Intercorp Financial Services

Q1 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rafael Borja - *InsplR Group*

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PRESENTATION

Operator
Good morning and welcome to the Intercorp Financial Services First Quarter 2021 Conference Call. All lines have been placed on mute to prevent any background noise. Please be advised that today's conference is being recorded. After the presentation, we will open the floor for questions. At that time, instructions will be given as a procedure to follow if you would like to ask a question. Also, you can submit an online question at any time 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 Rafael Borja of InspIR Group. Sir, you may begin.

Rafael Borja
Thank you, and good morning, everyone. On today's call, Intercorp Financial Services will discuss its first quarter 2021 earnings. We are very pleased to have with us, Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services; Mrs. Michela Casassa, Chief Financial Officer of Intercorp Financial Services; Mr. Gonzalo Basadre, Chief Executive Officer of Interseguro; and Mr. Bruno Ferreccio, Chief Executive Officer of Inteligo. They will be discussing the results that were distributed by the company on Wednesday, May 12th, 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 to download the copy. Otherwise, for any reason, if you need any assistance today, please call InspIR group in New York at 212-710-9686.

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 economic circumstances, industry conditions, the company's future performance, or financial results. As such, the statements made are based on several assumptions and factors that could change, causing actual results to materially differ from the current expectations. For a complete note on forward-looking statements, please refer to the earnings presentation or report issued last Wednesday.

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 very much. Thank you. Good morning and welcome to our first quarter 2021 earnings call. First, I want to thank everyone for making the time to attend our call. I hope you and your families remain healthy and safe during these times, that in many instances continue to prove to be very challenging.

Let me give you a brief overview of the health and macro situation in Peru. On the sanitary front, we continue to face focalized lockdown measures across the country. The second wave has hit Peru very hard with number of cases and deaths going above the first wave. However, the implemented measures were not as strict as the ones implemented one year ago. In the recent days, health alert levels have softened, and it looks like the second wave is starting to decrease. So now, most businesses in Lima and in several regions of the country are allowed to operate at increased capacity, although not yet at normal levels. COVID-19 cases have started to go down and the vaccination plan is on its early stage. Today around 5% of the population has been vaccinated so far, or around 1.5 million people, but we are seeing the speed of vaccination increase, which is very positive in our view. Economic activity in the country has continued to recover and will start to show important base effects from this moment onwards.

GDP figures for the month of March will be out tomorrow and growth is estimated to have reached almost 20% on the back of strong public investment, better terms of trade and higher private consumption. We continue to foresee a low double-digit growth in GDP in 2021. Supporting this view, the Central Bank held its monthly monetary policy meeting last night and kept its policy rate at an unchanged rate of 0.25%, in consideration of the limited underlying inflationary pressures.

Since our last call, Congress finally approved the cap to interest rates for the financial system. We do not expect a major impact on our banking business from these measures but do think it will have negative effect in the financial inclusion and bancarization process of Peruvians. Legal procedures are in place to declare the anti-constitutional nature of the law. We will follow this process closely. All eyes are focused on the run of Presidential elections which will take place next June 6th. The most important pollsters agreed that the margin between the 2 candidates has narrowed significantly, which make it impossible to predict who Peru's next President will be.

There will be uncertainty in the days ahead and the strength of Peru’s institutions may be tested in different ways, depending on the outcome. Under this scenario, IFS's franchise continues to prove resilience. We remain confident that our team has experience and skills to manage through uncertain times, as we have done in the past. Our clear strategic focus and measures taken during last year’s crisis have taken IFS to reach record earnings during the first quarter of this year, with solid results in all of our operating segments.

Our liquidity, capitalization, and provisioning levels, together with our risk management skills, world-class efficiency level, digital strategy and strong presence in the mind of our clients give us the confidence that our platform is well positioned to continue helping Peruvians with their financial needs in the future. We continue to be focused on helping our customers during these times and to deploy our resources in an efficient way to maintain the path of profitable growth.

Now, let me pass it on to Michela for a detailed review of our results. Thank you again and please remain safe.

Michela Casassa
Luis Felipe. Good morning, and welcome again to Intercorp Financial Services first quarter 2021 earnings call. This time we have divided the presentation in four parts, which include financial highlights, key messages, results by segments and trends and takeaways at the end.

I will start with a brief summary of financial highlights on slides three to five. Main highlights are, at Intercorp Financial Services as mentioned by Luis Felipe, record earnings of S/ 528.7 million in the first quarter with a return on adjusted equity at 23.7%. Earnings grew in all subsidiaries supported by lower provision charges and solid results investments. Strong recovery in revenues mainly due to the insurance business, our digital trends continue to support IFS strategy. We have continued with a disciplined approach to cost control that has helped efficiency, and there are solid capital ratios in all business segments.

At Interbank, strong recovery in earnings, thanks to lower provisions and higher results from investments. Key banking indicators are recovering while retail loans resume growth. Strong deposit franchise with 14.1% market share in retail deposits. We have seen cost of funds down almost by half from last year at 1.4% and NIM is still under pressure due to asset and loan mix and excess cash. Cost of risk came at 1.8% in the first quarter, below pre-COVID level and we continue our focus on efficiency and branch rationalization at the bank.

