

Intercorp Financial Services

4Q21 Earnings

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CORPORATE PARTICIPANTS

Rafael Borja – *InspIR Group*

Michela Casassa – *Chief Financial Officer*

Luis Felipe Castellanos – *Chief Executive Officer*

PRESENTATION

Operator

Good morning and welcome to Intercorp Financial Services Fourth 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 to the procedure to follow if you would like to ask a question. Also, you can submit online questions at any time today using the window on your 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. Good morning, everyone. On today's call, Intercorp Financial Services will discuss its fourth quarter 2021 earnings. We're 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. Juan Pablo Segura, Chief Financial Officer of Interseguro; and Mr. Bruno Ferreccio, Chief Executive Officer of 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 to download a 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 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 Mrs. Michela Casassa, Chief Financial Officer of Intercorp Financial Services, who will begin her presentation. Mrs. Casassa, please go ahead.

Michela Casassa

Good morning, and welcome everyone to Intercorp Financial Services fourth quarter and year end 2021 results. At this time, we will focus on three items on the agenda, which include financial highlights, key messages and takeaways. I will start with a brief summary of financial highlights on slides 3 to 8.

The main highlights are, for Interbank, profitability recovers on higher revenues and lower provisions, full year ROE at 21% and fourth quarter '21 at a 27.8% ROE. Consumer loans grew 15% year over year, gaining 60 basis points in market share. We've had 10% growth in retail deposits, with a market share of 15%, risk adjusted NIM recovering, contribution of consumer loans still below pre-COVID levels. Healthy asset quality 0.9% cost of risk, or 1.6% when excluding the reversal of provisions, expense growth driven by the recovery of activity and digital investments, customer base growing around 20% in 2021.

For Interseguro, strong full year results, full year ROE at 28%. Premiums grew more than 70% year over year with a strong performance across all business lines. Investment portfolio increased 2.4 in the quarter, with a return on the investment portfolio at 4.7%. Net insurance underwriting loss decreased more than

70% on the quarter and on the year, and Interseguro continues to be the market leader in annuities with a 31% share in 2021.

For Inteligo, full year profits grew 16.6% with a full year ROE at 23%, with strong revenues in the year driven by fee income and positive mark to market during the year, a 20% increase in fee income during the year and 14% increase in assets under management plus deposits. The fourth quarter results were affected by negative mark to market on the investment portfolio.

At IFS, record earnings of 1,800 million soles in 2021 and return on adjusted equity of 19.3%. There has been a strong recovery in core indicators driving the top line growth. This recovery in operating activity has resulted in an 8% year over year growth in revenues with efficiency at 35%. The fourth quarter results were impacted by the negative mark to market on investments. We've seen a strong progress in our digital indicators, thanks to the two-tier digital strategy we have been implementing to foster growth. We have solid capital ratios at all IFS segments and sustainability as a future competitive advantage.

Among the key performance indicators on slide number 5, I would like to highlight the recovery in the quarterly and yearly NIM of both Interbank and InterCorp Financial Services. There has been a 20 basis points improvement in the quarterly NIM of IFS, driving the NIM for the year to 4.1%, within our guidance. On the other hand, at Interbank, the increase in NIM in the quarter is 40 basis points, driving the quarterly NIM to 4.4% and the full year NIM up to 4%. Moreover, the efficiency ratio of IFS, despite slightly increasing in the quarter, has remained at healthy levels of 34.7%, in the low range of our guidance.

On slide 6, you can see the comparison of our year end results with our original and revised guidance. As you can see, we continue to have sound capital levels, with a total capital ratio of 15.9% and a core equity tier 1 ratio of 12.5%. ROE ended up at 19.3%, above our original guidance and slightly above the revised guidance of 18%. Moreover, retail loans registered a strong pickup in the fourth quarter, driving the year-end growth to double digit levels of 13% and surpassing the guidance, while commercial loans continued to have a negative trend, mainly due to the Reactiva prepayments and amortizations, but grew almost 8% when excluding Reactiva loans.

Revenues have started to recover, reaching an 8% yearly growth, with NIM closing the year at 4.5%. Cost of risk continues to be below pre-COVID levels, as anticipated, and closed the year 0.9% or 1.6 when excluding the reversal of COVID provisions done in the fourth quarter.

