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Corporacion Financiera de Desarrollo S.A.

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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
BBB-/Stable/A-3

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 promoting economic development, along with the strong relationship with its shareholder, the Peruvian government.

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

Key risks

Credit concentration by customer and sector, which makes the 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 financing small and midsize 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 a result, our long-term rating on COFIDE is three notches above its stand-alone credit profile (SACP).

The entity's good capitalization supports its growth. We expect COFIDE to keep stable capitalization, with a risk-adjusted capital (RAC) ratio averaging 6.3% in 2023-2025 following moderate asset growth.

COFIDE's asset quality remains weaker than the banking industry average. Although the entity's nonperforming loans (NPLs) have been decreasing to about 6.0% in recent years from 9.6% in 2020, the NPL ratio remains above the 3.5% average of the banking system because of COFIDE's larger exposure to infrastructure projects, which generally have

higher credit risks. A few problematic infrastructure loans pushed the entity's NPLs up to 7.0% as of June 2023. However, we expect the ratio to fall to near 5.0% in the next few months because part of the overdue debt will normalize after the government assumes it.

The entity's funding structure is concentrated in debt issuances. However, good asset-liability mismatch management and access to long-term funding in both local and international markets, as well as ongoing government support through credit facilities from the public bank, mitigate concentration risks in the funding base.

Outlook

The stable outlook on COFIDE in the next 24 months reflects our expectation that its intrinsic creditworthiness will remain stable, with a RAC ratio above 5% in 2023-2025, even if credit risk charges increase following a potential downgrade of the sovereign and a weaker Banking Industry Country Risk Assessment (BICRA).

In addition, we expect the government to continue providing support to COFIDE given our view that it will remain an important financing tool for the government's plans to restart the domestic infrastructure sector, while it also continues to be a key lending intermediary to SMEs.

Downside scenario

We could lower the ratings on COFIDE following a two-notch downgrade of Peru, or if we were to revise downward COFIDE's SACP by two notches to 'b'. We could also downgrade COFIDE if we both downgrade Peru and revise down the entity's SACP by one notch. However, we think such scenarios are unlikely for the next two years.

Upside scenario

An upgrade of the entity is highly unlikely at this point, given the current challenging conditions for the Peruvian government that limit its capacity to provide support to this government entity.

Anchor: 'bbb-' For Banks Operating In Peru

Our bank criteria use our 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 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. Due to political instability in the country, we believe investors will likely remain more cautious, resulting in meager GDP growth in the next two years. In this context, moderate economic growth and higher inflation and interest rates will continue to drag down the industry's asset quality, although mitigated by higher provisions and conservative underwriting practices.

The industry risk for banks operating in Peru reflects a solid regulatory framework with ample supervisory coverage

and periodic risk-based supervision. Profitability is recovering after the hit from the pandemic, and we think the financial system has healthy capital metrics and a diversified funding mix, with a significant share of deposits from loyal customers. We also consider that the government has the ability to provide liquidity if necessary. The law on loan interest-rate caps and elimination charges for late payments didn't erode banks' profitability, but 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. It has been the key government arm to manage and disburse sovereign-guaranteed loans to help the productive sector to continue operating amid challenging conditions, like the pandemic-induced economic downturn. In addition, COFIDE provides financing to productive and infrastructure projects, although the share of COFIDE's loans in the infrastructure sector diminished in recent years to 15% of its loan portfolio in June 2023, due to the infrastructure sector's slump and favorable lending dynamics for SMEs following the government relief programs. In addition, COFIDE continues managing several government trusts (such as Reactiva Peru), for which it obtains regular fees.

So far in 2023, COFIDE's loan book has been decreasing slightly, in particular because of the maturity of a few large credits. We expect the loan portfolio growth to be flat as of the end of this year due to persistent low growth in infrastructure loans, which will be compensated by robust lending to SMEs. COFIDE's infrastructure disbursements should increase starting in late 2024, as long as the various projects in the pipeline make progress, given Peru's considerable infrastructure needs. We expect COFIDE's net interest margins to remain pressured due to still low interest revenue and increasing funding costs amid higher interest rates. Therefore, we forecast return on equity (ROE) to be roughly 1.8% in 2023-2024.

We think the entity's significant exposure to complex corporate and legal structures could rapidly impair its financial and operating performance. Despite management's measures to contain high risk tolerances and active management of some problematic credit exposures, we believe the entity will continue to have higher exposure to the infrastructure sector than the industry average due to its public role to support development in the country.

Capital And Earnings: RAC To Average 6.3% In 2023-2025

COFIDE's RAC ratio decreased slightly to 6.6% in 2022 from 6.8% in 2021 due to good lending growth last year. We believe the entity will continue supporting asset growth by retaining its earnings, allowing the RAC ratio to be about 6.2% by 2025.

We expect profitability to remain low given the bank's public policy role, but think that COFIDE will continue capitalizing most of its profits. In addition, we think that the government's willingness to provide capital in exchange for COFIDE's remaining shares in Corporacion Andina de Fomento (CAF) provides additional buffer against unexpected financial distress.