At Interseguro, profit surged in the first quarter due to higher results from investments and business activity is accelerating and is above pre-COVID levels, with regular annuities leading the recovery.It was a solid quarter in gross premiums plus collections, up 14.3% on a quarterly basis and 25% on a yearly basis. Strong net gain on sale of financial investments with return on the investment portfolio at 10.4% and Interseguro continues to be the market leader in annuities with a 28.7% share.

Inteligo had a sound first quarter result with return on adjusted equity at 30.7%. Profits normalized from negative results in the first quarter last year and an all-time high levels in the fourth quarter 2020. There was a significant growth in fee income from funds management and commercialization of structured products. There were cost savings from reduced use of office spaces in lower administrative expenses and assets under management had a strong growth of 6.5% in the quarter and 24.1% year-over-year.

Now, this record quarter has been mainly driven by investment results at Interbank and Interseguro, but we are very happy to see a recovery in most of our core and recurring results which include, first, the recovery in the quarterly growth of retail loans with an acceleration of mortgages and personal loans. Second, an inflection point in credit cards in April, where we have seen our first month of growth since the beginning of the pandemic. Third, there was an important growth in insurance premiums, and fourth, a recovery in fees coming from increased activity with clients at Interbank and Inteligo.

Now, I will focus on the key messages we would like you to take on from this call on Slide seven. There are six messages which we will cover in detail in the following slides. First, we continue to see a macro recovery. Second, we have a strong balance sheet with liquidity and capital levels substantially better when compared to pre-COVID levels. And moreover, we have manageable dollarization levels in the balance sheet. Third, activity has continued to recover as mentioned before in all three operating companies.

The digital trends continue to be better each month and support IFS strategy, which translates into growth of clients and business. The fifth message relates to cost of risk, which is below pre-COVID level. And last, that we continue with our focus on efficiency and branch rationalization.

So now, let's move to Slide number eight. The first key message is about the recovery in the macro activity. In March, we have seen a strong recovery in most of the GDP indicators, favored by the reopening of the economy and the base effect from last year, when activity was depressed by the first round of strict measures to contain the pandemic. As a result, the performance of leading indicators linked to domestic demand such as cement sales, electricity consumption and public investment suggest, that the economy performed strongly in March, particularly, public investment as you can see in the bottom left corner.

Government strategy to reactivate the economy through the execution of public investment resulted in a new historical record of almost 7 billion soles executed in the first quarter this year and almost 4 billion soles only in March 2021. This was mainly explained by progress in works related to the reconstruction with changes program, the line two of the Lima Metro and the Arranca Peru program. Expectations on economic activity continue to recover up to March, but saw a deterioration in April, mainly due to the uncertainty related to the outcome of the elections. In the same way, volatility in the exchange rate, saw a dollar reaching 3.84 last week, but today it is back again to around 3.7 soles per dollar.

On Slides nine to 11, the second message relates to liquidity, dollarization and capitalization. On page nine, during the first quarter, we have continued to see an increase in our total deposit base at Interbank of 4.6% driving the yearly growth to 33%, which has helped our loan-to-deposit ratio to stand at a low level of 89% this quarter, and below the system average. Moreover, the loan to deposit ratio in both currencies is at healthy levels with the loan-to-deposit ratio in soles at 105%, well below the 118% of the system.

Up to March, there has been an improvement in liquidity in the financial system, due to the funds coming from the private pension funds as well as the unused portion of the funds coming from the Rectiva Peru program. We have been able to benefit from this situation and to have gained additional 40 basis points market share in total deposits in the quarter and 20 basis points market share in retail deposits. In April, and after the first polls for the second round of the Presidential elections, we have seen a tightening of liquidity in the financial system and at Interbank. There was an outflow of dollars from the system, which decreased liquidity in that currency.

As of the end of April, the total liquidity of the system in both currencies remains good and the loan-to-deposit ratio for Interbank is at 91%, well better than pre-COVID levels which were above 100%.

We continue to have ample liquid assets with 28 billion soles at Interbank out of which 18 billion soles are cash and equivalents and have around 1 billion soles at IFS standalone, out of which around 300 million soles are cash and equivalents, which would cover or could cover IFS current obligations for more than 3 years.

On Slide 10, our loan book has a manageable level of the dollarization, with no exchange risk as the remaining commercial loans in dollars correspond to export companies with no currency risk. Only 23% of total loans is comprised of dollars and only 6% of retail loans and 1% of small businesses.

On Slide 11, we continue to have a solid capital position at all three operating companies of IFS. Our total capital ratio as of the end of March was 17% at Interbank compared to 16.3% of the system as a whole and the minimum of 10.6% required by the SBS for Interbank. This means that we have over 600 basis points buffer in our total capital ratio. Our core equity Tier 1 ratio was stable at 11.5%. At Interseguro, our solvency ratio stands at a 163%, well above the 100% required. While at Inteligo, our capitalization ratio is 30%, again, well above the 8% required.

On Slide 12, mostly operating trends at IFS have continued to show positive developments in activity this quarter as well as for April this year. At Interbank, debit and credit cards turnover has recovered to pre-COVID levels of 106% after reaching a peak in December at 113%. New disbursements of payroll deduction loans to the public sector employees are growing 15% versus pre-COVID level, while mortgages have registered a new record month in April and are growing 43% versus pre-COVID levels.

Total fees for Interbank are at 83% of pre-COVID levels with commercial banking fees recovering faster than retail fees, mainly thanks to new business coming from the aggressive Reactiva loans strategy. In the case of Interseguro and Inteligo, the recovery was much faster. With gross premiums in April this year at 107% versus pre-COVID levels and assets under management at plus 19% in April versus February last year.

