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Corporacion Financiera de Desarrollo S.A.

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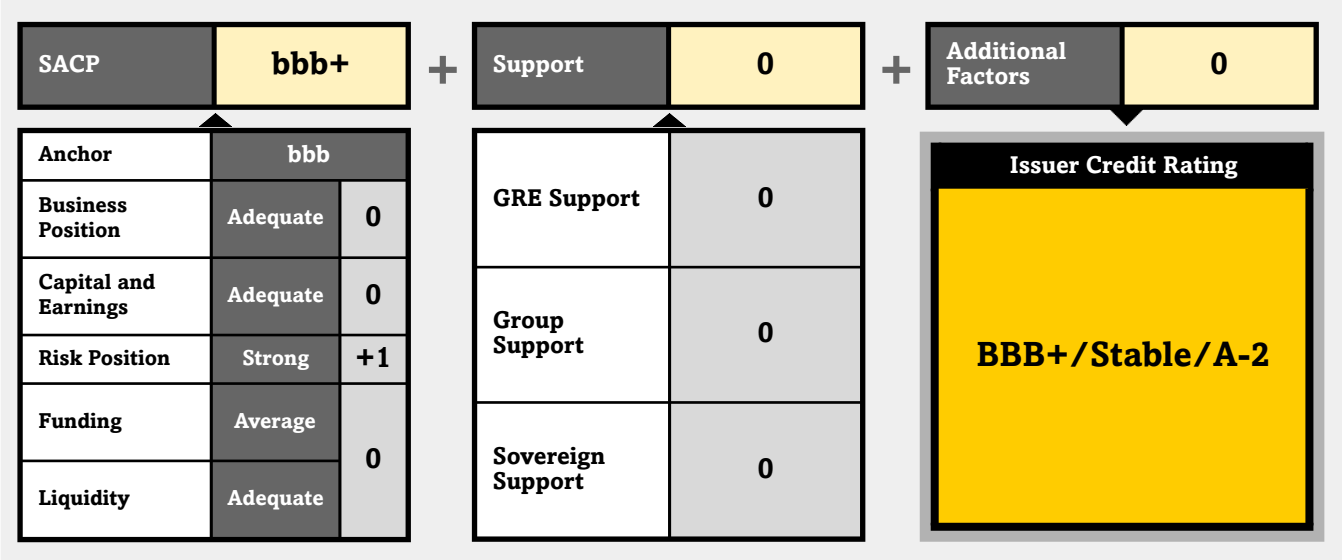
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Corporacion Financiera de Desarrollo S.A.



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • High likelihood of support from its majority shareholder, the Republic of Peru; • Operates in a banking system with a strong track record of adequate regulation and good economic growth prospects; and • Good business stability reinforced by its role in supporting Peru's crucial infrastructure needs. 	<ul style="list-style-type: none"> • Concentrated business profile; and • Higher-than-average external funding dependence, mitigated by the long-term nature of the funding.

Outlook: Stable

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.

Rationale

The ratings on Corporacion Financiera de Desarrollo S.A. reflect its "adequate" business position, "adequate" capital and earnings, "strong" risk position, and "adequate" funding and liquidity, as defined by our criteria.

Anchor: For a bank operating only in Peru is 'bbb'

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 commercial bank operating only in Peru is 'bbb'. 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 \$6,313 as of the end of 2014 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 34.5% as of December 2014 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.

Table 1

Corporacion Financiera de Desarrollo S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. PEN)	2015*	2014	2013	2012	2011
Adjusted assets	9,765.6	9,714.8	8,043.6	6,863.7	5,406.6
Customer loans (gross)	5,656.5	5,789.2	5,193.2	3,880.2	2,900.7
Adjusted common equity	2,685.0	2,254.4	2,180.2	2,226.5	2,167.6
Operating revenues	59.6	167.6	171.4	160.3	144.8
Noninterest expenses	18.9	72.2	64.8	64.1	56.8
Core earnings	23.5	77.1	76.4	74.1	72.1

*Data as of March 31.

