

# RatingsDirect®

---

## Research Update:

# Corporacion Financiera de Desarrollo S.A. 'BBB+/A-2' Ratings Affirmed; Outlook Remains Stable

### Primary Credit Analyst:

Cynthia Cohen Freue, Buenos Aires 5411 48912161; [cynthia.cohenfreue@standardandpoors.com](mailto:cynthia.cohenfreue@standardandpoors.com)

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Corporacion Financiera de Desarrollo S.A. 'BBB+/A-2' Ratings Affirmed; Outlook Remains Stable

## Overview

- Peru-based development bank Corporacion Financiera de Desarrollo S.A. (COFIDE) has maintained its significant role in funding domestic infrastructure projects, its "very strong" link with the government, and its stand-alone credit profile (SACP) of bbb+.
- We are affirming our 'BBB+/A-2' issuer credit ratings on COFIDE.
- The stable outlook reflects our view that the ratings on COFIDE will likely move in tandem with those on the sovereign if the bank's SACP remains above 'bb+'.

## Rating Action

On June 5, 2015, Standard & Poor's Ratings Services affirmed its 'BBB+/A-2' rating on Corporacion Financiera de Desarrollo S.A. (COFIDE). The outlook is stable. COFIDE is the second-largest government-owned bank in Peru; it is a development bank mainly focused on infrastructure projects.

## Rationale

The ratings on COFIDE reflect its "adequate" business position, "adequate" capital and earnings, "strong" risk position, and "adequate" funding and liquidity, as defined by our criteria.

Peru's economic resilience reflects almost 15 years of solid economic growth and its sound and consistent economic policies. However, Peru's GDP per capita of approximately \$6,700 as of the end of 2013 is lower than those of Peru's BICRA peers. Low income, poor debt capacity, and high dollarization in the economy--especially in the banking system--increase credit risk in the economy. Despite steadily rising real estate prices, the risk of a housing bubble is low, in our view, and the country's current account and external debt positions are manageable. Although private-sector debt--measured as credit as a percentage of GDP--remains low, it has steadily increased to about 32% as of December 2013 from about 18% in 2006. Therefore, if the trend persists, the risks of economic imbalances could increase.

We believe Peru has a sound regulatory framework; its supervisory coverage is ample, the regulator is highly professional, and risk-based supervision occurs periodically. The financial system has generated strong profitability and

adequate capitalization in the past five years. In our view, there are no significant market distortions that could affect the financial system's competitive dynamics in the near term. We view the financial industry's funding base as healthy and well diversified across deposits, domestic market debt, and external debt (banks and market). Furthermore, banks have recently somewhat reduced their dependence on external funding.

We view the bank's business position as "adequate," reflecting its role in supporting Peru's crucial infrastructure needs. Its key role as the only development bank in Peru bolsters our view of its high stability. With total assets of about Peruvian soles (PEN) 9.7 billion as of March 31, 2015, COFIDE is the second-largest government-owned bank in Peru in terms of assets (with a 20.4% market share) and third largest in terms of loans (25.5% market share) among public banks. Within the financial system, it holds a market share of 2.7% in terms of assets and 2.2% in terms of loans.

COFIDE, as a second floor bank, provides financing through banks, municipal and rural financial institutions, credit unions, and entities specializing in financing small and midsize enterprises (SMEs). We believe COFIDE has adequate business stability because of its unique role in providing long-term financing to infrastructure projects crucial to country's economic development. It offers competitive and long-term financing to the SMEs in economic sectors that the government wants to promote. As of March 31, 2015, the bank's financing of infrastructure projects constituted about 78% of its lending exposures. We expect these figures to remain stable over the next five years. Because of its narrow range of products, COFIDE's business diversity is lower than that of commercial banks. COFIDE's management has a satisfactory track record of successfully implementing operational policies.

We view COFIDE's capital and earnings as "adequate," with a projected risk-adjusted capital (RAC) ratio before diversification of about 8% for the next 12-18 months. Its RAC ratio is weaker than its regulatory capital ratios mainly because of the bank's large equity exposure through its investments in Corporacion Andina de Fomento (CAF; AA-/Negative/A-1+). We view this exposure as having higher risk weights under our capital methodology, in comparison with the regulator's methodology. Our base-case scenario forecasts GDP growth of 3.5% in 2015 and 4.0% in 2016 and loan growth of about 20% for both years. We expect net interest margins to decrease because of higher funding costs and a dividend payout of 46% of net income. We also incorporated a capital injection from the government of \$168 million, which occurred in January 2015.

