

# Corporacion Financiera de Desarrollo S.A.

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**Table Of Contents**

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Ratings Score Snapshot

Credit Highlights

Outlook

Anchor: 'bbb-' For Banks Operating In Peru

Business Position: A Volatile Business Base And Low Earnings Due To Its Nonprofit Nature

Capital And Earnings: RAC To Average 6.2% In 2022-2024

Risk Position: Volatile Asset Quality Given The Bulk Of Lending To Infrastructure Projects

Funding And Liquidity: No Large Liquidity Needs In The Next 12 Months And Wide Access To Capital Markets

Support: Three Notches Of Uplift For Government Support

Environmental, Social, And Governance

Key Statistics

## Table Of Contents (cont.)

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Related Criteria

Related Research

# Corporacion Financiera de Desarrollo S.A.

## Ratings Score Snapshot

### Issuer Credit Rating

BBB-/Stable/A-3

SACP: bb-



Support: +3



Additional factors: 0

Anchor	bbb-	
Business position	Moderate	-1
Capital and earnings	Moderate	-1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	+3
Group support	0
Sovereign support	0

Issuer credit rating
<b>BBB-/Stable/A-3</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Key strengths

A very high likelihood of government support in times of distress, given Corporacion Financiera de Desarrollo S.A.'s (COFIDE's) key role as a government agent in promoting the economic development, along with the strong relationship with its shareholder, the government.

Access to long-term funding in both local and international markets, which mitigate the impact of a narrow funding base.

### Key risks

Credit concentration by single-name and sector, which makes business base, capital, and asset quality metrics volatile.

Still high equity exposure in its investment book impairs the bank's capitalization, according to our risk-based capital model.

***We expect COFIDE to continue benefiting from the Peruvian government's support.*** Peru remains committed to promoting economic development through the financing of small and medium enterprises (SMEs), productive sectors in the economy, and large infrastructure projects, all of which is deployed through COFIDE. Therefore, we believe there's a very high likelihood of extraordinary and timely government support in a scenario of financial distress for the entity. As result, the long-term rating on COFIDE is three notches above its stand-alone credit profile (SACP).

***COFIDE continues disbursing and managing funds from several government relief packages for economic recovery.***

These include Reactiva Perú, Fondo Crecer, and the Fondo de Apoyo Empresarial program specifically to SMEs (lending programs under the scope of Fondo de Apoyo Empresarial include FAE-MYPE, FAE-Turismo, and FAE-Agro), resulting in COFIDE's high and diverse fee income.

*We expect COFIDE's sound capitalization to support asset growth in 2022-2024.* In June 2021, the Ministry of Economy and Finance (MEF) acquired 14% of COFIDE's shares in Corporacion Andina de Fomento (CAF). This improved COFIDE's risk-adjusted capital (RAC) ratio up to 6.8% as of December 2021, because the exposure to equity diminished. We project the RAC ratio to remain at about 6.0% by 2024 as long as the entity's credit and investment portfolios continue expanding.

*We expect COFIDE's asset quality to remain weaker than the banking industry average due to the larger exposure to infrastructure projects, which generally carries higher credit risks.* A few problematic infrastructure loans are still keeping the entity's nonperforming loans (NPL) ratio high, reaching 9.7% as of June 2022. The ratio would fall to 6%-7% in 2023-2024 if COFIDE resolves such cases successfully. The bank keeps sound reserve coverage, at above 2x the NPLs.

## Outlook

The stable outlook on COFIDE in the next 24 months reflects that on the sovereign rating on Peru (foreign currency: BBB/Stable/A-2; local currency: BBB+/Stable/A-2), given our view that the entity will remain the government's important financing tool in its plans to restart the domestic infrastructure sector, while the entity continues to be a key lending intermediary to SMEs. The stable outlook on COFIDE also incorporates our expectation that its intrinsic creditworthiness will remain stable, in particular with a RAC ratio of 6.0%-6.5% in 2022-2024.

### Downside scenario

We could lower the ratings on COFIDE in the next 24 months following a downgrade Peru by two notches, or if we were to revise downward COFIDE's SACP by two notches to 'b'. However, such scenarios are highly unlikely for the next two years.