On Slide 13, we are showing the quarterly evolution of IFS total revenues. We have seen a strong recovery in revenues coming from other income from investments mainly at Interseguro, but also at Interbank and Inteligo. Quarterly growth of 0.8% is driven by a 27% increase at Interseguro, which more than offsets decreases of 3.1% and 33% at Interbank and Inteligo.

Yearly growth in revenues of 19.4% was mainly driven by Interseguro and Inteligo, which more than offsets a 4% decrease in Interbank revenues. The diversification of IFS businesses has definitely played an important role in the yearly recovery of revenues. The banking business continues to recover in a more gradual way mainly due to the pressure in net interest income and NIM coming from low yield Reactiva loans, excess cash, portfolio mix, and a smaller contribution of credit cards in a low-rate environment.

Moving on to Slides 14 and 15 and the fourth key message. On Slide 14, our KPIs in the digital transformation continue to show positive results supporting IFS strategy. Digital users as of April are 78% of our customer base, up 31 points in the past two years. 100% digital customers who are clients that do not use branches or contact center any longer, and who use digital channels plus ATMs and corresponding agents only for cash-in and cash-out have reached 57% in April, up 30 points from March 2019. Digital sales have also continued to see a rapid increase. At Interbank, retail digital sales reached 53% in April and at Interseguro, SOAT digital sales reached 77%, both increasing sharply in the past two years.

We have continued to see an important number of new digital accounts being opened for individuals. As of the end of April 55% of new retail saving accounts were opened digitally and new digital client acquisition of retail customers reached 42% compared to 12% in March 2019. Our investments to build our digital capabilities during the last years have played to an advantage for our customers and operations under the current circumstances.

On Slide 15, we have reached more than 4 million retail customers and more than 110,000 businesses. Our retail client base has increased almost 15% CAGR in the past two years while our commercial client base has increased 39% each year for the past two years. Our 100% retail digital customers have grown at a CAGR of more than 60% in the past two years, reaching 1.3 billion. PLIN, the P2P payment feature among multiple banks operating with cell phone numbers is already active in more than 3.5 million users as of April in only one year, 40% of which use Interbank as key account.

Tunki, our 100% digital solution for payments relaunched in February last year has surpassed 1 million users as of the end of April. The fifth key measure refers to the low level of provisions registered during this quarter, with a cost of risk of 1.8% even below pre-COVID levels. The 3 positive trends described during the last conference call, have continued to develop further during this quarter.

On Slide 16, the first positive trend is that outstanding rescheduled loans have continued to decrease. As of March, outstanding rescheduled loans were 9.2 billion soles, or 22% of the total loan book. This number represents a 28% decrease versus the peak of June last year. This is true for both commercial and retail portfolios. Moreover, the number of total clients rescheduled has also decreased as the new inflow has been marginal during these last months.

On Slide 17, the second positive trend is that we have continued to see an improving payment behavior among Interbank's clients. As of April 2021, 99% of our total retail portfolio has already had a payment due, 67% of the retail portfolio has not been rescheduled and is registering a very good payment behavior. 98.9% of clients are paying their instalments, only 0.1% has requested an additional relief, and only 1% has not paid.

Summing up new request of relief and not paid, this represents a 1.1% as of April, which compares to 1.5% as of January. Of the 33% of the retail portfolio, which has been rescheduled as of April, 97% of clients are paying their instalments, only 0.4% have requested an additional relief and only 2.6% have not paid. Again, summing up new relief request and not paid, this represents a 3% as of April which compares to a 3.8% as of January this year.

A similar payment behavior has been observed for credit cards as of April, with percentage of payments at almost 98% for the 55% of the portfolio that has not been rescheduled, while almost 98% for reactive rescheduling's, 93% for unilateral rescheduling's and around 95% for structural rescheduling. As for SME is concerned, the outstanding rescheduled portfolio is small and below 750 million soles, out of which 96% of clients have been paying they installments, out of the 92% that have had payments already due as of the end of April.

On Slide 18, the third positive trend is the quarterly reduction of provisions. Cost of risk for the quarter was extraordinarily low at 1.8%, which compares to the 3.1% of the fourth quarter last year and the 3.4% of the first quarter 2020. This level of cost of risk is below pre-COVID level of 2.2% for the full year 2019, mainly due to the low cost of risk in retail, which today has a lower contribution coming from credit cards, which is the product with the higher cost of risk in the portfolio. This is reflected in the low cost of risk for retail the quarter, which was 3.4%, down from 6.2% in the fourth quarter and 5.5% in the first quarter last year, and also below the 4% full year cost of risk 2019 pre-COVID.

Commercial banking continues to have low levels of cost of risk, thanks to our small participation in the small business segment and was 0.5% in the quarter.

Finally, the last key message on Slide 19 refers to the disciplined and proactive management of costs we have been pursuing before and after COVID started. This quarter, costs are flat when compared to the previous year, as activity has recovered and we start to see increases in the variable costs, especially at the bank. We have registered a very low efficiency ratio of 30% at IFS well below our guidance of 35% to 37%, mainly thanks to the positive impacts on revenues previously described.

