

Corporacion Financiera de Desarrollo S.A. (COFIDE)

Key Rating Drivers

Support-Driven Ratings: Corporacion Financiera de Desarrollo S.A.'s (COFIDE) IDRs and senior debt ratings reflect Fitch Ratings' expectation that the entity would receive support from the Peruvian government if needed. Although there is no explicit guarantee, Fitch's opinion takes into account 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+/Stable).

High Strategic Importance: COFIDE is a key vehicle 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. During 2020, COFIDE has been acting as the manager of key funds created by the Peruvian government to support the economy and small and medium-sized enterprises after the COVID-19 outbreak, further supporting our opinion on its relevant policy role.

External Credit Factors Affect Performance: Although COFIDE's ratings are based solely on Fitch's assessment of expected government support, the financial profile is relevant to our appreciation of the support propensity. In Fitch's view, COFIDE could experience pressure on financial performance due to the economic effects of the pandemic.

Modest Profitability: COFIDE's development focus is reflected in its narrow interest margins. The entity's already modest profitability and relatively pressured asset quality metrics could deteriorate due to operating environment challenges and exacerbated risks from the high concentrations per debtor. However, the latter could be partially offset by COFIDE's good loss absorption capacity through capital (FCC: 18.19% as of June 2020). Corporacion Andina de Fomento (CAF) portfolio shares are planned to be purchased by the government in 2021, which could result in capital and reserves improvement.

Debt Ratings: 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, thus, they are rated two notches below the bank's IDR. COFIDE recently finalized a liability management process acquiring notes maturing in 2022 and 2025 in exchange for USD500 million seven-year notes, which is expected to lower financial costs.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- COFIDE's ratings will mirror any potential positive change in Peru's sovereign ratings, which currently have a Stable Rating Outlook.

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 Stable Rating 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.

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F1

Local Currency

Long-Term IDR	BBB+
Short-Term IDR	F1
Support Rating	2
Support Rating Floor	BBB+

Sovereign Risk

Long-Term	
Foreign-Currency IDR	BBB+
Long-Term Local-Currency IDR	BBB+
Country Ceiling	A-

Outlooks

Long-Term	
Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term	
Foreign-Currency IDR	Stable
Sovereign Long-Term	
Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Downgrades Peru's L-T Local Currency IDR to 'BBB+'; Affirms L-T Foreign Currency IDR at 'BBB+' \(June 2020\)](#)

Financial Data

Corporacion Financiera de Desarrollo S.A. (COFIDE)

(PEN Mil.)	6/30/20	12/31/19
Total Assets (USD Mil.)	3,498.5	3,155.6
Total Assets	12,363.6	10,451.4
Total Equity	2,034.3	2,047.5

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Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	BBB+
Short-Term Foreign-Currency IDR	F1
Long-Term Local-Currency IDR	BBB+
Short-Term Local-Currency IDR	F1
Support Rating	2
Support Rating Floor	BBB+
Outlook/Watch	Stable

Source: Fitch Ratings.

Debt Rating Classes

Rating Level	Rating
Senior Debt	BBB+
Subordinated Debt	BBB-

Source: Fitch Ratings.

Sovereign Support Assessment

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 SRFs indicate a level below which the agency will not lower the bank's Long-Term IDRs, as long as assessment of the support factors does not change.

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.