### Upside scenario

We could raise the ratings on COFIDE in the next 24 months if we were to upgrade the sovereign while the bank's all rating fundamentals remain unchanged. But this scenario seems unlikely at this point considering the stable outlook on Peru.

## Anchor: 'bbb-' For Banks Operating In Peru

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a bank operating in Peru is 'bbb-'.

Peru's economic risk reflects its low per capita GDP (about \$6,000) and the banking industry's high exposure to cyclical sectors such as SMEs and microlending. We forecast GDP growth of about 2.5% in 2022, following a rebound of 13.3% in 2021 from a sharp decline due to the pandemic in 2020. Due to political instability, investors will likely remain more

cautious, resulting in meager GDP growth in the next two years. The industry's asset quality is likely to weaken in the second half of 2022 and start recovering in 2023.

The industry risk for banks operating in Peru reflects a solid regulatory framework, with ample supervisory coverage and periodic risk-based supervision. The central bank and Superintendencia de Banca y Seguros--which regulates banks and insurers--are very active. Moreover, Peru has implemented Basel III standards tailored for the domestic financial system. Despite Peruvian banks' strong profitability, it has weakened during the pandemic, but we expect a consistent recovery, as seen in 2021. We also believe the financial system has healthy capital metrics and a diversified funding mix with a significant share of deposits from loyal customers, as well as the government's ability to provide liquidity if necessary. The law on loan interest-rate caps didn't erode banks' profitability, but additional similar measures could weaken the system's competitive dynamics.

## **Business Position: A Volatile Business Base And Low Earnings Due To Its Nonprofit Nature**

COFIDE acts as a financial intermediary granting loans to SMEs through local financial institutions, and it has been the key government arm to manage and disburse sovereign-guaranteed loans to help the productive sector to continue operating amid the pandemic-induced economic downturn. In addition, COFIDE provides financing to infrastructure projects, although their share diminished in 2020-2022 to about 20% due to the infrastructure sector's slump and favorable lending dynamics following the government relief programs to support productive sectors. In addition, COFIDE continues managing several government funds (such as Reactiva Peru), for which it obtains regular fees.

As of June 2022, COFIDE's loan book grew roughly 13% annually, primarily due to robust lending to SMEs, but we expect credit growth to stabilize in 2023 as the government programs cease and because we don't expect large new financing directed to the infrastructure sector. Nevertheless, COFIDE's infrastructure disbursements should outpace financial intermediation in the long term, given Peru's considerable infrastructure needs and sizable loan amount needs in this industry. We expect COFIDE's net interest margins to remain pressured due to still low interest collection and increasing cost of funding amid higher interest rates. Therefore, we forecast return on average assets (ROAA) to be roughly 0.1% this year, but to edge up to 0.2%-0.3% in 2023-2024.

The higher credit exposure to, and concentration in, complex corporate and legal structures could rapidly impair financial and operating performance. Despite management's measures to address aggressive risk tolerances and poor internal controls with adjustments in committee and concentration policies and active management of troublesome credit exposures, we believe that the controlling ownership may still negatively influence strategic decisions made because of COFIDE's role to support infrastructure investments in the country. Funding to construct large assets might be under scrutiny from international sponsors that have relatively weaker balance sheets after the pandemic, which could disrupt the government's plan to attract private investors without increasing its stake in projects.

## Capital And Earnings: RAC To Average 6.2% In 2022-2024

COFIDE's RAC ratio increased to 6.8% in 2021 from 5.8% in 2020 following the sale of CAF shares to the MEF, which diminished COFIDE's market risk charges considerably. We estimate the entity will continue supporting asset growth through its capitalization, enabling the RAC ratio to remain at about 6% by 2024. On the other hand, we expect profitability to remain low given the bank's public policy role, but that the entity will continue capitalizing most of its profits. In addition, we believe that the government's willingness to provide capital in exchange for COFIDE's remaining shares in CAF, provides additional buffer against unexpected financial distress.

Our base-case scenario assumes the following factors:

- Peru's real GDP growing 2.5% in 2022 and 2.8% in 2023;
- COFIDE's annual credit growth of 10%-12% in 2022-2024;
- Return on equity in the range of 0.5%-2.0%; and
- Dividend payout of almost PEN2 million per year.