At Interbank, efficiency ratio is up 39%, where we have accelerated our branch optimization program starting 2016 and have closed additional 52 branches since the pandemic started, reaching total reduction in number of branches of 30% from the peak in 2016. As mentioned during the last conference call, expenses will start to increase during the next quarters, as the level of activity continues to recover driving variable costs and some additional expenses start to materialize related to our commercial alliance with Rappi and IT investments. Guidance remains at 35% to 37% cost income ratio for full year for IFS.

Now, let's have a closer look at some additional indicators by segment in Slides 21 to 27. On Slide 21, we are showing a recovery in most of our key banking indicators with the exception of NIM, which is still under pressure. NIM decreased 70 basis points in the quarter, down to 3.7%, but NIM after risk improved 10 basis points in the same period. The low level of NIM in the quarter is due to a number of factors. First, the portfolio mix with a low contribution of credit cards. Second, Reactiva loans at low yields. Third, excess cash invested at low returns. And four, the low rates environment.

NIM should start to recover in the next quarters as credit cards resume growth as we have already seen in April. We have a reduction in the excess cash, which we also have seen to some extent in April, and Reactiva loans start to mature in a greater extent.

NIM would have reached 4.8% in the quarter when excluding Reactiva and excess cash effects. Total fee and other income had a strong growth of 25% in the quarter, mainly driven by strong investment results.

Other expenses decreased 2.5% in the quarter and 2.8% when compared to one year ago with the efficiency ratio for the bank at 39%.

On Slide 22, our year-over-year loan growth was 12.3%, mainly thanks to the Reactiva loans disbursements. The quarterly growth was small this quarter, but there are some positive trends in mortgages, which continue to accelerate, growing 3.6% this quarter and payroll deductible loans to the public sector employees growing 2.9% this quarter. Credit cards and other personal loans decreased 5.8% in the quarter, but have seen an inflection point in April, where credit cards have registered a positive number for the first time since the beginning of the pandemic and other personal loans have continued to accelerate growth. This positive trend of April should translate into a positive figures for the following quarters. Commercial Banking grew 36% in the year but was flat in the quarter.

On Slide 23, total deposits grew 2.5% in the quarter and 35% year-over-year with retail deposits growing 1.5% in the quarter and 25% in the year, gaining 40 basis points market share year-over-year, to a record 14.1% as of March. Due to banks, which include the Central Bank funding for the Reactiva Peru program has decreased 7.6% on a quarterly basis but has increased 70% on a yearly basis in line with the funds we have lent to our clients. Cost of funds has continued to decrease, reaching 1.4% in the quarter, a reduction of 20 basis points in the quarter and 130 basis points on a yearly basis. This positive development came from several factors like decreases in market rates, a better funding mix and the higher funding coming from the Central Bank.

Moving on to Interseguro on Slide 24 and 25. Quarterly premiums continue to show a strong growth of 14% driving the yearly growth to 25%. All business lines grew with mandatory annuities leading the growth in premiums. Interseguro remains market leader in annuities with a 28.7% market share in the quarter. When looking at the April figures, the recovery was more evident, as premiums have grown two times when compared to April 2020.

On Slide 25, Interseguro's investment portfolio decreased 4.6% on a quarterly basis, mainly due to sales in the fixed income portfolio, but grew 13% on a yearly basis. Results from investments had a particularly strong performance this quarter, coming both from a reversion of provision for impairment loss and other investment income. Thanks to these trends, the return on

Interseguro's investment portfolio was extraordinarily high at 10.4%, well above the previous quarter level.

Moving on to our wealth management segment on Slide 26. Inteligo posted strong revenues in the quarter, but below the extraordinary high level registered in the last quarter of 2020. Fee income had a particularly positive trend this quarter, growing 22% driving the yearly growth to 14.7%. On Slide 27, Inteligo's asset under management reached 22.3 billion soles in March, a strong 6.5% quarterly increase and 24% increase on a yearly basis. Loans have also seen a positive trend, growing 3.8% in the quarter and 7% year-over-year. Earnings of 87 million soles this quarter are below the extraordinary high level of 155 million soles of the fourth quarter, but represent a solid quarter for Inteligo with a 30% return on adjusted equity.

Moving on to Slide 28, we are providing a comparison of our results with the operating trends expected for 2021, which we have shared during our last conference call. As we mentioned that time, 2021 will be a year of rebuilding the portfolio at Interbank to foster growth in the coming years. Interseguro and Inteligo should continue to grow, despite an extraordinary good year for both companies in 2020.

First, talking about capital, we expect Interbank capital to remain at sound level, well above regulatory requirements. As of March, total capital ratio of 17% and core equity Tier 1 ratio of 11.5% are well above the guidance and the regulatory requirements. Second, profitability. IFS return adjusted equity came at 23.7% this quarter and should be above the 14% for the full year 2021, as per guidance. Third, loan growth at the bank for this quarter was relatively flat, but trends point out a recovery for the coming quarters. Fourth, revenues grew 0.8% on a quarterly basis, mainly thanks to other income.

NIM was 3.8% in the quarter, still below the yearly guidance of 4% to 4.3%. The pressure in net interest income and NIM is mainly coming from three factors, as previously described. The full year effect of almost 7 billion soles Reactiva loans had very low rates. The impact of mix on average yields due to the decrease in the credit portfolio and the increases in mortgages. Third, the excess cash invested at low returns, and fourth, the low-rate environment. Related to cost of risk, it came below the guidance at 1.8% in the quarter below pre-COVID levels and we are keeping our around 2% guidance for the full year.

