar is actually more neutral. It's very marginal.

Carlos Gomez
So dollar is neutral. Okay. That’s very interesting. Thank you.

Carlos Tori
Thank you, Carlos.

Operator
[Operator Instructions] And our next question will come from Andres Soto with Santander. Please go ahead.

Andres Soto
Good morning to all. Thank you for the presentation. Given the probability of a strong El Niño, should we expect you guys to take more cautious approach to loan origination over the next few quarters, particularly in the consumer and SME business? Or are you comfortable maintaining

the current growth trajectory and managing the risk primarily through provisions and selective underwriting?

Luis Felipe Castellanos
Yes. Thank you, Andres, and thanks for your questions. I think are comfortable with the approach we have. Obviously, we're looking at certain areas that could be impacted. But here, we have like a double role. We're not only conservative in terms of growth. We need to help our customers. So that's kind of the approach. We're close to our customers to help them pass through this. Again, this will be a short-term effect, and we are building towards the medium and long term.

So I guess the trajectory of growth should not change that much. Maybe a couple of adjustments, but the overall sentiment that we have is we need to be there for customers. Carlos mentioned the view we have on corporate and companies. And for consumer and SMEs, it depends on the situation. It's going to be focused very specific on certain regions and the mindset is to help them and be next to them. I don't know if Carlos, you want to complement something on that.

Carlos Tori
Absolutely. I mean, we're monitoring. Right now, I think the impact in the consumer will come with a range in December, January, February, and we will be close to our clients. We'll give them what they need to get over it, and it will be a short-term impact as it has been in the past. So we are looking -- we are going into this El Niño with a much lower risk profile than we have before. So that's also helpful. And yes, I think we're looking -- I mean, we're spending a lot of time and analysis on this. But overall, our guiding star is that we want to be close to our clients and help them get through it.

Andres Soto
Thank you, Luis Felipe, and Carlos. Taking advantage of those comments, Carlos, if you remember from your 2023, 2024 cycle, you built provisions equivalent to 1% additional -- 1 percentage point additional cost of risk for the full year in 2023. Can you help us understand, was this related to the SME and retail portfolios? Or those were provisions related to specific corporates exposed directly to El Niño such as fishing and agriculture?

Carlos Tori
Yes. Okay. So back in 2023, we had a very small SME portfolio. So there probably was some of those provisions were related to SMEs, but it was small. It was mostly related to our consumer portfolio. Again, in 2023, I don't think it's necessarily comparable. There were many other things happening in 2023, post-COVID, post inflation, no growth. So I don't think it's comparable, but it did come from the consumer book. We didn't have any provisions from the corporate or business book back then.

Luis Felipe Castellanos
Carlo, just to complement, '23, you're right. It was not only -- it was a small recession. And we had social unrest at the beginning of the year, which had a real strong impact on activity during that year. So '23, as Carlo mentioned, is a different animal because it was like the perfect storm, everything came together.

Andres Soto
Yes. That's very clear. Thank you, guys. The other question that I had was related to margins. You already mentioned some recovery in NIM in July. Can you help us quantify this recovery

after the sharp decrease in the second quarter, given that part of the origination in the loan portfolio was tilted to the end of the quarter, I imagine that's going to help. But can you give us a sense of how much of recovery can we expect for the third quarter?

Michela Casassa
Maybe let me take that, Carlos, Luis Felipe. And how are you? Listen, the projections that we have, we see a recovery of NIM above not the levels of June. But that is like ceteris paribus okay? What happens is that -- as what has happened during the second quarter, for example, with the forward arbitration strategy, now we have increased cost of funds, but then we've had interest in income coming from other financial transactions. That is one element, which, for example, depending on market conditions, I'm not sure whether or not it's going to take place again during the second half.

But if you see, for example, yield on loans, I guess that number, which if you see the trend in the past 12 months, it was like slightly decreasing because of, I mean, decreasing rates and the mix of the portfolio, etcetera. We have seen this quarter yield on loans stable. So what should happen is that due to the recomposition of the portfolio, yield on loans should gradually increase.

And the other portion, if you want of the interest-earning assets, which has to do with the percentage of cash investment and other things is maybe the one that is a little bit more volatile. But yield on loans, you should see a positive trend up until the end of the year and going forward during 2026, that should help.

Andres Soto
That’s very helpful. Thank you, Michela.

Luis Felipe Castellanos
Thank you, Andres.

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

Alonso Aramburu
Yes. Hi, good morning. Thank you for the call. I wanted to ask about cost of risk, which increased in the quarter. Just wondering if this is the normal level we should expect for the second half of the year, excluding whatever provisions you decide to do for El Niño? Thank you.

