

15 SEP 2021

Fitch Affirms COFIDE's IDR at 'BBB+'; Outlook Negative

Fitch Ratings - São Paulo - 15 Sep 2021: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Rating (IDR) of Corporacion Financiera de Desarrollo S.A. (COFIDE) at 'BBB+'. The Rating Outlook Is Negative. A full list of rating actions follows at the end of this release.

The affirmation of COFIDE's IDRs reflects Fitch's unchanged view of potential support, if needed, from the government of Peru. The Negative Outlooks on COFIDE's IDRs mirror the respective Negative Outlooks on the respective Peruvian Sovereign IDRs.

Key Rating Drivers

IDRs AND SENIOR DEBT

COFIDE's IDRs and senior debt ratings reflect Fitch's expectation that the entity would receive support from the Peruvian government if needed. Although there is no explicit guarantee, Fitch's opinion considers that COFIDE plays a critical role in implementing development policy, is majority state owned, and has operational and financial synergies with the public administration. Peru's ability to offer support is reflected in its sovereign rating (BBB+/Negative).

COFIDE is a key element in fulfilling some of the Peruvian government's major goals for infrastructure, economic and social development. The entity has a significant role in the execution of policies by serving sectors with limited access to funding or lending resources to projects underserved by commercial banks. COFIDE has been acting as the manager of key funds the Peruvian government created to support the economy and the small and medium-sized enterprises after the COVID-19 outbreak such as Reactiva and FAE, further supporting Fitch's opinion on the entity's relevant policy role.

Although COFIDE's ratings are based purely on Fitch assessment of expected government support, the financial profile is relevant to the agency's appreciation about the policy role of the entity for the government. COFIDE's development focus is reflected in its narrow interest margins with respect to average earning assets which together with pressures on asset quality that have driven increased impairment charges has resulted in a modest financial performance. Profitability ratios remain below those of commercial banks. COFIDE's financial performance faced additional pressures due to the economic effects from the coronavirus pandemic. Its modest profitability (operating profit to RWAs of 0.07% as of December 2020) slightly improved by June 2021 thanks to the sale of a portion of CAF shares from its investment portfolio to its parent in order to increase loan reserves. Fitch expects profitability ratios to gradually improve during 2022, if reserve requirements reduce and loan growth

improves.

Asset quality metrics have deteriorated consistently since 2019 and were further stressed due to operating environment challenges (10.6% of impaired loans to gross loans as of June, 2021). However, the latter could be partially offset by the good loss absorption capacity of the entity through capital and loan loss reserves (FCC of 21.65% and LLR of 220.20% as of June 2020). The agency expects asset quality ratios to stabilize for the remaining 2021.

Fitch affirmed the senior debt issuances at the same level as COFIDE's Long-Term IDRs as the notes' likelihood of default is the same as the COFIDE's.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch affirmed COFIDE's Support Rating (SR) and Support Rating Floor (SRF) at '2' and 'BBB+', respectively, given the entity's important policy role in Peru. Fitch's SRF indicate a level below which the agency will not lower the bank's Long-Term IDRs, as long as the assessment of the support factors does not change.

SUBORDINATED DEBT

COFIDE's subordinated bonds are plain vanilla, and, in Fitch's opinion, their probability of non-performance is equivalent to that of COFIDE's senior bonds, but they would incur a higher loss in case of default due to their subordinated nature. Considering the subordinated debt's features, Fitch does not believe there is a meaningful source of loss severity mitigation for these securities upon default, and so they are rated two notches below the bank's IDR.

RATING SENSITIVITIES

IDRS AND SENIOR DEBT

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--COFIDE's ratings will mirror any potential negative change in Peru's sovereign ratings, which currently have a Negative Outlook;

--Although not a baseline scenario, the ratings could change if Fitch perceives a decrease in the bank's strategic importance to the government's public policies.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--The ratings currently have Negative Outlooks, which makes an upgrade highly unlikely in the near future as the IDRs are constrained by the sovereign rating;

--Positive Rating actions on COFIDE will mirror any potential positive change in Peru's sovereign rating, which currently has a Negative Outlook.

SUPPORT RATING AND SUPPORT RATING FLOOR

Potential changes in COFIDE's SR and SRF would be driven by a change in Peru's sovereign rating and/or a change in the expected propensity of support from the Peruvian government.

SUBORDINATED DEBT

The subordinated notes' ratings are sensitive to any changes in COFIDE's IDRs.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Corporacion Financiera de Desarrollo S.A. ratings are support driven from the Peruvian Sovereign Rating.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Corporacion Financiera de Desarrollo S.A. (COFIDE)	LT IDR	BBB+	Affirmed	BBB+
	ST IDR	F1	Affirmed	F1
	LC LT IDR	BBB+	Affirmed	BBB+
	LC ST IDR	F1	Affirmed	F1
	Support	2	Affirmed	2
	Support Floor	BBB+	Affirmed	BBB+
	• senior unsecured ^{LT}	BBB+	Affirmed	BBB+
	• subordinated	BBB-	Affirmed	BBB-

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Corporacion Financiera de Desarrollo S.A. (COFIDE) EU Endorsed, UK Endorsed

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