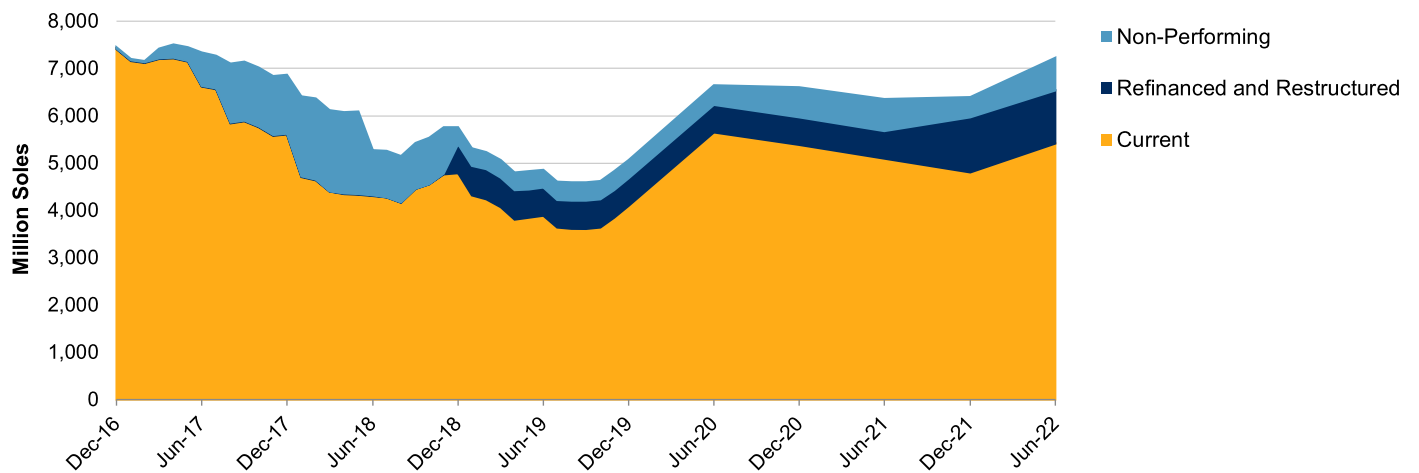
## Risk Position: Volatile Asset Quality Given The Bulk Of Lending To Infrastructure Projects

As of the first half of this year, COFIDE's NPL ratio was 9.7%, which is still mostly due to punctual problematic loans granted to finance infrastructure projects for about PEN600 million. COFIDE has been renegotiating the terms of the outstanding payments from such debtors, therefore, we expect the NPL ratio to range between 6% and 7% in 2023-2024, still above the industry average of 3.5%. COFIDE keeps healthy loan loss reserve coverages at above 2x the NPLs.

In our opinion, the uncertain recovery trajectory of Peru's infrastructure, energy, transportation, and construction sectors, amid political instability in the country, could make COFIDE's asset quality metrics volatile in the next few years. In line with one of its roles, promoting infrastructure in Peru, COFIDE usually finances more complex projects than banks are willing to do so, which may carry construction risk and greater cash flow sensitivity. On the other hand, loans granted to SMEs (including those under the government relief programs) continue performing relatively well, which partly offsets the higher credit risks in the infrastructure segment.