Our base-case scenario assumes the following factors:

- Peru's real GDP growing 1.8% in 2023 and 2.6%-2.8% in 2024-2025;
- COFIDE's annual credit growth to be flat in 2023, but rising gradually in 2024-2025;
- Return on equity of 1.5%-2.0%; and
- Dividend payout of almost PEN2 million per year.

Risk Position: Volatile Asset Quality As A Result Of High Exposure To Infrastructure Projects

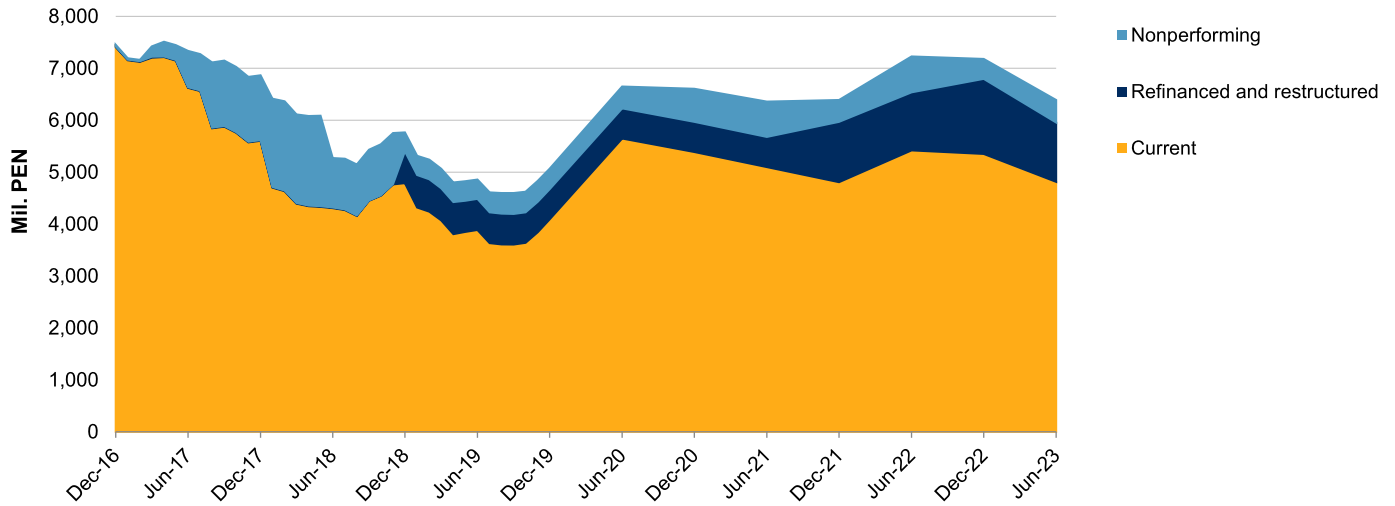
As of June 2023, COFIDE's NPL ratio is 7.0%, which is still mostly due to a few large problematic loans granted to finance infrastructure projects. However, during the next few months, the government will assume a significant part of the outstanding debt owed by one of the obligors. This will improve COFIDE's NPL ratio to about 5% and let the entity reverse some provisions.

COFIDE continues renegotiating the terms of the outstanding payments for the other overdue credits, but we don't expect these problematic loans to be resolved in the near term. COFIDE keeps healthy loan loss reserve coverages at above 3x.

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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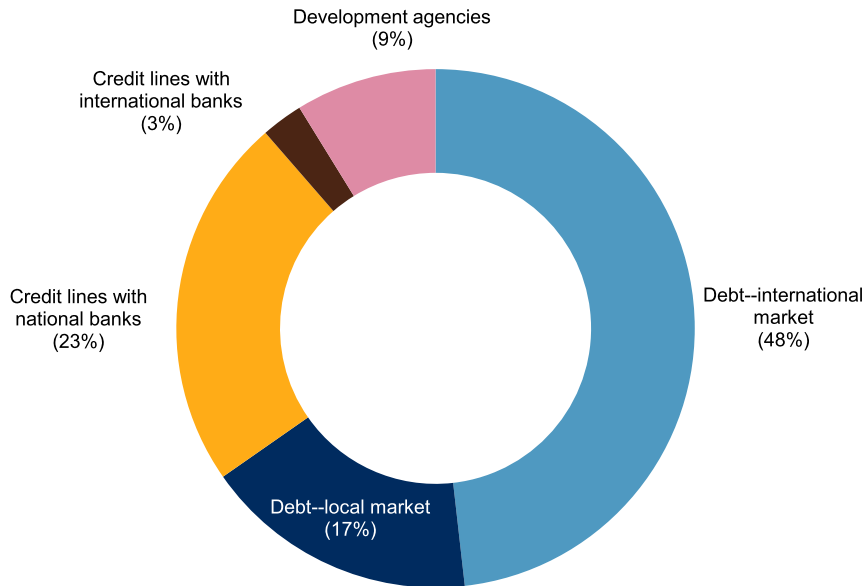
We view the bank's loan concentration as high--the 20 largest loans account for about one third of total loans and 1.2x of its common equity, which could make the bank's capital base volatile. Nevertheless, our expectation that the government would provide capital in exchange for the bank's remaining shares in CAF mitigates these risks.

