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## Corporacion Financiera de Desarrollo S.A.

**Primary Credit Analyst:**

Camilo Andres Perez, Mexico City + 52 55 5081 4446; camilo.perez@spglobal.com

**Secondary Contact:**

Ivana L Recalde, Buenos Aires + 54 11 4891 2127; ivana.recalde@spglobal.com

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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-		ALAC support	0	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center; vertical-align: middle;"><b>BBB-/Stable/A-3</b></td> </tr> </table>	Issuer credit rating		<b>BBB-/Stable/A-3</b>	
Issuer credit rating									
<b>BBB-/Stable/A-3</b>									
Business position	Moderate	-1	GRE support	+3					
Capital and earnings	Moderate	-1	Group support	0					
Risk position	Moderate	-1	Sovereign support	0					
Funding	Adequate	0							
Liquidity	Adequate								
CRA adjustment		0							

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

## Credit Highlights

### Overview

Key strengths	Key risks
Very high likelihood of government support in times of distress, given key role as government agent promoting economic development and strong relationship with government.	Concentrations by customer and sector, which makes the business, capital, and asset quality metrics volatile.
Access to long-term funding in both local and international markets, which mitigates funding concentration risks.	Still-high equity exposure in investment book impairs capitalization, according to our risk-based capital model.

**We expect COFIDE to continue benefiting from government support, given the entity's engagement in Peru's economic development.** Corporacion Financiera de Desarrollo S.A. (COFIDE) is the Peruvian government's arm in promoting economic development through financing small and midsize enterprises (SMEs), productive economic sectors, and large infrastructure projects. The entity has been a key actor in government relief programs during economic distress, and increasingly, it has administered government programs' trusts.

Moreover, as part of its strategy to become a modern development bank, COFIDE has actively supported the development of capital markets, for example through the issuance of sustainable bonds in recent years. As a result, we think there's a very high likelihood of extraordinary and timely government support for the entity in a scenario of financial distress. Therefore, our long-term rating on COFIDE is three notches above its stand-alone credit profile (SACP).

**The entrance of new shareholders will benefit COFIDE's intrinsic creditworthiness.** Some international entities, such as Corporacion Andina de Fomento (CAF), will soon become minority shareholders of COFIDE, with the government retaining the bulk of shares. We think the new minority owners' knowledge and experience will contribute to the entity's operational stability. At the same time, the new shareholder base will reinforce COFIDE's institutionality, which could strengthen its capacity to access debt capital markets under good conditions, among other benefits.

**COFIDE's asset quality remains pressured due to its lending focus on the infrastructure sector.** Its nonperforming loans (NPL) ratio remains above the 3.0%-4.0% average of the banking system because of its larger exposure to infrastructure projects, which generally have higher credit risk. A few problematic infrastructure loans have made the entity's NPL ratio highly volatile over time; it reached 7.9% as of June 2024, from 5.6% at the end of 2022. The recent rise also results from muted loan portfolio growth. We don't expect the ratio to recover in the near term, but it should move toward 5.0%-7.0% in 2025-2026, once large overdue loans normalize.

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

## Outlook

S&P Global Ratings' stable rating outlook on COFIDE in the next two years reflects that on Peru and our expectation that its intrinsic creditworthiness will remain stable, with a risk-adjusted capital (RAC) ratio above 5% in 2024-2025. In addition, we expect the government to continue providing support to COFIDE as an important financing tool in its plans to restart the domestic infrastructure sector. The entity also remains a key lending intermediary to SMEs.

### Downside scenario

We could downgrade COFIDE if we lowered our ratings on Peru. We rarely rate financial institutions higher than the sovereign where they operate because we consider it unlikely that these institutions would remain unaffected by developments in domestic economies. We could also lower the ratings on COFIDE if we were to revise down its SACP.

### Upside scenario

An upgrade of COFIDE is unlikely at this point, given the challenging conditions for the Peruvian government, which somewhat limit its capacity to support government entities. We could upgrade COFIDE if we were to take the same action on Peru and if we were to revise up COFIDE's SACP.

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

Our bank criteria use our Banking Industry Country Risk Assessment's 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 only

in Peru is 'bbb-'.