Summary Financials and Key Ratios

	Six Mos. – Interim 6/30/20		2019	2018	2017	2016
(Years Ended Dec. 31)	USD Mil. Unaudited	PEN Mil. Unaudited	PEN Mil. Unaudited	PEN Mil. Audited – Report Not Seen	PEN Mil. Audited – Unqualified (Emphasis of Matter)	PEN Mil. Audited – Unqualified
Summary Income Statement						
Net Interest and Dividend Income	2.0	7.1	39.8	56.9	84.0	176.1
Net Fees and Commissions	4.0	14.9	27.6	28.8	29.9	39.2
Other Operating Income	2.0	8.0	30.0	38.6	26.5	12.3
Total Operating Income	8.0	30.0	97.4	124.3	140.4	227.6
Operating Costs	9.0	30.5	71.7	71.0	77.0	81.6
Pre-Impairment Operating Profit	0.0	(0.5)	25.7	53.3	63.4	146.0
Loan and Other Impairment Charges	0.0	(0.7)	(8.7)	32.0	57.4	(17.3)
Operating Profit	0.0	0.2	34.4	21.3	6.0	163.3
Other Non-Operating Items (Net)	0.0	0.7	(1.1)	3.9	10.1	(10.1)
Tax	(1.0)	(1.9)	6.9	8.2	11.6	75.2
Net Income	1.0	2.8	26.4	17.0	4.5	78.0
Other Comprehensive Income	(5.0)	(16.0)	85.1	(70.4)	10.4	64.3
Fitch Comprehensive Income	(4.0)	(13.2)	111.5	(53.4)	14.9	142.3
Summary Balance Sheet						
Assets						
Gross Loans	1,889.0	6,675.1	5,083.6	5,803.7	6,867.6	7,841.4
- of which Impaired	118.0	418.6	393.8	364.9	1,250.8	27.0
Loan Loss Allowances	262.0	925.3	901.4	923.3	1,140.2	610.1
Net Loan	1,627.0	5,749.8	4,182.2	4,880.4	5,727.4	7,231.3
Interbank	0.0	0.0	0.0	0.0	N.A.	N.A.
Derivatives	4.0	13.3	N.A.	3.7	3.4	1.3
Other Securities and Earning Assets	1,404.0	4,961.8	4,751.4	4,467.8	4,166.9	4,354.7
Total Earning Assets	3,035.0	10,724.9	8,933.6	9,351.9	9,897.7	11,587.3
Cash and Due from Banks	447.0	1,580.1	1,476.4	1,712.5	1,971.6	1,783.2
Other Assets	17.0	58.6	41.4	52.8	103.9	66.6
Total Assets	3,498.0	12,363.6	10,451.4	11,117.2	11,973.2	13,437.1
Liabilities						
Customer Deposits	5.0	17.7	13.0	13.6	12.9	8.7
Interbank and Other Short-Term Funding	120.0	422.8	206.2	698.1	1,117.6	1,581.5
Other Long-Term Funding	2,570.0	9,082.5	7,725.5	8,084.3	7,940.4	8,194.4
Trading Liabilities and Derivatives	1.0	2.1	2.0	8.0	92.7	112.3
Total Funding	2,695.0	9,525.1	7,946.7	8,804.0	9,163.6	9,896.9
Other Liabilities	228.0	804.2	457.2	367.8	806.1	727.6
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	576.0	2,034.3	2,047.5	1,945.4	2,003.5	2,812.6
Total Liabilities and Equity	3,498.0	12,363.6	10,451.4	11,117.2	11,973.2	13,437.1
Exchange Rate	USD1 = PEN3.534	USD1 = PEN3.534	USD1 = PEN3.312	USD1 = PEN3.373	USD1 = PEN3.24	USD1 = PEN3.356

N.A. – Not applicable.

Source: Fitch Ratings, Fitch Solutions.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	6/30/20	2019	2018	2017	2016
Ratios (Annualized as Appropriate)					
Profitability					
Operating Profit/Risk Weighted Assets	0.0	0.3	0.2	0.1	1.3
Net Interest Income/Average Earning Assets	0.2	0.4	0.5	0.7	1.6
Non-Interest Expense/Gross Revenue	101.7	73.6	57.1	54.8	35.9
Net Income/Average Equity	0.3	1.3	0.8	0.2	2.8
Asset Quality					
Impaired Loans Ratio	6.3	7.8	6.3	18.2	0.3
Growth in Gross Loans	31.3	(12.4)	(15.5)	(12.4)	(1.4)
Loan Loss Allowances/Impaired Loans	221.1	228.9	253.0	91.2	2,259.6
Loan Impairment Charges/Average Gross Loans	(0.1)	(0.2)	0.4	0.8	(0.3)
Capitalization					
Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	18.2	19.9	18.4	17.2	22.9
Tangible Common Equity/Tangible Assets	16.5	19.6	17.5	16.7	20.9
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	N.A.	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Fitch Core Capital	(24.9)	(24.8)	(28.7)	5.5	(20.8)
Funding and Liquidity					
Loans/Customer Deposits	37,712.4	39,104.6	42,674.3	53,237.2	90,131.0
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	0.2	0.2	0.2	0.1	0.1
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions.

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