Talking about the efficiency ratio at IFS, it was 30% in the quarter, better than our 35% to 37% guidance. We have continued with our cost efficiency efforts and branch rationalization program. This ratio was extraordinarily low during the quarter, mainly due to the strong other income and some expenses seasonality. We expect an increase in expenses in the coming quarters mainly due to the recovery of activity, which drives variable costs and further acceleration of our digital investment including building our venture with Rappi.

On Slide 30, we wanted to share with you that we have published our sustainability report for Interbank for 2020, where we outlined the actions taken throughout the year in order to achieve our vision of sustainability. You can find it on our website. And to finalize the presentation, on Slide 31, I want to close this presentation with a brief summary of the six messages that have been developed throughout the presentation.

First, we continue to see a macro recovery in Peru. Second, we have a strong balance sheet with liquidity and capital levels substantially better when compared to pre-COVID levels and moreover, we have manageable dollarization levels in the balance sheet. Third, activity has continued to recover in all three operations companies of IFS. Fourth, the digital trends continue to support IFS strategy, which translates into growth of clients and business. Five, cost of risk is below pre-COVID levels. And six, we continue our focus on efficiency and branch rationalization.

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

Operator
Thank you. And at this time, we will open the floor for questions. First, we will take questions from the conference call and then the webcast questions. If you would like to ask a question, please press star, then one on your touchtone phone. Questions will be taken in the order that they are received. And if at any time you would like to remove yourself from the queue, please press star, then two. Again, to ask a question, please press star, then one. And for the webcast viewers, simply type your question in the box and click submit question. We will pause momentarily to compile a list of questioners.

And our first question will come from Ernesto Gabilondo with Bank of America.

Ernesto Gabilondo
Hi. Good morning, Luis Felipe, Michela, Gonzalo, and Bruno, and good morning, everyone. Congratulations on your record high earnings for a quarter, thanks to diversified earnings. My question is on how to think about the earnings for the next quarters considering that this quarter was driven by high market-related revenues, that I think are unlikely to repeat? And that OpEx should be trending up, but on the other hand, you are having very strong economic recovery, so that should help to improve lending dynamics and your NII and improving loan mix and using the excess cash.

Also, provisions, it seems to be already below pre-COVID levels and you are saying that we should still see a cost of risk of 2% for the full year. So, would it be right to expect core revenues improving in the next quarters while market related income and other income normalizing? And where do you see the upside risks on earnings? And then, just a last question on, how should we think about the evolution of the ROE in the next quarters and the full year, and in which year do you expect the ROE to reach pre-pandemic levels? Thank you.

Luis Felipe Castellanos
Okay. Thank you, Ernesto. I think you nailed it in your thoughts around the answer. We do think that the market-related results should stabilize or normalize. Obviously, we will be closely paying attention to see if we have additional opportunities. As you know, we have a big investment portfolio in our businesses. This is what we do. So, we'll be paying attention to any opportunity. But the offset to the potential increase of expenses and maybe let's see how the macro factors affect risk, will be that our retail portfolio has started growing again, so we do expect that to help us in driving more revenues, that's kind of the expectation.

It's a little bit difficult to foresee everything, how everything is going to move around, but that's the assumption under what we are executing – return to growth, especially in higher margin products that we have already witnessed through the end of March and beginning of April, which will offset the other potential negative trends and being very active in paying attention to additional investment opportunities. Now, for more details on the trends, let me pass it on to Michela, so she can work around the numbers and the trends that we're seeing.

Michela Casassa
Thank you, Luis Felipe. Good morning, Ernesto and thank you for your question. I guess, as we have mentioned, this first quarter has seen a big incidence of other income revenues. So basically, the guidance that we have provided for the full year is soft top-line recovery. So we're talking about really a marginal growth in the full year. We have seen an 0.8% this quarter and as Luis Felipe mentioned, it is possible, that on the following quarter, we will not have such a big contribution from other income, but we are expecting net interest income and also other income to help offset the lower revenues if you want from other income.

And this should be coming from the recovery in growth in the retail portfolio. We have shown that this quarter is the first quarter in which the total retail portfolio is increasing and moreover, April has seen the inflection point in credit cards. So, summing up those two trends together, second quarter, we should see a better recovery in the volumes of retail loss. We should drive a little bit interest income, but also fee income.

Then I guess your second question was related to ROE. As you have seen, the level of ROE this quarter is well above the guidance that we provided, but we are maintaining the above 14% guidance in ROE, because of the trends that we have described, so soft top-line recovery and a further increase in expenses. So, most likely, we will see quarters with lower ROEs that the one that we have registered this quarter. And the aim is to try to be at more normalized levels of ROE for 2022 depending of course on the macro environment. I don't know if this is okay Ernesto, or there was something else that you wanted me to answer.

Ernesto Gabilondo
No. Yes. Perfect. Thank you very much, Luis Felipe and Michela.

Operator
And our next question will come from Sebastian Gallego with Credicorp Capital. Please go ahead.

Sebastián Gallego
Yes. Hi. Good morning, everyone, and thanks for the presentation. As my colleague said, congratulation as well for the strong quarter. I have several questions, maybe, the first one, a follow-up, on the recovery of credit cards. Can you elaborate a little bit more on that topic, particularly considering a potential withdrawals of pension funds? We have seen this liquidity effect, particularly in Chile, and I'm just wondering how fast or what's actually the pace you're expecting for the credit card business to pick up in the upcoming months and how should we think about actual growth on that portfolio?