**Chart 1**

**Loan Portfolio Evolution**



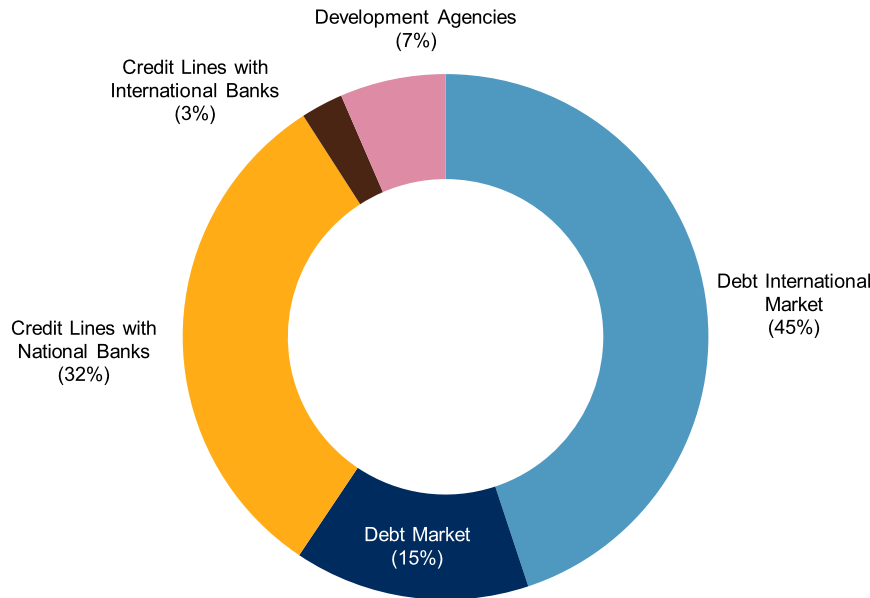
Source: SBS (Superintendencia de Banca, Seguros y AFP).  
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We view the bank's loan concentration as high--the 20 largest loans account for 38% of total loans and 1.3x of common equity as of June 2022, which could make the bank's capital base volatile. Nevertheless, these risks are mitigated by our expectation that the government would provide capital in exchange for the bank's remaining shares in CAF.

**Funding And Liquidity: No Large Liquidity Needs In The Next 12 Months And Wide Access To Capital Markets**

Our assessment of the bank's funding profile reflects its stable funding ratio (SFR) of roughly 110% during the past three years, similar to that of most Peruvian banks. Unlike commercial banks, COFIDE isn't allowed to receive deposits. However, its financial flexibility is adequate due to the government's ongoing support, allowing COFIDE to access long-term funding in local and international capital markets, as well as to credit lines from local and international banks, and development agencies. The entity has a low refinancing risk because of the small amount of debt coming due in the next 12 months--representing less than 5% of total funding.

**Chart 2**  
**Funding Breakdown**  
 As of June 2022



Source: S&P Global Ratings.  
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COFIDE continues to maintain a sufficient liquidity cushion to cope with unexpected cash outflows for the next 12 months. Its broad liquid assets cover 5.5x of its short-term wholesale funding as of June 2022. The debt maturity profile provides the bank sufficient time to manage its liquidity risk.

### Support: Three Notches Of Uplift For Government Support

Our assessment of the likelihood of extraordinary government support reflects COFIDE's increasing role in meeting the government's key economic and social objectives. The government's current priority is to boost economic growth and productivity by supporting corporate activity through the COVID-19 pandemic and developing infrastructure. Moreover, the government's explicit commitment to supporting the bank confirms our view of potential support. As we mentioned, the MEF acquired part of COFIDE's shares in CAF as part of the government's plan to buy up to 20% of the bank's shares in CAF in the next four years, if needed. Also, in November 2017, Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE) injected \$18 million into the bank, capitalized \$102 million of the bank's multilateral debt in January 2018, and injected \$51 million in May 2018. FONAFE approved the retention of the bank's net income for several years.



## Environmental, Social, And Governance

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	<b>S-1</b>	S-2	S-3	S-4	S-5	G-1	G-2	G-3	<b>G-4</b>	G-5
- N/A					- Social capital.					- Risk management, culture, and oversight.				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Social factors are a positive consideration in our credit rating analysis of COFIDE. The bank is a key social tool for the implementation of public policies and governmental programs and in providing medium- and long-term funding to activities outside the scope of private-sector banks, such as large infrastructure projects. Governance factors are a negative consideration in our rating analysis. We believe that the government influences the bank's strategic decisions because of COFIDE's role in promoting infrastructure investments in Peru amid increasing structural rigidities and scrutiny of private investments. Strengthening risk management and governance standards remain the major challenges to restrain asset quality from deteriorating and avoid capital injections, as seen in the past few years.