On slide 7, we are showing the relevant net income for dividend distribution, which has reached 1,657 million soles in 2021, close to the levels registered in 2019.

On slide 8, we continue to have a solid capital position, as evidenced by the ratios of Interbank previously commented but also in Interseguro and Inteligo.

Now I will focus on the key messages we would like you to take home from this call on slide 11. First, we have experienced a strong recovery in our core indicators across our three businesses, which has driven top line growth in 2021. Second, we have a healthy risk profile, which closes 2021 still below pre-COVID levels, both reported and excluding the effect of the release in provisions due to the better payment behavior of the retail portfolio. Third, we continue to work on our two-tier strategy in order to foster growth at IFS. And fourth, we are foreseeing a continued recovery of IFS in 2022 in a context of political uncertainty, higher rates and low GDP growth.

On slide 12, monthly operating trends have closed the year with a very strong fourth quarter. At Interbank credit cards and debit cards turnover have increased substantially, 20% for credit cards and two times for debit cards when compared to pre-COVID levels. This growth has allowed us to increase market

shares 200 basis points in the past two years for the combined turnover, mainly thanks to our Interbank benefits program, our increased focus on e-commerce and high growth product categories, and finally, also thanks to our upselling strategy.

Moreover, credit card sales have increased two-fold in 2021, getting close to 2019 levels. New disbursements of retail loans have also increased substantially. Consumer loans disbursements have increased almost 50% when compared to 2019, mortgages disbursements more than 30%, and payroll deductible loans to the public sector employees more than 20%.

On slide 13, moving to growth in loans, we have very good news in this quarter, as there has been an acceleration in growth of credit cards and other personal loans, which has reached 21.8% year over year and 13.6% in the quarter. This has allowed us to gain 60 basis points market share in total consumer loans during the year. As far as commercial loans is concerned, the quarterly growth has been 4.6% when excluding Reactiva, and the yearly growth almost 8%. As a result, total loans grew 5% in the quarter and 11% in the year when excluding Reactiva loans.

On slide 14, we have been able to continue to gain market share in retail deposits, reaching 15% this year, thanks to a 10% growth in retail deposits. Cost of funds has started to increase as a result of the rising rates, impacting 10 basis points this quarter, up to 1.6%.

On slide 15, Interseguro continues to grow in a substantial way, with premiums growing 24% in the quarter and more than 70% in the year, with strong performances in all business lines. Annuities grew two times in 2021, private annuities 87%, individual life 31% and retail insurance 7%.

On slide 16, Inteligo has had a very good year in terms of growth, also thanks to the political uncertainty experienced. Assets under management plus deposits grew 14% year over year, and a very positive development has been the growth in the offshore client base of almost 30% this year. The diversification of IFS businesses continues to play 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 and portfolio mix, with a smaller contribution of credit cards.

On slide 18, the efficiency ratio of IFS was 34.7% in 2021, in the low range of the 31 to 37% guidance given at the beginning of the year. This quarter, we have continued to see a recovery of expenses, driven by banking activity when compared to previous year. It is important to remember that during 2020 IFS was one of the few financial institutions in the region which was able to execute an aggressive cost reduction program, which ended up reducing the total cost base 5% for the full year and improving the efficiency ratio in such a challenging environment.

At Interbank, efficiency ratio is at 42.7% in the year, above the 38.6% registered last year, as expenses have increased 16.6%, in line with our expectation and as reflected in our guidance. The increase in costs at Interbank is mainly due to three reasons. A 16% increase in technology costs and new ventures, which include the technology expenses for our digital transformation, as well as new investments in payments and our venture with Rappi. A 4% increase in personnel costs, which is mainly coming from the increase in mandatory employee profit sharing in line with the improvement of the local GAAP earnings. And finally, an 82% increase in variable costs related mainly to credit cards, and in line with the percentage increase in credit and debit cards turnover, which generates fees and financing volumes. Moreover, we have continued with our branch optimization initiative, reaching a total reduction of number of branches of 35% from the peak in 2016, or around 100 branches.