Second question, you mentioned, it's about margins, you mentioned that some Reactiva Peru loans will have a maturity, but I understand that the term of Reactiva Peru loans is at least 36 months. I'm just wondering if you could provide more color on how you're seeing the evolution of Reactiva Peru loans?

And maybe one final question will be on net fees. When we look at operating trends, it could probably be the actual operating trend with the lowest or the slowest pace of recovery. It seems that’s currently at 80% as you mentioned in the presentation. I'm just wondering how should we think about net fees going forward? Should we expect to see further recovery, or could this be a new normal for net fees? Thank you.

Luis Felipe Castellanos
Okay. Thank you, Sebastian. Let me go through, like the concept of your first question, and then we'll go to Michela, so she can again, work out through the numbers. But basically, what we're seeing in credit cards is a recovery. It has to do a bit with the recovery of the macro activity, but it also has to do a lot with our risk appetite. And as you know, since last year it started, we immediately changed our underwriting standards in order to be much more conservative. That, together with the pace that we saw increased liquidity and some of our customers not taking more credit card loans, and the fact that much of the delinquent credit cards have already gone through our P&L, ended up with our portfolio in credit cards reducing by more than 30%, Which it's very important for us in order to assess, if you consider that as a revenue generator.

And we've been okay with that. We've been working in our models. We've been rebuilding our value proposition to our customers. and now, we feel that we can return to growth not only because of the activity as I said, but because we feel that we have more elements now in order to properly assess risk in that portfolio and return to increased risk appetite towards that end. So that will be the main driver of our credit card portfolio. We've done our homework. We have calibrated our models, we understood the current situation of the Peruvian population, so we feel more comfortable going back to search for that growth, and this is again what we do, what we've been doing throughout the last 20 years.

Now, in terms of the pace of growth, probably that will be from where we will start opening gradually, because we will still want to see if what we have done has the effect that we are thinking. But today the equation of the customers that we have in the portfolio, the way they're behaving, the profitability that each of them are bringing, because of the risk profile that we have, and the low provision expenses are related to that – we are seeing tremendous good behavior in terms of payments from these set of customers that we have. So, the equation is paying very nicely, probably lower revenues coming from those customers, but significant lower provisions as well so of our net income gets benefit from that. So, that's the first part of your question.

And now, let me pass it on to Michela, so she can talk about margins expectations, and what we're thinking about fees coming forward.

Michela Casassa
Okay. Hello Sebastian. Thanks again, for the question. Let me just add a couple of things to the answer from Luis Felipe on credit cards recovery. And maybe just to point out that, despite the fact that there is going to be more cash available for clients now, because the private pension funds et cetera, we have also started to see an acceleration in the new client acquisition, from new credit cards. So, basically that also builds up more credit turnover, so that is also going to help the growth.

So, it is a mix of existing clients, consuming more, but also new clients. And just to have in mind that the current risk profile of the credit card portfolio is really with a low-risk, even lower than pre-COVID levels. So, there is ample room now to push for more growth, now that we have everything set in place, as Luis Felipe mentioned.

In terms of margins and Reactiva, have in mind that we reached almost 7 billion soles of Reactiva loans at the peak last year. What we have seen since last year is on one side, there are some prepayments of Reactiva loans. And those prepayments are coming mainly in the corporate segment and to some extent in the mid-corporate segment as well. No prepayments of course in the small businesses.

Moreover, besides prepayments there are some installments that will start to mature or are starting to mature right now, May, June, July, etcetera, that will also decrease the outstanding of Reactiva. Yes, we have the extension of the Reactiva loans that was approved, but that will not impact the full portfolio. Actually, there are a number of things that have to be met for a company to be able to access to this extension, so it most likely impact only a portion of the Reactiva loans. So, what we are expecting is a gradual decrease of these outstanding loans from Reactiva and that, as they disappear from the balance sheet that would also help a little bit NIM.

And the last point related to fees. I mean, we have seen a recovery of fees and as you mentioned. It has been slower than other core operating trends. And actually, it's a mixed number, because there are some very positive news in fees, and there are some others that are recovering slower. So on one side, we have fees coming from commercial banking. Fees coming from commercial banking are growing more than 20% year-over-year. So basically, we are growing a lot even when compared to pre-COVID levels. This is coming from a number of reasons, for sure the Reactiva strategy paid off, so we have more clients, more cash. So, we are having more fees coming from payments, but also a recovery in export fees, and I mean corporate finance fees. So, that is something that we have seen, it's a trend that is very stable and growing since January this year, and we hope to continue to see it in the months to come.

Then, as you have seen at Inteligo, fees have grown very, very nicely. That is also a very positive trend that we are seeing. The portion of fees that is still impacted and that is still below last year, are retail fees and especially fees related to credit cards. Now, have in mind that the credit card portfolio decreased more than 30% year-over-year with COVID and in the same way, fees related to credit cards decreased in that proportion. So basically, those fees are growing, and as long as the credit card activity continues to recover, we should see also those fees recovering in the months to come.

So putting all together, I guess revenues are, as the guidance says, going to be kind of flattish with lower revenues coming from other income and recovery in fees and net interest income.

Sebastian Gallego
Very clear Michela and Luis. Thank you so much.