Luis Felipe Castellanos
Thank you very much for your question. I think Michela is eager to jump into answering that question. So please.

Michela Casassa
Hello, Alonso, how are you? Listen, we will expect -- I mean, cost of risk should still gradually increase going forward, okay, as the portfolio high yield continues to increase, okay? Remember that in IFRS, we need to do this upfront provision. So as consumer loans and small businesses continue to grow double digit, I guess we should see a slightly higher cost of risk going forward despite El Niño.

Now remember that when we have discussed this before, pre-COVID, no, we used to be close to 3% cost of risk. No, we are not saying that we want to get there. But for sure, this number will continue to go, I don't know. I don't know exactly in which time, but closer to 2.5% and even maybe a little bit above that.

So because of the mix of the portfolio, only because of the mix of the portfolio, we should see a gradual increase in cost of risk that should come together with yield on loans so to have a positive impact overall in NIM and risk-adjusted NIM.

Carlos Tori
Just to complement that. Michela. So I mean, if you grow in consumer or higher-yielding portfolios, even if the loans perform well, you get a front effect on provision because it's forward-looking. So that's what Michela was referring to. It doesn't necessarily mean that there will be a credit deterioration. But the way the accounting works is front loaded.

Alonso Aramburu
Right, right. That makes sense. On the -- I had a question also on the loan yields because you grew more on credit cards, and I would have expected loan yields to increase in the quarter and they were flat. So I do not know if that is a timing issue, or how do you explain that?

Carlos Tori
Yes. I mean it's mostly a timing issue. You grow, you see the end balance, but not the average. So you -- we would expect to see the impact of that growth in the following full quarter that you'll get the full impact.

Luis Felipe Castellanos
Especially Alonso because the acceleration we've seen was not that present in April, where there was lots of liquidity still in the system, but we've seen the acceleration at the latter part of the quarter.

Operator
At this time, we will take the webcast questions. I will now turn the call over to Mr. Ivan Peill from InspIR Group.

Ivan Peill
Thank you, operator. The first question comes from Daniel Mora of Credicorp Capital. Where should the risk-adjusted net interest margin land in the second half of 2026 and in 2027, considering that the cost of risk is normalizing faster than the expansion of loan yields, along with a marginal increase in the cost of funding?

Luis Felipe Castellanos
Yes. So thank you, Daniel. I think we've begun lots of explanations around NIM. Just to reinforce the fact that, again, in IFRS, when you book consumer loans or even SMEs, the provisions get front-loaded and the yield will show up through time. So I guess that's a concept that Carlos just mentioned, and that reinforces the position. I think we'll discuss also the cost of funding that should, if you want, normalize during the second half of the year. So the impact on the NIM for the second half should be positive. The next question, please.

Ivan Peill
The next question comes from Tejkiran. Could you please explain again why cash balances grew strongly at 25% year-over-year? Is this a conscious strategy? That's Tejkiran of White Oak Capital Management.

Luis Felipe Castellanos
Yes. Okay. Thank you, Tejkiran. I think that also was addressed by Carlos and Michela. By the end of the quarter, we were conservative in terms of the potential outcome of the political scenario of the elections. We've seen what happened 5 years ago, and we wanted to be with lots of liquidity. So that was the situation, but that has already been normalized.

Ivan Peill
And the next question comes from Johan Clavijo of Sagil Capital. Thank you for the call. Could you please provide more details on your treasury forward strategy to better understand the impact of NIMs, both on interest income and interest expense and the other factors that impacted net interest income this quarter? Are these impacts expected to be temporary? Thank you.

Luis Felipe Castellanos
Yes. Again, I guess these questions entered early into the roster of questions. I think we've expanded significantly and explained both the NIM impact, the potential evolution. I don't know, Carlos, if you want to comment specifically on the treasury forward strategy point, but I guess we've touched upon most of these points.

Carlos Tori
Yes. Yes, we touched on most. The treasury forward strategy, we don't take a forward position. But we -- if we see an arbitrage opportunity, we take it. So there's nothing right now. And if it appears, we'll probably take it. Obviously, it has to be a profitable position. So we don't have anything in the pipeline. It's something that we continue to monitor daily, and our treasury looks at the positions and what our clients need. So for now, we don't see anything in the short future.

Ivan Peill
At this time, there are no further questions from the webcast. I'd like to turn the call over to the operator.

Conclusion

Operator
Thank you. And as we're showing no more audio questions, I would like to pass the call back over to Ms. Casassa for closing remarks.

Michela Casassa
Thank you very much. Thank you, everybody, for a very active Q&A session and conference call. We will see each other again for the third quarter results. Bye. Stay safe.

Carlos Tori
Thank you, everyone.

Luis Felipe Castellanos
Thank you.

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