FitchRatings

Banks
Universal Commercial Banks
Dominican Republic

Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS)

Key Rating Drivers

Negative Outlook: Fitch Ratings affirmed Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples' (Banreservas) Long-Term Issuer Default Ratings (IDRs) at 'BB–' on May 12, 2020. The Rating Outlook was revised to Negative from Stable. The Negative Rating Outlook on Banreservas' IDRs followed Fitch's revision of the Dominican Republic's Sovereign Rating Outlook to Negative from Stable.

Challenging Operating Environment: Fitch also considers in its assessment the increased downside risks from the economic implications of the coronavirus pandemic, which resulted in an adjustment of the Rating Outlook for the operating environment score to Negative from Stable. Fitch believes the weaker economic conditions reflected in the expected contraction of the economy by at least 3.5% in 2020 will result in asset quality and profitability deterioration.

Tight Capitalization: Banreservas' capitalization is tight, relative to its rating category, particularly in light of its high asset concentrations. Although the bank's regulatory capital ratio is well above the minimum required, its tangible common equity ratio of 6.7% on an unconsolidated basis is one of the weakest among peers. Capitalization is the weakest link of Banreservas' financial profile, and current metrics and loss absorption capacity will be tested under a less benign operating environment.

Modest Deterioration in Assets Quality: Loan quality ratios modestly deteriorated at 1Q20. The 90-day past-due loans ratio increased to 1.6% at 1Q20 from 1.4% at YE19. It mainly reflected deterioration in the mortgages segment. Fitch expects weak operating conditions due to the coronavirus crisis to pressure Banreservas' asset quality, given its significant exposure to sensitive sectors such as retail (36% of total loans), commerce (11%), construction (9%), industry (7%) and tourism (5%).

Improved Profitability: The bank's operating profitability/average total assets improved to 1.9% at 1Q20 (1.2% at YE19) but remains low compared with similarly-rated peers. The bank's sound margin and income diversification are offset by high operating expenses. Lower business volumes, tighter net interest margins due to recent policy rate cuts, and higher credit costs due to the economic impact of the coronavirus pandemic will pressure profitability in 2020.

Sound Liquidity: Banreservas' loans to deposits ratio remained sound and improved to 70% at 1Q20 (80% at YE19). Fitch believes liquidity risks from reduced cash flows, as well as longer term effects on the asset quality and recognition of losses, remain for banks.

Rating Sensitivities

Driven by Support: The IDRs will be downgraded following a downgrade in the sovereign rating. The IDRs and National Ratings are sensitive to a change in Fitch's support assumptions.

Capitalization Pressures: A relevant deterioration in loan quality or profitability or sustained high disbursements of income to the government that pressure Banreservas' tangible common equity/tangible assets ratio to below 5.5% could trigger a downgrade of its VR.

Ratings

Foreign Currency	
Long-Term IDR	BB–
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB–
Short-Term IDR	B
Viability Rating	b+
Support Rating	3
Support Rating Floor	BB–
National	
National Long-Term Rating	AA+(dom)
National Short-Term Rating	F1+(dom)
Sovereign Risk	
Long-Term Foreign-Currency IDR	BB–
Long-Term Local-Currency IDR	BB–
Country Ceiling	BB–

Outlooks

Long-Term Foreign Currency IDR	Negative
Long-Term Local Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign Currency IDR	Negative
Sovereign Long-Term Local Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Ratings Revises Central American & Dominican Bank Sector Outlooks on Coronavirus Risks (March 2020)

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Issuer Ratings

Rating Level	Rating
Long-Term Foreign-Currency IDR	BB–
Short-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	BB–
Short-Term Local-Currency IDR	B
Viability Rating	b+
Support Rating	3
Support Rating Floor	BB–
National Long-Term Rating	AA+(dom)
National Short-Term Rating	F1+(dom)
Outlook	Negative

Source: Fitch Ratings.

