

# **FITCH AFFIRMS COFIDE'S IDR AT 'BBB+'; OUTLOOK STABLE**

Fitch Ratings-Sao Paulo-28 September 2018: Fitch Ratings has affirmed the Long-Term Foreign Currency Issuer Default Rating (IDR) of Corporacion Financiera de Desarrollo S.A. (COFIDE) at 'BBB+'. The Rating Outlook is Stable. See the full list of rating actions at the end of this release.

The affirmation of COFIDE's IDRs reflects Fitch's unchanged view of potential support, if needed.

## **KEY RATING DRIVERS**

### **IDRS AND SENIOR 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 to offer support is reflected in its sovereign rating (BBB+/Outlook Stable).

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.

During 2017 and 2018 COFIDE was exposed to important credit risk factors such as the Odebrecht scandal and some specific corporate loans problems, which explains the hike in in the non-performing loan (NPL) ratio (18% as of June 2018, with a maximum of around 28% during the first quarter of 2018). Charges-offs accounted for 24.4% of average gross loans as of June 2018. Afterwards, the Peruvian government took some measures to increase a more conservative credit culture and to improve its performance, by setting new rules, policies and pieces of regulation to permit COFIDE to lower its risk and to strengthen the credit process. In addition, the Peruvian government supported the entity's equity with an injection of about USD150 million.

COFIDE's modest operating profitability was sustained until 2016, performance deteriorated since 2017. A clear social and development focus is reflected on its narrow interest margins with respect to total earning assets which has resulted in moderate performance. Profitability ratios are below those of commercial banks, and they have been decreasing after higher provisions were required due to increasing impairments, supported by an equity reinforcement plan, especially during 2017 and 2018. In Fitch's opinion, COFIDE will not need additional loan loss reserves for increasing impairment charges for the rest of 2018 and 2019, expecting this to result in improvements in the operating profit/risk-weighted assets to levels close to 1%.

The FCC ratio has declined over the years as its balance sheet grew, but declines during 2017 and 2018 are explained mainly by charge-offs and increasing loan impairment charges that affected COFIDE's profit. The government took measures to enhance COFIDE's capital metrics, which in Fitch's view shows the solid support for COFIDE. These measures included direct capitalization and the capitalization of several liabilities COFIDE had for about USD102 million.

## **SUPPORT RATING AND SUPPORT RATING FLOOR**

Fitch has affirmed COFIDE's Support Rating and Support Rating Floor at '2' and 'BBB+', respectively, given the entity's important policy role as the largest affordable housing lender in Peru. Fitch's Support Rating Floors 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.

## 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. Hence, they are rated only one notch below the bank's IDR.

## RATING SENSITIVITIES

### IDRS, SUPPORT RATINGS AND SENIOR DEBT

COFIDE's ratings will mirror any potential change in Peru's sovereign ratings, which currently have a Stable Outlook. Although not a baseline scenario, the ratings could change if Fitch perceives a decrease in the company's 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:

- 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 'F1';
- Support Rating at '2';
- Support Rating Floor at 'BBB+';
- Senior unsecured debt at 'BBB+';
- Subordinated debt at 'BBB'.

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