Michela Casassa
Thank you, Sebastian.

Operator
And our next question will come from Jason Mollin with Scotiabank. Please go ahead.

Jason Mollin
Hello. Thanks for the opportunity to ask questions. My question on operations have been answered, but I thought maybe a more general question on how the group is preparing itself with this uncertainty. It seems like the market has rebounded from some recent lows with some expectations of a more market-friendly candidate winning. But how is the bank, you talked about liquidity, maybe that's a good way to phrase it. How are you positioning the bank in terms of liquidity and risk taking, going into this period or during this period of uncertainty? Thank you.

Luis Felipe Castellanos
Hi, Jason. Thanks for your question. Yes. We've been here before in previous situations similar to this one and we have kind of our playbook for this. So, in times of uncertainty, we always reinforce our liquidity position. We have very strong capital position, and the other point of concern is the underwriting standards which we have tightened during the whole last year and we are starting to move on that front, but that's something that we are being very careful still. And lastly, we've always managed our business kind of currency-neutral. We've always had the view of being hedged in terms of our operations and our dollar-sol exposure and we continue to do that. I think those four are the main parts that we need to take care of and that's what we're doing now, again.

Jason Mollin
That’s helpful. I appreciate the color and comments. Congrats on the good quarter.

Luis Felipe Castellanos
Thank you, Jason.

Operator
And our next question will come from Geoffrey Elliott with Autonomous. Please go ahead.

Geoffrey Elliott
Hello. Good morning. Thanks for taking the question. The proposals that have come out of the Central Bank on limits to interest rates and fees, can you help quantify what those mean for IFS now you've got a bit more detail?

Luis Felipe Castellanos
Sure. Thanks for your question. Actually the proposal came out, as mentioned in the introduction. We don't think it will significantly affect IFS like, it's only a very small portion of part of our consumer book but very small, that will have to change because of the cap that the Central Bank has put in. Where we really have been hit is, there is a restriction for financial institutions to charge.

I don't know how you call it Michela, how are we calling it?

Michela Casassa
The late payment fee.

Luis Felipe Castellanos
Yes. Exactly. There is a restriction to charge late payment fee and that has been changed by higher interest rate for late payment. Okay? So, all-in-all, again, the impact will not be big, I think it's less than 40 million soles in all for IFS, which is less than 0.5% of IFS' revenues. However, what worries us is that it is not a good, like, you need to create payment behavior for Peruvians. So, having that in place, the late payment fee, is a very good incentive for customers to pay on time, and we see that in almost any market in the world.

So, that's one of the things that we think will affect or could affect the payment behavior in the future. And so that is the main concern that we have. It's not of revenues impact right now, it's what could happen in the future if Peruvians don't see this as an incentive to have good payment behavior. But overall, as mentioned, the impact of the law in our operations so far will be extremely limited, almost nothing. However, as you know, the law has been presented before the Constitutional Court, in order to deter the unconstitutionality of the law and we are waiting to see what happens there. Now we have expectations that it could be reverted, both for the cap of the rates and also for this late payment fee situation.

Geoffrey Elliott
And is there anything else bank-specific that's bubbling up either in Congress or in terms of proposals from the Presidential candidates that impact you down the line? I know that's been a series of different proposals over the last year, is there anything new out that we should be aware of?

Luis Felipe Castellanos
As banking-specific, nothing that comes to mind really. We haven't seen any ideas around the banking system in the Presidential plans yet, so really nothing that comes to mind other than what has been discussed. Like reprogramming of loans due to the pandemic, that has been taken care of and the cap of interest rate that has already been taken care of, so nothing really that comes to mind, but we are paying attention in any case.

Geoffrey Elliott
Thanks very much.

Luis Felipe Castellanos
Thank you.

Operator
And our next question will come from Yuri Fernandes with JP Morgan. Please go ahead.

Yuri Fernandes
Good morning, everybody. So, I have just a quick question regarding other income, right, this was a strong, I guess Michela already mentioned, there were sales of fixed income portfolio. But what else has been driving this? Because, okay, this quarter was record but 3Q was very strong, 4Q was very strong. This quarter, I guess, you saw some valuation of investment assets.

I guess, what I would like to know is, like how sustainable are those revenues? And I guess you said, it will normalize, but will it normalize back to 2020 levels that were still high or would it return to 2018 or 2019 level? I know it's hard because market income, it's very volatile, hard to predict, but I guess, it has been very strong and would be nice to have more color, if this is like US equity or fixed income – what driving this on those trading income for you? Thank you.

Luis Felipe Castellanos
Okay. Thank you, Yuri. Yes. It's a little bit hard, but the way I would look at it is, everything related to Interseguro, I would look at historical levels of Interseguro, probably will converge to historical levels of Interseguro. And then, the one’s from the bank, well, again, with all the liquidity we've had, we are taking a very conservative approach to our investments. Basically, it's all government-related sovereign-related instruments, so it's very plain vanilla, and the results will depend on how that moves.

So, really we have these results like every month. Obviously the first quarter, we saw an opportunity and we worked around that, but it's tough to predict exactly what will have been in the months to come. So again, I will, again, look at the previous year's results for the bank and try to think that we will converge on that front. I don't know if Michela, if you have something to add, maybe a little bit more uncertain will be Inteligo's result year-in, year-out, the earnings potential of the way they manage their investments. So again, looking at the past successful story of Inteligo might be a good predictor of the future. I don't know Michela, if you want to add something.

