

**Corporacion Financiera de Desarrollo S.A. (COFIDE) (/gws/en/esp/issr/88889059)****Fitch Affirms COFIDE's IDR at 'BBB+'; Outlook Stable**

Fitch Ratings-New York-29 September 2017: 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.

**KEY RATING DRIVERS****IDRS, SUPPORT RATINGS 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. The issuer's strategic importance is underpinned by the elevated infrastructure deficit in Peru and the still-low level of financial inclusion.

COFIDE's project finance activity implies higher concentrations and longer tenors that may result in sudden changes in asset quality if a project fails. At June 2017, some of the largest corporate credits faced problems and included one credit involved in the Odebrecht scandal, explaining the hike in the non-performing loan (NPL) ratio (9.06%). In addition to those, COFIDE is aware that during the second half of 2017 some other infrastructure credits will be past-due, resulting in an additional hike in the NPL ratio.

After the events of 2016 and 2017, the Peruvian government took some measures to change to a more conservative credit culture and to improve COFIDE's performance, lowering the amount of the loans and the relative participation of COFIDE in each project, among others. In addition, COFIDE revised its organizational structure and further strengthened the risk area and the overall credit process.

COFIDE's operating profitability has been sustained, although moderate over the years. At June 2017 the poor performance of the asset quality and the increase of reserve charges resulted in operating and net losses. Taking into account the identified NPLs, COFIDE is taking actions to increase its reserve requirements before the end of 2017, supported by an equity reinforcement plan. As a consequence, Fitch expects that end-2017 results will be similar to those seen at June 2017.

The entity's FCC ratio has declined over the years as its balance sheet grows, but it has been consistently strong. The hike in NPLs described above, which included an increase in reserve charges, impacted the capital ratios. After this, the Government took specific measures to support COFIDE's capital. These measures include a comfort letter committing to purchase up to 20% of CAF's (Development Bank of Latin America) shares, new capitalizations, and changes in its dividend policy in order to capitalize 100% of the results for 2016-2018, among others.

**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.

The rating actions are as follows:

--Long-Term Foreign Currency IDR affirmed at 'BBB+'; Outlook Stable;  
--Long-Term Local Currency IDR affirmed at 'A-'; Outlook Stable;  
--Short-Term Foreign Currency IDR affirmed at 'F2';  
--Short-Term Local Currency IDR affirmed at 'F1';  
--Support Rating affirmed at '2';  
--Support Rating Floor affirmed at 'BBB+';  
--Senior unsecured debt affirmed at 'BBB+';  
--Subordinated debt affirmed at 'BBB'.

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**Applicable Criteria**

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

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