

FITCH AFFIRMS COFIDE'S RATINGS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-02 October 2015: Fitch Ratings has affirmed the long-term foreign currency Issuer Default Rating (IDR) of Corporacion Financiera de Desarrollo (COFIDE) at 'BBB+'. The Rating Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND SENIOR UNSECURED DEBT

COFIDE's ratings reflect the strong probability that the entity would receive support from the Peruvian government, if needed. Although there is no explicit guarantee, Fitch's opinion takes into account the critical participation of the issuer in implementing development policy, the majority state ownership, as well as the operational and financial synergies with the public administration. Peru's ability for support is reflected in its sovereign rating (rated 'BBB+'/Outlook Stable by Fitch).

COFIDE is a key element in fulfilling some of the Peruvian government's major goals: infrastructure and economic and social development. The entity has a relevant role in the execution of policies by serving sectors with limited access to funding or lending resources to projects underserved by commercial banks. The issuer's strategic importance is underpinned by the elevated infrastructure deficit in Peru and the still-low level of financial inclusion.

Fitch considers that COFIDE's profitability ratios compare in line to those of other development banks in the region, even though it lowered in 2015. At first half 2015 (1H15), operating return on assets (ROA) and return on equity (ROE) stood at 1.4% and 5.5%, respectively. The relatively limited earnings generation of the entity is somewhat offset by the strong loss absorption capacity reflected in its capital ratios.

In Fitch's view, capital ratios could continue decreasing, driven by sustained asset growth. However, the entity has comfortable levels of capital to absorb growth and an established track record of profit retention (although this is low).

COFIDE has maintained a low nonperforming loans (NPLs) ratio averaging 0.2% for the period 2010-2013 (0.88% as of June 2015). Fitch recognizes that the rapid growth of the portfolio, significant concentrations and the long-term nature and profile of project finance facilities may result in sudden changes on those asset quality trends, as seen in December 2014.

The wholesale role of the entity, the size and the limited number of financed projects has resulted in elevated concentrations per borrower (top 20: 1.9 times [x] equity)].

SUBORDINATED DEBT

COFIDE's subordinated bonds re plain vanilla and lack the features that would earn them equity credit according to Fitch's criteria. In Fitch's opinion, their probability of non-performance is equivalent to that of COFIDE's senior bonds but, they would entail a higher loss in case of default due to their subordinated nature. Hence, they are rated only one notch below the bank's IDR.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR UNSECURED DEBT

COFIDE's ratings will mirror any potential change in Peru's sovereign ratings, which currently have a Stable Rating Outlook. Downward risk for COFIDE's IDRs is limited given its parent support and Peru's sound economic prospects.

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

SUBORDINATED DEBT

The subordinated notes' rating is sensitive to any changes in the bank's IDR.

Fitch has affirmed the following ratings:

COFIDE

- Long-term foreign currency IDR at 'BBB+'; Outlook Stable;
- Long-term local currency IDR at 'A-'; Outlook Stable;
- Short-term foreign currency IDR at 'F2';
- Short-term local currency IDR at 'F2';
- Support Rating at '2';
- Support Rating Floor at 'BBB+';
- Senior unsecured debt at 'BBB+';
- Subordinated debt at 'BBB'.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351

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