Michela Casassa
No, not really. I guess, that's the summary. There could be opportunities in the coming quarters, maybe we could have some other extraordinary levels, but that's not something that today we can assure or have in mind as a certain revenue.

Yuri Fernandes
No, perfect. Thank you and congratulations on the strong quarter.

Michela Casassa
Thank you, Yuri.

Operator
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. My question is regarding digital transformation. You guys have presented an impressive slide with the numbers regarding digital sales, new customers, etcetera. But I would like to understand from a business perspective, how this translates into fees, funding, and other operating metrics, again how do you see the journey for monetizing this impressive growth in users?

Luis Felipe Castellanos
Thank you. That's an excellent question. We can actually address it in many different ways. First, I think that the vision we have towards digital is very positive. We are executing as you know our digital first strategy, so that's materializing. I guess the way I would put it is, we've been able to manage, almost like let's say, stable operating expenses, but the number of interactions and the number of customers that we have brought into the bank in the last 12-to-18 months have grown significantly.

So, the pace of the new customers at Interbank is accelerating and we manage different lines probably, IT costs increasing, but looking for savings in other places to keep that stable.

So, if we were operating under our previous model, having not more than a million customers joined the bank in the last let's say 12-to-18 months, would have cost us significantly more than what we are having. So, we're able to keep our efficiency ratio at reasonable levels and that's the end. So, that's I think the most important part that I would point out.

Second, we are gaining market share in our deposits, especially for the retail franchise. So, our acquisition strategy is bringing funds, which are very efficient in terms of cost as well, so that's important. Despite, as Michela mentioned, rationalizing more aggressively than any bank in Peru, our branch network. So that strategy is also paying back to us.

And then, the third part that I particularly don't have an answer right now, but we're starting to see because we've been very focused on volume, and more reach and better services for our customers, will be the actual value being brought in, is something that we have started to focus to measure. And probably in the following months, we'll be able to elaborate a little bit more, how we're capturing value on that perspective.

But first, we wanted to have the infrastructure, the possibility in terms of commercial terms to bring in more customers on a digital-only approach. We are seeing that getting traction, so that has been with the same cost base basically. So now, we're moving to the next phase, which will be capture more value, not only look at savings. I don't know, Michela, if you want to add something more specific on that note.

Michela Casassa
Maybe if I can add something. I mean before COVID, and we have discussed this, I guess, in the past. We were having a super positive operating leverage. So basically, we were being able not to increase our revenues much faster than costs, and that goes back to the first point of Luis Felipe, the ability to be able to bring much more clients without increasing the cost base. What is happening now is that, we have like two different situations between retail and commercial. Actually, I guess we are already seeing the value in commercial banking, because all the clients that we brought last year through our digital account opening, that then were also linked to Reactiva are already bringing revenues. So, we have seen the boost in fees.

So, I would say that is like clearer. In other words, an inflow of clients for digital and now we are being able to generate more fees. What is happening in the retail side is that, the top-line is today affected by like external factors. So, the things that do not have to do a lot with the growth or the number of clients, like provisions from last year, the low-level of the incidence of credit cards. So, as long as that normalizes and the customer base continues to increase, we should go back to that positive operating leverage that we used to have pre-COVID. And I guess there we will see the value of what we are doing materializing.

Andres, I hope that was sufficient to answer the questions.

Andres Soto
Definitely, Michela. Thank you for the answer, Michela, Luis Felipe, and congratulations on the results.

Luis Felipe Castellanos
Thank you, Andres.

Operator
There are no more questions at this time. I will turn the call over to the InspIR group for any webcast question.

Rafael Borja
Thank you. We have one question from Johanna Castro, from Itaú BBA. Could you share with us the reduction of on-boarding cost? What was the cost in 1Q '20 and after 1 million new customers, what is that cost today?

Luis Felipe Castellanos
Okay. Thank you, Johanna, for your question. I don't know. Michela, can you help me with that or maybe we will have to go to Johanna later if we don't have that detail so far.

Michela Casassa
Yes, I'm sorry, we don't have the numbers right now. We will have to come back to you afterwards.

Luis Felipe Castellanos
Yes, so we will come back to you Johanna on that specific question. Thanks a lot.

Rafael Borja
We have another question from Isaac Nontol from Prima AFP. What are your perspectives on the new repo operations with State-guaranteed loan portfolios? Should we expect a great contribution in the banking system?

Luis Felipe Castellanos
Well, I don't know exactly what other banks will do, I will tell you what we're doing. We are already doing big reprograming of our customers at lower rates, and we are not very actively going through the whole program or acting like COFIDE, because we find it, that has too many steps. So, we've done our own solution for our customers, and it's, as Michela showed, every time we're seeing less and less customers looking for this relief. So, I think that program we have internally built is being very well accepted by our customers that need help. So, we don't expect particularly to be high users of the program. But then, you asked about the whole system. I cannot answer for the other institutions.

Rafael Borja
So, at this time, I'm showing no further questions. I would like to turn the call over to the operator.

Operator
And I am seeing no further questions on my end here, so that will conclude the question and answer session. I'd like to turn the conference back over to Mrs. Casassa for any closing remarks.

Michela Casassa
Okay. Thank you very much again, everybody, for joining this call. We are very pleased with the results of this quarter and I hope to see you all during our second conference call in August. Bye, everybody.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.