COFIDE's risk position is "strong," reflecting our view that our risk-adjusted capital (RAC) overestimates the bank's risks relative to its peers'. Although we believe that the bank's investments in CAF can't act as a buffer against unexpected losses, we believe the government will provide capital to COFIDE that will offset any such losses. Due to this we offset part of the negative effect these investments have on the bank's capital position through the risk position.

In December 2014, the bank's nonperforming loans (NPLs) sharply increased

because of a single exposure, Maple Etanol, that defaulted in December 2014. The exposure was later sold to a large group and COFIDE was able to recover part of the loan and suffered a loss for \$16 million. As of March 31, 2015, NPL levels decreased to 0.88% and are now lower than the industry average.

COFIDE is exposed to single-name concentration, given the size of the infrastructure projects it funds. The bank's top 10 clients represented 78.7% of its total gross loan portfolio as of March 31, 2015 because of its business as a second-floor bank. However, the ultimate loans are less concentrated. Loans for infrastructure projects are not guaranteed by the bank that transfers the funds, so the risk is associated with the project. However, the structure of these loans incorporates conservative overcollateralization, which COFIDE and the funding bank closely analyze to make sure all risks are covered. The bank has a higher share of loans denominated in foreign currency (65.9%) than the industry average (37.7%). However, infrastructure loans in foreign currency are only allocated to projects that generate revenues in foreign currency. In addition, the SME loans are typically very granular and short term and the financial institution that distributes them guarantees repayment, mitigating the risk of default.

COFIDE's funding and liquidity are "adequate." COFIDE, as a development bank, does not receive deposits, its financial flexibility benefits from the government's ongoing support. COFIDE's government-related entity (GRE) status gives it ample flexibility to refinance, as evidenced by strong demand for the bank's debt issuances. Although it receives higher-than-average external funding, we believe it has an adequate funding profile, given the long-term nature of the funding required for its loans. We expect the bank to continue matching tenors and currencies on its balance sheet to mitigate risk. As of March 31, 2015, its funding consisted mainly of debt issuances from international capital markets (52%), loans from international commercial banks (18%), Peruvian commercial banks (15%), local capital markets (10%), and multilateral organizations (5%). According to our methodology, the bank's stable funding ratio was 101% as of March 2015 and averaged 88.5% for the last three years.

We view COFIDE's liquidity as "adequate." As of March 31, 2015, its broad liquid assets covered 1.8x its short-term wholesale funding. Moreover, the fixed maturity terms of its funding support our assessment of its liquidity, coupled with the insusceptibility to acceleration. This provides the bank sufficient time to manage its liquidity risk. Moreover, we expect the government to provide support if necessary. Furthermore, COFIDE, has an investment of PEN2.3 billion in CAF, which we consider illiquid because this type of share is only government-owned. However, we expect the government of Peru to purchase these shares in case COFIDE requires support.

In our view, COFIDE is a GRE because the government of Peru owns 99% of the bank through "El Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado" (FONAFE; created in 1999 to oversee the government's corporate activities and equity stakes), with the remainder owned by CAF through preferred shares. We believe there is a "high" likelihood that the government

would provide timely and sufficient extraordinary support to COFIDE if it experiences financial distress. We base this view on COFIDE's "important" role in promoting and financing investments and public and private infrastructure throughout Peru. In addition, the bank has a "very strong" link with the government, evidenced by the several capital injections it has received.

## Outlook

### Upside scenario

The stable outlook reflects that on the sovereign, as the ratings on COFIDE are limited by the rating on the sovereign, the bank's owner through FONAFE. The ratings on COFIDE will likely move in tandem with those on the sovereign, given the high likelihood of government support, as long as the bank maintains its SACP above 'bb+'. COFIDE's current SAP is 'bbb+'.

### Downside scenario

We don't expect such deterioration in its capital or risk position sufficient to lower the SACP levels below 'bbb-'; a downgrade is therefore unlikely without a prior downgrade on the sovereign.

## Ratings Score Snapshot

Issuer Credit Rating	BBB+/Stable/A-2
SACP	bbb+
Anchor	bbb
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Strong 1
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Additional Factors	0

## Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions,

Nov. 9, 2011

- Bank Capital Methodology And Assumptions, Dec. 6, 2010

## Ratings List

Ratings Affirmed

Corporacion Financiera de Desarrollo S.A.

Counterparty Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Subordinated	BBB

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).