

# Corporacion Financiera de Desarrollo S.A. (COFIDE)

Update

## Key Rating Drivers

**Support-Driven Ratings:** COFIDE's Issuer Default Rating (IDR) 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 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/Stable).

**High Strategic Importance:** 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 by 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 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.

**External Credit Factors Affect Performance:** Although COFIDE's ratings are based purely on Fitch's 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.

**Modest Profitability:** 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, have 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 decrease and loan growth improves.

**Asset Quality Deterioration:** 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 2021). The agency expects asset quality ratios to stabilize for the remainder of 2021.

**Debt Ratings:** COFIDE's senior unsecured debt rating was also downgraded to 'BBB' from 'BBB+', as the likelihood of default for the debt issuance is the same as the likelihood of a default for the bank. COFIDE's subordinated bonds were downgraded to 'BB+' from 'BBB-'. These bonds are plain vanilla and in Fitch's opinion, their probability of nonperformance 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.

**Support Rating and Support Rating Floor:** The SR was affirmed at '2' and SRF revised to 'BBB' from 'BBB+' for COFIDE due to the sovereign's reduced ability to provide support after the recent downgrade.

## Ratings

### Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

### Local Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Support Rating	2
Support Rating Floor	BBB

### Sovereign Risk

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

### 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 Takes Actions on Peruvian FIs Following Sovereign Downgrade \(October, 2021\)](#)

## Financial Data

### Corporacion Financiera de Desarrollo S.A. (COFIDE)

	30 Jun 2021	31 Dec 2020
Total Assets (USDm)	3,255.0	3,438.2
Total Assets (PENm)	12,528.5	12,446.3
Total Equity (PENm)	2,249.6	2,078.4

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## Rating Sensitivities

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

- An upgrade is 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.

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

### Support Rating and Support Rating Floor

Potential changes in COFIDE's Support Rating and Support Rating Floor 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.

### Senior Debt and Subordinated Debt

The Senior and Subordinated notes' ratings are sensitive to any changes in COFIDE's IDRs.

**Issuer Ratings (Including Main Issuing Entities)**

Rating Level	Rating
Long-Term Foreign-Currency IDR	BBB
Short-Term Foreign-Currency IDR	F2
Long-Term Local-Currency IDR	BBB
Short-Term Local-Currency IDR	F2
Support Rating	2
Support Rating Floor	BBB
Outlook/Watch	Stable

Source: Fitch Ratings

**Debt Rating Classes**

Rating Level	Rating
Senior unsecured: Long-Term	BBB
Subordinated: Long-Term	BB+

Source: Fitch Ratings

**Significant Changes**

Fitch Ratings has taken selected actions on Peruvian Financial Institutions (FI) following Peru's sovereign downgrade to 'BBB' from 'BBB+'; Rating Outlook Revised to Stable. The review also follows Fitch's adjustment of its operating environment (OE) assessment for Peruvian FIs to 'bbb-/Stable' from 'bbb-/Negative'. For additional details on the sovereign rating action see "Fitch Downgrades Peru to 'BBB' from 'BBB+'; Outlook Revised to Stable" at [www.fitchratings.com](http://www.fitchratings.com).

The downgrade on COFIDE's IDRs mirrors the respective downgrade on the Peruvian Sovereign IDRs, since these are support driven by the government. The Outlooks were revised to Stable, in line to that of Peru. COFIDE's Long- and Short-Term IDRs are fully aligned with the sovereign, reflecting Fitch's assessment of the government's willingness and capacity to provide timely support if needed. Fitch views this entity as an integral arm of the state given its importance to the implementation of the government's National Development Plan and the majority ownership by the state. Peru's ability to support these entities is reflected in its sovereign rating (BBB/Stable).