Banks in Peru benefit from a record of consistent economic policies, solid economic institutions, and a credible and effective central bank. These factors help moderate the effects of recent events (e.g., social disturbances and climate phenomena) and the prolonged political impasse limiting growth prospects in the country. Peru's economic risk also reflects its low per capita GDP (about \$6,000) and the banking industry's high exposure to cyclical sectors such as SMEs and microlending.

After somewhat recovering in 2022 from the COVID-19 pandemic, profitability and asset quality remain fairly weak. We think high loan loss provisions, good capitalization, and prudent underwriting practices help contain losses in the system.

Banks also benefit from the country's solid regulatory framework with ample supervisory coverage. The central bank and Superintendencia de Banca y Seguros--which regulates banks and insurers--are very active. In 2023, banks in Peru started implementing adjustments to align with Basel III principles.

Despite some pressure on results, the system maintains good profitability and capital-building capacity. We consider the financial system to have healthy capital metrics and a diversified funding mix, with a significant share of deposits from loyal customers. We also believe the government can provide liquidity if necessary. The law on loan interest rate caps and elimination charges for late payments didn't erode banks' profitability, but additional similar measures could weaken the system's competitive dynamics.

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

COFIDE acts as a financial intermediary, granting loans to SMEs through local financial institutions. It has been the key government arm in managing and disbursing sovereign-guaranteed loans to help productive sectors 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 has diminished in recent years. COFIDE also continues managing several government trusts, for which it obtains regular fees.

Since 2023, COFIDE's loan book has not grown, given low dynamics in infrastructure lending and tough economic conditions that dent demand for microcredits and loans to SMEs in Peru; consequently, we expect loan portfolio growth to be flat this year. However, infrastructure disbursements should start increasing in 2025 or 2026 as long as the various planned projects, including motorways, airports, seaports, and energy generation, make progress. The recovery of lending to SMEs and microcredits amid better economic conditions should also support COFIDE's credit growth in 2025 and 2026.

The entity maintains higher exposure to the infrastructure sector than the industry average due to its public role in supporting the country's development. However, its exposure to complex corporate and legal structures has been decreasing recently, and it has maintained active management of complex credit exposures.

## Capital And Earnings: RAC To Average 6.5% In 2024-2026

COFIDE's RAC ratio increased to 6.9% in 2023 from 6.6% in 2022 due to muted lending growth last year. We think the entity will continue supporting asset growth by retaining its earnings, allowing the RAC ratio to fall slightly to about 6.2% by 2026.

We expect profitability to remain low, given the bank's public policy role, but COFIDE will likely continue capitalizing most of its profits. In addition, we think the government's willingness to provide capital in exchange for COFIDE's remaining shares in CAF provides an additional buffer against unexpected financial distress. COFIDE is looking forward to increasing its capital through the entrance of new important shareholders (multilateral organizations like CAF).

Our base-case scenario assumes the following factors:

- Peruvian real GDP growth of roughly 3.0% in 2024 and 2025;
- Flat annual credit growth for COFIDE in 2024, followed by a gradual rise in 2025-2026;
- Return on equity of 1.0%-2.0%; and
- Dividend payout of almost Peruvian nuevo sol 2 million per year.