Moving on to the second key message, on slides 20 to 23, we have a healthy risk profile, which is still

below pre-COVID levels. On slide 20, cost of risk in the quarter includes a release of COVID-related provisions of 297 million soles, mainly linked to the retail consumer portfolio. Excluding such reversion of provisions, the cost of risk of the quarter would be 1.9%. The cost of risk was 0.9% in the full year, and 1.6% when excluding the release of provisions, in line with our revised guidance of around 1.6% updated in the third quarter and well below our original guidance of around 2%.

One important thing is that the NPL coverage of 131% at the bank level is still well above the 118% that we used to have pre-COVID. And this is mainly related to the coverage ratio of retail loans, which closed the year at an abnormally high 190%, which is well above the 135% that we used to have in 2019.

On slide 21, we are showing the recovery of yields of the loan book of Interbank as well as in the risk adjusted NIM. Yield on loans reached 8.3% in the quarter, up 40 basis points versus the previous quarter. In the same way, NIM is improving 40 basis points in the quarter. Yields and NIM are still below 2019 levels, as the portfolio mix of the bank is still recovering from the sharp decrease in credit card volumes experienced during 2020, as evidenced by the trend in the share of consumer loans, which decreased from 34% in 2019 to 26% in 2020, and has reached now 30%, still a way to go for the full recovery, especially in the high yield portion of the consumer loan book. We expect these trends to continue improving in the following months, thanks to a better portfolio mix, the increase in rates and lower Reactiva loans.

On slides 22 and 23, two positive news are, first, the reduction of 50% from the peak of June of the rescheduled portfolio. And second, the reduction of 26% of Reactiva balances.

Now let's move to the third key message of this presentation. In slides 25 to 31, we will share with you a little bit more of our overall digital strategy which is driving most of our efforts and supporting our strong core results and growth in our client base. Slide 25 is a summary of our two-tier digital strategy. On one hand, we have the digitalization of our core activities, with the main goal of allowing clients to be able to interact with IFS companies and fulfill their needs 100% digitally with a high NPS, and this has been evidenced by the 26 additional points in NPS of our 100% digital clients when compared to non-digital retail customers.

On the second front we have new growth initiatives, which aim at increasing the client base and to create new sources of revenues and profitability. On the digitalization front, some examples of our digital solutions include Piggy Bank, a 100% digital solution for savings, which allows clients to have specific pockets of savings for specific purposes and helps clients to save with just one swipe, My Finances, another solution in the Interbank app, which helps retail clients to control their expenses and manage their budget and which now incorporates also a credit scoring solution and gives them suggestions on how to improve their creditworthiness, Interbank Benefit, our 100% digital rewards program platform linked to credit cards, Plin, the P2P and QR code payment solution, Dividelo, our buy now, pay later solution linked to digital purchases, Interbank.pe for businesses which allow commercial clients to open business accounts 100% digitally and fulfill their cash management needs, SOAT Digital, the first 100% digital insurance product and finally, ERNI, our mutual funds investment platform.

On the second front of our digital strategy, we have a number of initiatives which we have been working on in the past years that are at different stages. On the consolidating growth phases we are including, first, Interbank 100% digital accounts for retail and commercial clients, which today constitute the most important part of growth of our client base for both retail and commercial clients. Second, Tunki, our digital wallet. And third, Plin, our P2P and QR code payment solution which enables interoperability with multiple financial institutions and is a bridge between the bank and the unbanked.

We are also working on two additional initiatives, which are currently at early stages of development,

which include RappiBank, our alliance with Rappi to create a new way of banking or new bank and Shopstar, our marketplace aiming to become the preferred e-commerce option for IFS customers and a sandbox to test our initiatives such as Dividelo and Interbank Benefit.

All of these initiatives are being developed with a strong approach in advanced analytics, which allows us to improve our risk management, to increase the level of personalization and contextuality of campaigns, and to increase sales leads and their hit ratios.