PEN--PEN-Peruvian nuevo sol.

Business position: Second-largest public bank in Peru, main focus on infrastructure

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.

Table 2

Corporacion Financiera de Desarrollo S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Return on equity	3.8	3.5	3.5	3.4	3.3

*Data as of March 31.

Capital and earnings: Projected RAC ratio before diversification of about 8%

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.

Table 3

Corporacion Financiera de Desarrollo S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	77.4	106.3	91.5	89.7	98.1
Fee income/operating revenues	13.5	16.6	12.6	15.2	12.8
Noninterest expenses/operating revenues	31.7	43.1	37.8	40.0	39.2
Preprovision operating income/average assets	1.7	1.1	1.4	1.6	1.7
Core earnings/average managed assets	1.0	0.9	1.0	1.2	1.4

*Data as of March 31.

Risk position: Capital ratios overestimate the bank's risks due to CAF investments

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.

Table 4

Corporacion Financiera de Desarrollo S.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Growth in customer loans	(9.2)	11.5	33.8	33.8	11.5
Total managed assets/adjusted common equity (x)	3.6	4.3	3.7	3.1	2.5
New loan loss provisions/average customer loans	1.2	(0.2)	(0.0)	(0.6)	(0.9)
Net charge-offs/average customer loans	(0.6)	0.4	0.4	(0.6)	(0.3)
Gross nonperforming assets/customer loans + other real estate owned	0.9	2.5	0.0	0.1	0.5
Loan loss reserves/gross nonperforming assets	1,244.0	409.2	37,467.0	19,312.7	4,151.5

*Data as of March 31.

Funding and liquidity: Higher-than-average external funding dependence, mitigated by the long-term nature of the funding

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.

Table 5

Corporacion Financiera de Desarrollo S.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Core deposits/funding base	0.9	0.7	1.3	0.5	1.3
Customer loans (net)/customer deposits	8,880.4	10,923.2	6,399.2	16,693.9	6,266.7
Long term funding ratio	90.8	86.1	82.6	76.9	76.4
Stable funding ratio	100.9	98.4	85.8	81.3	75.7
Short-term wholesale funding/funding base	13.1	18.4	24.5	35.4	41.9
Broad liquid assets/short-term wholesale funding (x)	1.8	1.3	0.6	0.6	0.3
Net broad liquid assets/short-term customer deposits	1,533.0	980.6	(907.0)	(4,025.2)	(2,613.0)
Short-term wholesale funding/total wholesale funding	13.2	18.6	24.8	35.6	42.4

*Data as of March 31.

Support: "High" likelihood that the government would provide timely and sufficient extraordinary 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.

Related Criteria And Research

Related Criteria

- 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

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of June 18, 2015)

Corporacion Financiera de Desarrollo S.A.	
Counterparty Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Subordinated	BBB
Counterparty Credit Ratings History	
20-Aug-2013	BBB+/Stable/A-2
29-Aug-2012	BBB/Positive/A-2
11-Jul-2012	BBB/Stable/A-2
05-Sep-2011	BBB/Stable/A-3
23-Aug-2010	BBB-/Positive/A-3
Sovereign Rating	
Peru (Republic of)	
<i>Foreign Currency</i>	BBB+/Stable/A-2
<i>Local Currency</i>	A-/Stable/A-2
Related Entities	
Banco Agropecuario S.A	
Issuer Credit Rating	BBB-/Negative/--
Fondo Mivivienda S.A.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Peru (Republic of)	
Issuer Credit Rating	
<i>Foreign Currency</i>	BBB+/Stable/A-2
<i>Local Currency</i>	A-/Stable/A-2
Certificate Of Deposit	
<i>Local Currency</i>	A-2
Senior Unsecured	A-

Ratings Detail (As Of June 18, 2015) (cont.)

Senior Unsecured

BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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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