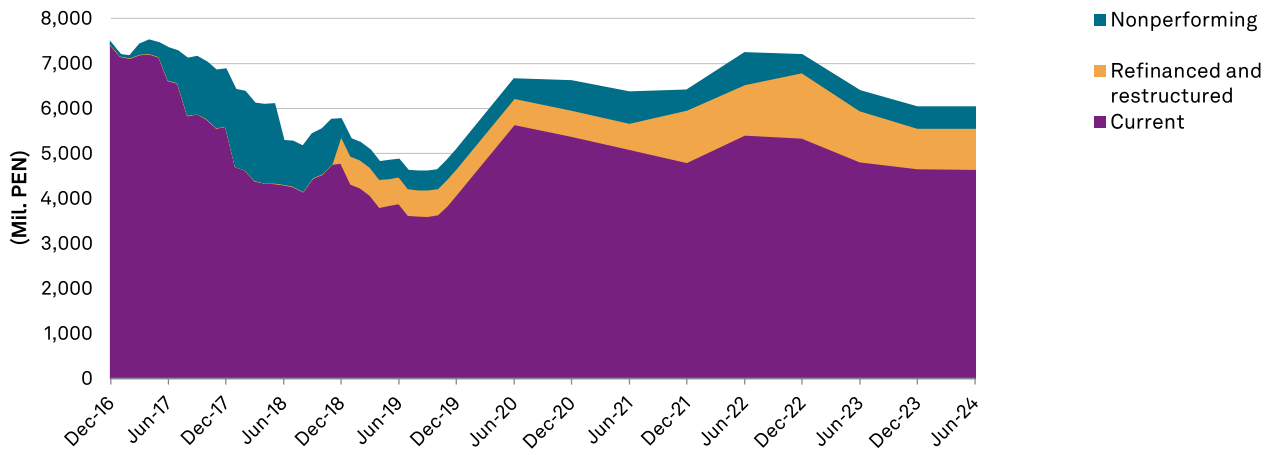
## Risk Position: Volatile Asset Quality As A Result Of High Exposure To Infrastructure Projects

COFIDE's NPL ratio remains volatile, reaching 7.9% as of June 2024, because of a few large problematic loans granted to finance infrastructure projects and stagnant loan portfolio growth. COFIDE continues renegotiating the terms of the outstanding payments for the overdue credits, but we don't expect these complex loans to be resolved in the near term. We expect the NPL ratio to trend to 5.0%-7.0% by 2026. The entity keeps healthy loan loss reserve coverage at about 3x.

In our opinion, the uncertain recovery trajectory of Peru's infrastructure, energy, transportation, and construction sectors--amid political instability in the country--could keep COFIDE's asset quality metrics volatile in the next few years. In line with its role of promoting infrastructure in Peru, COFIDE usually finances more complex projects than banks are willing to, and these may carry construction risk and greater cash flow sensitivity. On the other hand, loans granted to SMEs continue performing relatively well, which partly offsets the higher credit risk in the infrastructure segment.

**Chart 1**

**Loan portfolio evolution**



PEN--Peruvian nuevo sol. 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 amount to 1.2x 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.

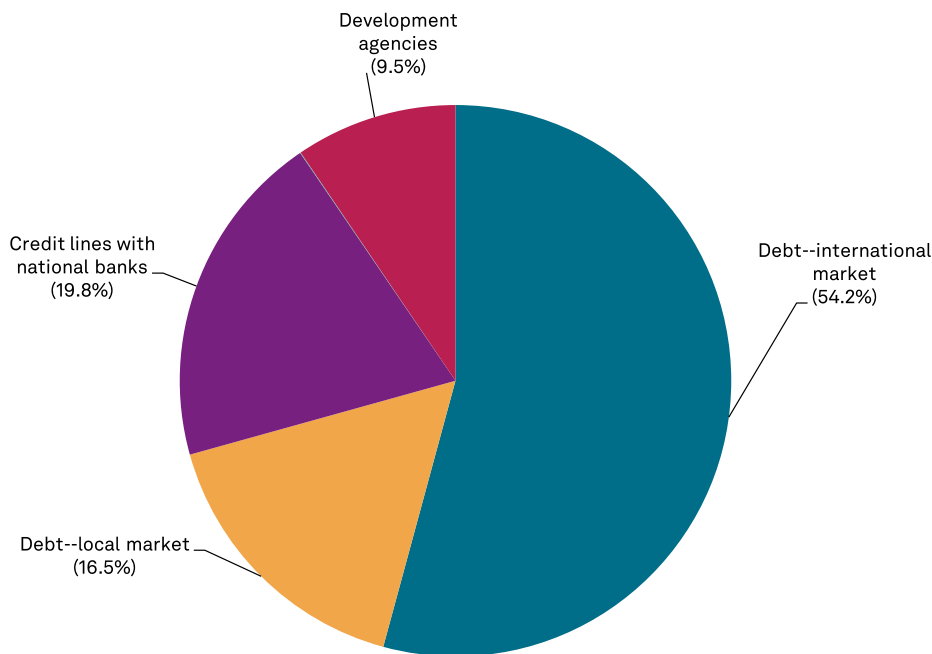
**Funding And Liquidity: Capacity To Meet Short-Term Obligations And Wide Access To Capital Markets**

Our view of the bank's funding reflects its stable funding ratio 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, it has good financial flexibility due to the government's ongoing support, allowing it 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**

**COFIDE funding breakdown**

As of June 2024



Source: S&P Global Ratings.