On slide 26, we continue to see strong progress in our digital indicators. As of December 2021, digital users reached 80% of customers who interact with the bank during the last 30 days, up 17 points in the past two years. One hundred percent customers, who are clients that do not use branches or contact centers any longer and who use digital channels plus ATM and correspondent agents only for cash in and cash out, have reached almost 50%, up 27 points from December 2019. Digital sales have also performed well. At Interbank, retail digital sales reached 56% in December, and at Interseguro SOAT digital sales reach 81%, both increasing sharply in the last two years.

It has been a real challenge to maintain and continue to grow some of these indicators, as the initial jump in these indicators was very high, given the strong and long lockdown experienced in Peru. Moreover, the increase in the level of activity of 2021 has brought an additional challenge to these threats. We have continued to see an important number of new digital accounts being opened for both individuals and businesses. As of the end of December, 54% of new retail savings accounts were opened digitally, while 95% of new business accounts were opened digitally.

Now, moving on to our new growth initiatives on page 27, Tunki is our digital wallet and ally to bank the unbanked. It was the first digital wallet in Peru to be able to deliver government financial aid in the context of COVID 100% digitally to Peruvians and today has reached 1.7 million users. We have increased 19 times the number of merchants using Tunki during 2021 and seven times the number of transactions compared to last year.

On slide 28, Plin has reached 6 million users in two years, out of which 42% use Interbank as main bank. We believe Plin is the most successful launch of a digital solution in Peru, given the high number of users achieved in only two years. It provides P2P and QR code payments within Interbank app in Tunki, and allows interoperability with BBVA, Scotiabank, BanBif, Caja Arequipa, Caja Sullana, and Caja Municipal de Ica. 2021 has been a year which focused on increasing the number of micro merchants and activity with good results. The number of micro merchants tripled during 2021 and was four times higher for the number of transactions.

Moving on to our initiatives currently at early stages, on slide 29. RappiBank, our alliance with Rappi to create a new way of banking, has reached more than 200,000 accounts and more than 60,000 credit cards placed. Accounts were launched in February 2021 and credit cards in May '21. Current NPS is at 65 points, still shy of our objective, reflecting the strong customer-centric approach which is being used to launch the RappiBank solutions and aims at improving it even further.

The second initiative at early stage is Shopstar, our marketplace aiming to become the preferred e-commerce platform for IFS customers. After its initial pilot in the second half of 2020, it was launched in the first month of 2021. It has now almost 70,000 active customers, a number that has grown eight times during 2021. Moreover, the gross merchandise value, or GMV, has grown 10 times during this year and has already become the number one e-commerce platform for IFS clients, with more than 10% share of wallet of their e-commerce purchases. All of the different initiatives described before have the purpose of accelerating even further the growth of our client base to increase the level of engagement, satisfaction and loyalty among those customers.

On slide 31, you can see that our client retail base has grown 18% during 2021, reaching 4.6 million customers, 20% when talking about 100% digital customers and 24% when speaking of commercial clients, most of which are being acquired digitally.

The last key message refers to the future and to the recovery that we expect to pursue for IFS during 2022. On slide 33, we are showing a snapshot of the underlying trends for 2022. GDP is expected to grow around 3% according to the Central Bank, but other sources believe GDP growth to be more around 2%. Inflation should go back to the 3% levels after a 2021 close to 7%, and exchange rate is expected to remain relatively stable amid political instability.

Finally, in the past few months the soles interest rate has already increased 275 basis points and is expected to increase further during 2022. In fact, the Central Bank increased the policy rate further yesterday 50 basis points, to 3.5%.

With this scenario, let me move to the guidance for 2022. 2022 will be a year in which we will continue to rebuild our consumer loan book and profitability and we'll continue to focus on our digital transformation. The six operating trends we expect for 2022 are first, capital ratios to remain at sound levels, with total capital ratio above 15% and core equity tier one ratio above 11%.

Second, a continued path to recovery in core profitability with IFS ROE above 16%. Third, high single digit growth in total loans led by double digit growth in consumer loans together with the substitution of a portion of Reactiva loans in commercial banking. Fourth, revenues will continue to recover with NIM between 4.2% and 4.6% after closing 2021 at 4.1%. The speed in which we will be able to translate the increase in rates and the speed of reduction of the Reactiva portfolio will have an impact on these numbers. Five, cost of risk will be below 1.8% and still below pre-COVID levels, in line with the composition of the portfolio mix. Six, we will continue with our focus on efficiency and expect efficiency ratio again to be between 35% and 37%.