## Summary Financials and Key Ratios

	30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	
	6 Months - Interim	6 Months - Interim	Year End	Year End	Year End	
	USDm	PENm	PENm	PENm	PENm	
	Unaudited	Unaudited	Audited - Unqualified	Unaudited	Audited - Report Not Seen	Audited - Unqualified (Emphasis of Matter)
<b>Summary Income Statement</b>						
Net Interest and Dividend Income	2	6.3	127.1	39.8	56.9	84.0
Net Fees and Commissions	10	39.2	49.0	27.6	28.8	29.9
Other Operating Income	110	423.0	7.7	30.0	38.6	26.5
Total Operating Income	122	468.5	183.8	97.4	124.3	140.4
Operating Costs	9	34.4	69.3	72.1	71.0	77.0
Pre-Impairment Operating Profit	113	434.1	114.5	25.3	53.3	63.4
Loan and Other Impairment Charges	100	384.4	107.6	-9.1	32.0	57.4
Operating Profit	13	49.7	6.9	34.4	21.3	6.0
Other Non-Operating Items (Net)	1	4.5	1.3	-1.1	3.9	10.1
Tax	8	30.9	-12.3	6.9	8.2	11.6
Net Income	6	23.3	20.5	26.4	17.0	4.5
Other Comprehensive Income	-18	-69.1	28.7	85.1	-70.4	10.4
Fitch Comprehensive Income	-12	-45.8	49.2	111.5	-53.4	14.9
<b>Summary Balance Sheet</b>						
<b>Assets</b>						
Gross Loans	1,659	6,385.5	6,626.3	5,083.6	5,803.7	6,867.6
- of which impaired	176	677.6	637.5	394.0	364.9	1,250.8
Loan Loss Allowances	388	1,492.1	1,067.7	901.4	923.3	1,140.2
Net Loan	1,271	4,893.4	5,558.6	4,182.2	4,880.4	5,727.4
Interbank	0	0.0	n.a.	0.0	0.0	n.a.
Derivatives	0	0.3	5.5	n.a.	3.7	3.4
Other Securities and Earning Assets	1,129	4,345.7	4,795.6	4,751.4	4,467.8	4,166.9
Total Earning Assets	2,400	9,239.4	10,359.7	8,933.6	9,351.9	9,897.7
Cash and Due From Banks	626	2,409.0	1,997.4	1,476.4	1,712.5	1,971.6
Other Assets	229	880.1	89.2	41.4	52.8	103.9
Total Assets	3,255	12,528.5	12,446.3	10,451.4	11,117.2	11,973.2
<b>Liabilities</b>						
Customer Deposits	9	34.0	34.8	13.0	13.6	12.9
Interbank and Other Short-Term Funding	17	64.3	233.2	206.2	698.1	1,117.6
Other Long-Term Funding	2,321	8,932.6	9,101.2	7,725.5	8,084.3	7,940.4
Trading Liabilities and Derivatives	1	2.9	n.a.	2.0	8.0	92.7
Total Funding	2,347	9,033.8	9,369.2	7,946.7	8,804.0	9,163.6
Other Liabilities	323	1,245.1	998.7	457.2	367.8	806.1
Preference Shares and Hybrid Capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total Equity	584	2,249.6	2,078.4	2,047.5	1,945.4	2,003.5
Total Liabilities and Equity	3,255	12,528.5	12,446.3	10,451.4	11,117.2	11,973.2
Exchange Rate		USD1 = PEN3.849	USD1 = PEN3.62	USD1 = PEN3.312	USD1 = PEN3.373	USD1 = PEN3.24

Source: Fitch Ratings, Inc.

## Summary Financials and Key Ratios

	30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
<b>Ratios (annualized as appropriate)</b>					
<b>Profitability</b>					
Operating Profit/Risk-Weighted Assets	1.0	0.1	0.3	0.2	0.1
Net Interest Income/Average Earning Assets	0.1	1.3	0.4	0.5	0.7
Non-Interest Expense/Gross Revenue	7.3	37.7	74.0	57.1	54.8
Net Income/Average Equity	2.2	1.0	1.3	0.8	0.2
<b>Asset Quality</b>					
Impaired Loans Ratio	10.6	9.6	7.8	6.3	18.2
Growth in Gross Loans	-3.6	30.4	-12.4	-15.5	-12.4
Loan Loss Allowances/Impaired Loans	220.2	167.5	228.8	253.0	91.2
Loan Impairment Charges/Average Gross Loans	12.2	2.0	1.7	0.4	0.8
<b>Capitalization</b>					
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	21.7	20.4	19.9	18.4	17.2
Tangible Common Equity/Tangible Assets	18.0	16.7	19.6	17.5	16.7
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	-36.2	-20.7	-24.8	-28.7	5.5
<b>Funding and Liquidity</b>					
Loans/Customer Deposits	18,780.9	19,041.1	39,104.6	42,674.3	53,237.2
Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer Deposits/Funding	0.4	0.4	0.2	0.2	0.1
Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Source: Fitch Ratings, Inc.					

Environmental, Social and Governance Considerations

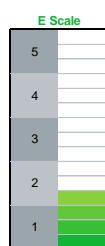
FitchRatings Corporacion Financiera de Desarrollo S.A. (COFIDE)

Credit-Relevant ESG Derivation

			Overall ESG Scale	
Corporacion Financiera de Desarrollo S.A. (COFIDE) has 5 ESG potential rating drivers				
<ul style="list-style-type: none"> <li>Corporacion Financiera de Desarrollo S.A. (COFIDE) has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

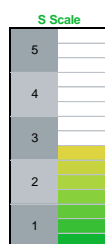
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

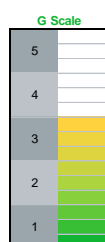
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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](http://www.fitchratings.com/esg).

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