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COFIDE maintains a sufficient liquidity cushion to handle cash outflow for the next 12 months. Its broad liquid assets covered 1.5x of its short-term wholesale funding as of June 2024. The debt maturity schedule provides sufficient time to manage liquidity risks.

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

Our view of the likelihood of extraordinary government support incorporates 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 2023, the government announced the creation of the Autoridad Nacional de Infraestructura, 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. For example, the government assumed 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 to provide capital relief, if needed. In addition, the government has capitalized the bank



several times in past 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 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)	2024*	2023	2022	2021	2020
Adjusted assets	11,064.6	10,815.8	11,846.0	12,521.9	12,444.4
Customer loans (gross)	5,973.1	6,013.2	7,191.6	6,432.3	6,626.3
Adjusted common equity	2,248.6	2,271.5	2,231.0	2,202.9	1,941.4
Operating revenues	107.4	194.7	125.8	577.8	183.8
Noninterest expenses	41.7	78.4	67.9	69.8	62.3

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

**Table 2**

Corporacion Financiera de Desarrollo S.A.--Business position					
--Year ended Dec. 31--					
(%)	2024*	2023	2022	2021	2020
Return on average common equity	3.7	3.3	1.5	1.9	1.0

\*Data as of June 30.

**Table 3**

Corporacion Financiera de Desarrollo S.A.--Capital and earnings					
--Year ended Dec. 31--					
(%)	2024*	2023	2022	2021	2020
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	40.5	36.8	21.2	78.9	72.6
Fee income/operating revenues	26.9	34.5	76.0	19.5	26.7
Cost to income ratio	38.8	40.3	54.0	12.1	33.9
Provision operating income/average assets	1.2	1.0	0.5	4.1	1.1

\*Data as of June 30.

**Table 4**

<b>Corporacion Financiera de Desarrollo S.A.--Risk position</b>					
<b>(%)</b>	<b>--Year ended Dec. 31--</b>				
	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Growth in customer loans	(1.3)	(16.4)	11.8	(2.9)	30.3
Total managed assets/adjusted common equity (x)	4.9	4.8	5.3	5.7	6.4
New loan loss provisions/average customer loans	0.6	0.9	0.3	5.6	2.0
Net charge-offs/average customer loans	(1.5)	(1.4)	(0.5)	(0.6)	(0.8)
Gross nonperforming assets/customer loans + other real estate owned	7.9	8.0	5.6	6.6	9.6
Loan loss reserves/gross nonperforming assets	291.3	278.5	360.9	359.7	167.5

\*Data as of June 30.

**Table 5**

<b>Corporacion Financiera de Desarrollo S.A.--Funding and liquidity</b>					
<b>(%)</b>	<b>--Year ended Dec. 31--</b>				
	<b>2024*</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Long-term funding ratio	87.2	85.3	79.6	87.7	88.4
Stable funding ratio	105.3	97.7	91.4	112.4	109.7
Short-term wholesale funding/funding base	16.0	18.7	25.2	15.3	14.2
Broad liquid assets/short-term wholesale funding (x)	1.5	1.2	0.9	2.5	2.4
Broad liquid assets/total assets	18.5	16.4	17.3	28.7	25.9
Short-term wholesale funding/total wholesale funding	16.0	18.7	25.2	15.3	14.2

\*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: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- 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 26, 2024)\*

#### Corporacion Financiera de Desarrollo S.A.

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

#### 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-/Stable/A-3
<i>Local Currency</i>	BBB/Stable/A-2

#### Related Entities

##### Peru

Issuer Credit Rating	
<i>Foreign Currency</i>	BBB-/Stable/A-3
<i>Local Currency</i>	BBB/Stable/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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