Finally, on slide 35 we wanted to share with you our results of the first year of participation in the Dow Jones Sustainability Index, which was 53 points, which is 15 points above industry's average. The focus of our ESG initiatives in 2022 will be on three fronts. First, to promote inclusion and bancarization; second, to focus on environment and sustainable finance; and third, to promote a culture of sustainability in IFS. Moreover, we wanted to share with you that we have been awarded the number one, number three and number five position in Great Pace to Work 2022 for Interbank, Inteligo and Interseguro, respectively.

On slide 37, let me finalize with the four key messages of this presentation. First, strong recovery in our core indicators is driving top line growth. Second, we have a healthy risk profile. Third, our two-tier digital strategy is fostering our growth. And fourth, we expect IFS recovery to continue in 2022.

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

QUESTIONS AND ANSWERS

Operator

Thank you. At this time we will open the floor for your questions. First, we'll take the 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 now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the question queue, just press star then two. Again, to ask a question, please press star then one. 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.

The first question today comes from Ernesto Gabilondo from Bank of America. Please go ahead.

Ernesto Gabilondo

Hi, good morning, Luis Felipe and Michela. Thanks for the opportunity to take questions. My first question will be in your 2020 guidance I just wanted to double check, what was the recurring net income base in 2021? If we exclude the non-recurring items, I'm getting to 1.5 billion soles, a recurring ROE of around 16%. So, if that is the case, your 2020 guidance is assuming a recurring ROE above 16%. So, would that be at least 1.6 billion soles of net income this year? I just want to check if that is correct. And then what would be the dividend payout ratio that you're considering in your ROE guidance? And also, in the same topic, where do you see the IFS long term sustainable ROE?

Luis Felipe Castellanos

Hi. Thank you, Ernesto, for your questions. Let me answer really quick, and maybe Michela can complement, I think your numbers, obviously I cannot go into detail, but they look ballpark, right. Maybe what I would say is that how we get to those earnings will be a little bit different. As you know, this year we had very strong results from investments in the three subsidiaries, at Interbank, at Inteligo and at Interseguro, so probably what you will see next year will be a different mix, with the core operating indicators having stronger performance. That's our expectation.

On your second question on the dividend payout, we are still reviewing that. Obviously last year Interbank, which was the main contributor to cash flow for dividends given COVID did not upstream dividends to the holding company. This year will be completely different. So, we do expect to get back to normal. So, if you review what we've done in the recent past, except 2021, should be a good indicator. But that's still under discussion. We'll come back to the market as soon as we define that.

On the third one, I don't believe very much on sustainable ROEs in the changing environment that we have today. Our target is to get back to north of 18% ROEs, which is what we've been delivering before COVID, so a target that we are aiming would be around that.

And then let me ask Michela if she has something to complement on that front.

Michela Casassa

No. You have already said everything. I guess maybe just to comment on a couple of trends on what Luis Felipe was mentioning in terms of the different mix of profitability of 2022, which I think is important, no? 2021 has been a year in which the bank has taken a little bit longer in order to recover, especially in terms of revenue generation and especially in terms of net interest income and NIM. And there has been a stronger contribution of Inteligo, Interseguro and other income. Thanks to the strong growth we have experienced in the second half of the year and especially in the last quarter at Interbank in the retail portfolio, this is starting to change and with the increase in rates even further. So, what we are expecting for next year is a much different revenue mix, with a stronger contribution of net interest income coming from Interbank and a lower incidence of investment income from the other two subsidiaries.

Ernesto Gabilondo

Thank you very much, Luis Felipe and Michela. I just have a few last couple of questions. One is in terms of your expectations on fees and Opex. I think those are two key variables that will be embedded in your guidance. Fee growth was 14% in '21, so I was wondering if you continue to see that pace of growth in in this year. And in terms of expenses the same, no, they grew 18% last year, so should we continue to see Opex growing at that level or do you think it could be more at the low double digit growth? So that's my second question.