## Key Statistics

Table 1

Corporacion Financiera de Desarrollo S.A.--Key Figures					
--Year-ended Dec. 31--					
(Mil. PEN)	2022*	2021	2020	2019	2018
Adjusted assets	12,042.5	12,521.9	12,444.4	10,450.1	11,115.9
Customer loans (gross)	7,287.9	6,432.3	6,626.3	5,083.7	5,803.7
Adjusted common equity	2,150.1	2,202.9	1,941.4	1,939.9	1,922.8
Operating revenues	50.3	571.2	183.8	97.3	124.2
Noninterest expenses	32.9	69.8	62.3	65.9	68.6

\*Data as of June 30. PEN--Peruvian nuevo sol.

Table 2

Corporacion Financiera de Desarrollo S.A.--Business Position					
--Year-ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018
Return on average common equity	0.8	1.9	1.0	1.3	0.9

\*Data as of June 30.

**Table 3**

<b>Corporacion Financiera de Desarrollo S.A.--Capital And Earnings</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2022*</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	8.4	79.8	72.6	70.8	76.8
Fee income/operating revenues	88.3	19.8	26.7	28.4	23.2
Cost to income ratio	65.4	12.2	33.9	67.7	55.2
Preprovision operating income/average assets	0.3	4.0	1.1	0.3	0.5

\*Data as of June 30.

**Table 4**

<b>Corporacion Financiera de Desarrollo S.A.--Risk Position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2022*</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Growth in customer loans	26.6	(2.9)	30.3	(12.4)	(15.5)
Total managed assets/adjusted common equity (x)	5.6	5.7	6.4	5.4	5.8
New loan loss provisions/average customer loans	0.1	5.6	2.0	(0.1)	0.5
Net charge-offs/average customer loans	(1.1)	(0.6)	(0.8)	(0.8)	10.9
Gross nonperforming assets/customer loans + other real estate owned	9.7	6.6	9.6	7.7	6.3
Loan loss reserves/gross nonperforming assets	210.6	359.7	167.5	228.8	253.0

\*Data as of June 30.

**Table 5**

<b>Corporacion Financiera de Desarrollo S.A.--Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2022*</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Long-term funding ratio	96.3	90.0	88.4	84.2	75.8
Stable funding ratio	110.4	115.3	109.7	108.3	97.3
Short-term wholesale funding/funding base	4.6	12.5	14.2	19.9	29.6
Broad liquid assets/short-term wholesale funding (x)	5.5	3.1	2.4	1.7	1.1
Broad liquid assets/total assets	18.9	28.7	25.9	25.8	24.9
Short-term wholesale funding/total wholesale funding	4.6	12.5	14.2	19.9	29.6

\*Data as of June 30.

<b>Corporacion Financiera de Desarrollo S.A.--Rating Component Scores</b>	
Issuer Credit Rating	BBB-/Stable/A-3
SACP	bb-
Anchor	bbb-
Economic risk	6
Industry risk	3
Business position	Moderate
Capital and earnings	Moderate
Risk position	Moderate

**Corporacion Financiera de Desarrollo S.A.--Rating Component Scores (cont.)**

Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	3
ALAC support	0
GRE support	3
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

**Related Criteria**

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Related Research**

- Banking Industry Country Risk Assessment: Peru, Aug. 9, 2021

**Ratings Detail (As Of August 19, 2022)\***

**Corporacion Financiera de Desarrollo S.A.**

Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Subordinated	BB+

**Issuer Credit Ratings History**

21-Mar-2022	BBB-/Stable/A-3
15-Oct-2021	BBB/Negative/A-2
13-Aug-2019	BBB/Stable/A-2

## Ratings Detail (As Of August 19, 2022)\*(cont.)

**Sovereign Rating**

Peru

*Foreign Currency*

BBB/Stable/A-2

*Local Currency*

BBB+/Stable/A-2

**Related Entities****Fondo Mivivienda S.A.**

Issuer Credit Rating

BBB/Stable/--

Senior Unsecured

BBB

**Peru**

Issuer Credit Rating

*Foreign Currency*

BBB/Stable/A-2

*Local Currency*

BBB+/Stable/A-2

Certificate Of Deposit

*Local Currency*

A-2

Senior Unsecured

BBB

Senior Unsecured

BBB+

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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