Funding And Liquidity: Adequate Capacity To Meet Short Term Obligations And Wide Access To Capital Markets

Our assessment of the bank's funding profile reflects its stable funding ratio (SFR) of roughly 100% in the past few 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 credit lines from local and international banks and development agencies.

Chart 2

Funding breakdown
As of June 2023



Source: S&P Global Ratings.
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COFIDE continues to maintain a sufficient liquidity cushion to handle cash outflows for the next 12 months. Its broad liquid assets cover 1.4x of its short-term wholesale funding as of June 2023. 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 priority is to boost economic growth and productivity by supporting corporate activity and developing infrastructure. For example, in July 2023, the government announced the creation of the Autoridad Nacional de Infraestructura (Anin), an agency to improve public infrastructure and utility services. COFIDE will manage the agency's trust.

Moreover, the government has demonstrated an explicit commitment to support the bank, reinforcing our assessment of extraordinary support. For example, the government will assume part of the overdue debt under one of COFIDE's problematic loans. Also, in 2021, the Ministry of Economy and Finance 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 order to provide capital relief, if needed. In addition, the government has capitalized the bank several times in recent years.

Environmental, Social, And Governance

Social factors are a positive consideration in our credit rating analysis of COFIDE. The bank is a key social tool for implementing public policies and government programs and 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, given COFIDE's role in promoting infrastructure investments in Peru.

Key Statistics

Table 1

Corporacion Financiera de Desarrollo S.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. PEN)	2023*	2022	2021	2020	2019
Adjusted assets	10,991.7	11,846.0	12,521.9	12,444.4	10,450.1
Customer loans (gross)	6,375.7	7,191.6	6,432.3	6,626.3	5,083.7
Adjusted common equity	2,227.3	2,231.0	2,202.9	1,941.4	1,939.9
Operating revenues	111.9	125.8	577.8	183.8	97.3
Noninterest expenses	37.6	67.9	69.8	62.3	65.9

*Data as of June 30. PEN--Peruvian nuevo sol. N/A--Not applicable.

Table 2

Corporacion Financiera de Desarrollo S.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Return on average common equity	2.4	1.5	1.9	1.0	1.3

*Data as of June 30.

Table 3

Corporacion Financiera de Desarrollo S.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	25.9	21.2	78.9	72.6	70.8
Fee income/operating revenues	32.0	76.0	19.5	26.7	28.4
Cost to income ratio	33.6	54.0	12.1	33.9	67.7
Preprovision operating income/average assets	1.3	0.5	4.1	1.1	0.3

*Data as of June 30. N/A--Not applicable.

Table 4

Corporacion Financiera de Desarrollo S.A. Risk Position					
(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Growth in customer loans	(22.7)	11.8	(2.9)	30.3	(12.4)
Total managed assets/adjusted common equity (x)	4.9	5.3	5.7	6.4	5.4
New loan loss provisions/average customer loans	2.1	0.3	5.6	2.0	(0.1)
Net charge-offs/average customer loans	(1.1)	(0.5)	(0.6)	(0.8)	(0.8)
Gross nonperforming assets/customer loans + other real estate owned	7.0	5.6	6.6	9.6	7.7
Loan loss reserves/gross nonperforming assets	302.5	360.9	359.7	167.5	228.8

*Data as of June 30. N/A--Not applicable.

Table 5

Corporacion Financiera de Desarrollo S.A. Funding And Liquidity					
(%)	--Year-ended Dec. 31--				
	2023*	2022	2021	2020	2019
Long-term funding ratio	80.0	79.6	87.7	88.4	84.2
Stable funding ratio	105.2	91.4	112.4	109.7	108.3
Short-term wholesale funding/funding base	25.1	25.2	15.3	14.2	19.9
Broad liquid assets/short-term wholesale funding (x)	1.4	0.9	2.5	2.4	1.7
Broad liquid assets/total assets	27.6	17.3	28.7	25.9	25.8
Short-term wholesale funding/total wholesale funding	25.1	25.2	15.3	14.2	19.9

*Data as of June 30.

Corporacion Financiera de Desarrollo S.A.--Rating Component Scores

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
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 | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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

Ratings Detail (As Of August 28, 2023)*

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

Sovereign Rating

Peru	
<i>Foreign Currency</i>	BBB/Negative/A-2
<i>Local Currency</i>	BBB+/Negative/A-2

Related Entities

Peru

Issuer Credit Rating	
<i>Foreign Currency</i>	BBB/Negative/A-2
<i>Local Currency</i>	BBB+/Negative/A-2
Certificate Of Deposit	
<i>Local Currency</i>	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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