And then the last question is on the digital transformation. We have seen some banks in the region, separating the traditional bank and creating digital banks and they are seeing different metrics in terms of clients and future profitability. And we have been seeing that they continue to invest in the digital transformation for the traditional client base, but at the same time they want to create these new digital banks to attend the unbanked segment. Again, following different client base, different key performance metrics. So just wanting to understand, in your case are you evaluating to have a similar structure, like having the traditional bank and a digital bank or you will continue to keep the same metrics inside the traditional bank?

Luis Felipe Castellanos

Thanks, Ernesto. On the first one I'm going to completely defer to Michela. She's the expert on growth and Opex. But let me address first the second part of your question. We have, as you've seen, a dual strategy. Our strategy is basically a digital strategy. We're trying to digitalize everything we do in order for every customer or client of Interbank to be able to do whatever they need to do digitally. And then the second part of our strategy is to create these new sources of growth, new businesses, where we have some initiatives that in other markets you could perfectly conceive them as spinning them off.

However, in Peru we're bounded by regulation, we cannot have two banking licenses. So even though that's the regulatory part, we do our organizing ourselves, to manage these on separate ways. We have internal P&Ls of each of those solutions. We are working in order to understand the KPIs of the different types of customers that we have. So, the strategy, the way we're executing is very different. But unless regulation changes in Peru that allows us to have another license, that won't be able to happen in Peru at least in the short term.

So that's kind of where we are on that front. However, again, internally, we do have like separate accounts, separate P&Ls, and we're tracking very closely each of those initiatives and measuring the impact, separately.

And now let me pass it on to Michela so she can respond to question number one.

Michela Casassa

Okay. Ernesto, on fees, this year the strong growth that we have seen has a number of components. I mean, first of all, we have the recovery of the fees at Interbank, because the turnover of both credit cards and debit cards, as you have seen, has grown substantially, and it was kind of declining in 2020. And then we've also had very strong fees coming from Inteligo, so what we are expecting from the future is not a double-digit fee growth, it's more on the single digit growth.

And moving on to expenses, there is also a similar explanation. Expenses this year, as I explained, have a strong component of variable costs that comes from a low level of activity, especially credit cards at Interbank that have started to recover. That will be the case for the future. But we were starting from a very low base this year. So, in terms of growth of expenses, we are not expecting for the next year, the strong double-digit growth that you saw this year. But we are more in the single digit growth of expenses for IFS line.

Ernesto Gabilondo

Super helpful. Thank you very much and—yes, sorry.

Michela Casassa

Bye.

Ernesto Gabilondo

A final comment, I think it would be very interesting and helpful to have some indicators of your separated P&Ls in the future. Just giving you that comment. Thank you.

Luis Felipe Castellanos

Great, thank you.

Michela Casassa

Okay. Thanks.

Operator

As a reminder, if you have a question please press star then one to be joined to the question queue.

The next question comes from Daniel Mora with Credicorp Capital. Please go ahead.

Daniel Mora

Hi, good morning Luis Felipe and Michela. Thank you so much for the presentation. I have a couple of questions. The first one is, with the positive evolution of the loan portfolio and also the increase in rates, when do you see the NIM returning to pre-pandemic levels, and if you can please provide the sensitivity analysis of the increases of the Central Bank rate? For 100 basis points increase in the Central Bank rate what can we expect of the NIM at Interbank? That will be the first one.

The second one is, considering the reversal of provisions in the fourth quarter, can we expect also additional reversal in the coming months, at least in the short term, or it was just a one-off in the fourth quarter?

And the third one is regarding the strategy of RappiBank in Peru, given the strategy of RappiBank or RappiPay in other regions. We already started seeing the disbursement of credit cards, but how do you see these initiatives in the coming months, and also how this strategy complements with the strategy of Tunki, the other application that you have?

Luis Felipe Castellanos

Great. For question number one, what I can tell you is that the recovery of the NIM or NIM getting back to previous levels will be dependent on how we get back to our structural composition of consumer loans in the overall book. On the sensitivity, I'm going to defer it to Michela, and on reversal of provisions also to Michela and then I'll come back with Rappi. Go ahead, Michela.

Michela Casassa

Good morning Daniel. Talking about NIM, this year 2022, by year end we are not still considering that the credit card portfolio will be at the levels of 2019. And relating to that, NIM will still take a little bit longer to recover to pre-pandemic levels. And then, to be sincere, the sensitivity that we have today to a 100 basis points increase in rates, it's a neutral impact. But I have to say that we are reviewing this sensitivity month by month, because what's going on now is that as we have had so many increases in rates so quickly, this sensitivity will depend at the end of the day, first, on the speed on which we will be able to translate to clients this increase in rates. And on the other hand, we will be able to delay the impact on the financial expenses and then given the high number of increasing rates, to what extent we will be able to translate most of it, so the theoretical exercise that we have now is this neutral impact on our numbers.

Moving on to the additional reversion of provisions, I want to bring your attention back to the fact that the levels of coverage ratio that we have as of year end, in the retail portfolio especially, are still very high. We've had this reversal of provisions now. And you've seen that the total coverage ratio of the bank going down from 182% in 2020 to 131%. But the number of 2019 was 118%. That's for the total bank. But when

you look at the retail portfolio, the numbers are much higher. So, the coverage ratio as of year end is 190%, which is very close to what we had in 2020 when we did the expert criteria because of COVID. And is well above the 135%. So today, we have like this extra coverage ratio and of course we need to see how the portfolio evolves in the coming months to determine those provisions.

Let me pass it back to Luis Felipe for Rappi.

Luis Felipe Castellanos

Thank you, Michela. On Rappi, yes, you're right, Daniel. The initial product that we have placed are basically accounts, and the core focus, because we want to be able to monetize this as soon as possible, has been credit cards. We're very happy with the traction we've had in this first months. So that's good. It's a different product than Tunki, our digital wallet, as mentioned by Michela during the presentation. The wallet is more targeted to the unbanked or the people that do not want to do banking. And that's getting good traction there. And then we have a strategy once they are there, which type of customers we bring into the bank, or we keep them at the wallet, with PLIN being the bridge between the bank and the unbanked, so that strategy is very clear. We have the bridge to provide financial services and that's working well.

RappiBank has a different target. It's mainly for people that want to do banking in a different way. Obviously 100% digital. That's why we conceive it as a new bank. And what we're finding is that the preferred customers that are taking that product are very young customers, between, I would say 25 and 35. So that's the majority of the customers. So, the strategy is targeting to focus on that segment of customers, which is finding this very attractive. And we are using the Rappi channel for like people who do everyday things in that channel. Obviously, it's very appealing to them to get financial services, a solution that will allow us to make, through whatever they're trying to do while being in the Rappi app, but also what we're finding is that customers, given how nice the credit card and the value proposition is, are also using it very strongly outside of the Rappi platform.

So basically, those are the differences and the strategy. Again, it's early, it's promising. We will continue to learn. But so far, we're very pleased with the way it's evolving.

Daniel Mora

Perfect. Thank you so much. Very clear.

Luis Felipe Castellanos

Thank you.

CONCLUSION

Operator

As a reminder, if you have a question, please press star then one to be joined into the question queue. That's star then one. For the webcast viewers, simply type your question in the box and click Submit a Question.

There appears to be no further questions at this time. I would like to turn the floor back over to Mr. Castellanos for any closing remarks.

Luis Felipe Castellanos

Okay. So, I first wanted to thank everyone for attending our call. 2021, as you've seen, has been a record year for IFS, with strong performance by Inteligo and Interseguro. Interbank continues its recovery path after the effects of COVID during 2020.

As you've seen, Peru is going through times of political instability. The economy, while growing below its potential, remains with good indicators based on macro discipline. IFS' platform has proven to be very resilient under these circumstances, and I believe it is well positioned to continue leading growth in the financial sector in the coming years. We remain committed to building a great company, as evidenced by our financial results, our ESG indicators and our great place to work position. Our vision is to become a leading digital financial services platform for the benefit of our consumers and to impact positively the life of Peruvians. Our strategy continues to drive our efforts.

Again, I hope you remain safe and healthy and look forward to seeing you in our next conference call. Thank you.

Operator

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