Debt Rating Classes

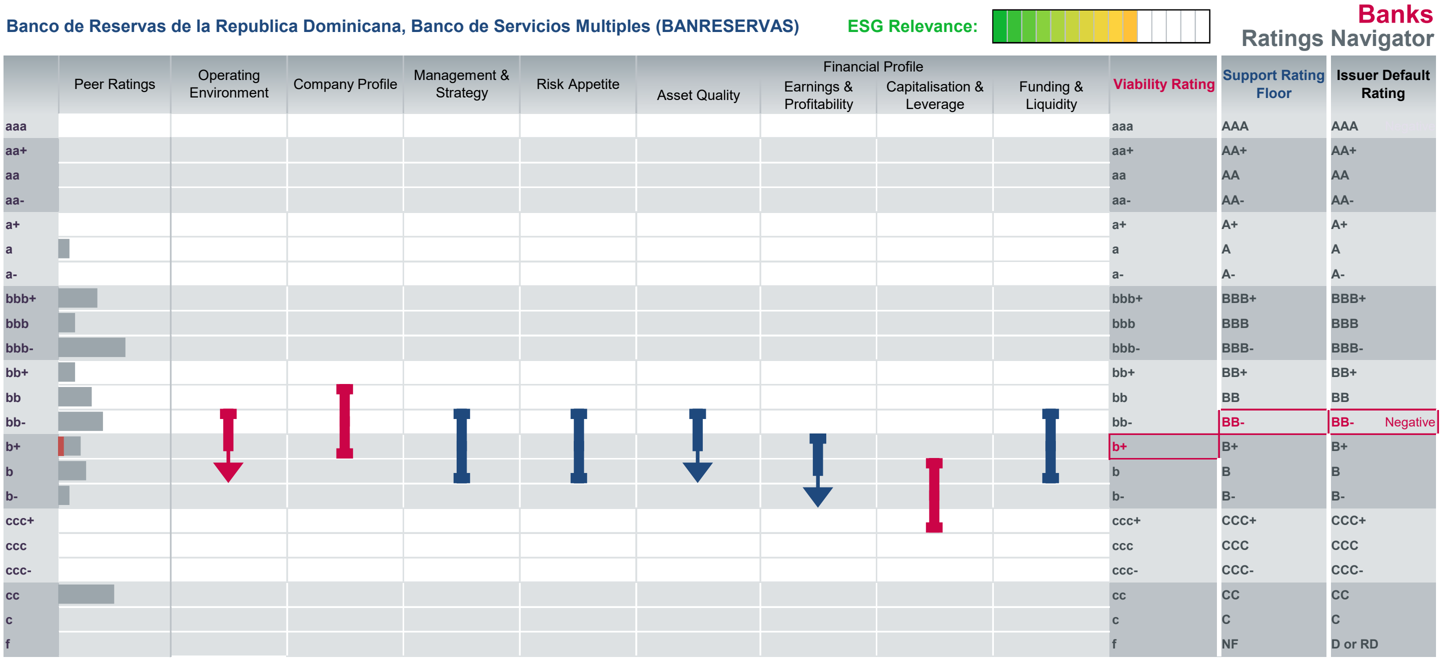
Rating Level	Rating
Subordinated debt; Long-Term Rating	B
Subordinated debt; National Long-Term Rating	AA(dom)

Source: Fitch Ratings.

Banreservas' outstanding subordinated debt includes an international issuance of USD300 million due 2023 and a domestic issuance of DOP10 billion due 2024. Banreservas' subordinated bonds are basic issues as they do not have coupon deferral features.

The anchor rating for the international subordinated issues is the IDR, given the bank's government ownership and policy role. This issuance has been downgraded to two notches below the IDR, reflecting the change in baseline notching for loss severity to two notches, from one previously, since the bank does not meet the specific conditions under Fitch's criteria for applying one notch. This rating has been removed from Under Criteria Observation.

Ratings Navigator



Significant Changes

Weaker Operating Environment

On May 2020, Fitch Ratings affirmed the Dominican Republic's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB–' and revised the Rating Outlook to Negative from Stable. The Coronavirus pandemic has led to a sharp fall in economic activity and exerted particular balance of payments pressures on the DR given its reliance on tourism and remittances. Fitch expects a 5.6% rebound in 2021. Tourism will suffer a lasting shock and is unlikely to fully recover in 2021.

The economic fallout from the coronavirus pandemic also prompted Fitch to revise the Dominican banking system outlook to negative. Pressures on profitability and asset quality will challenge Dominican banks' performance, due to the economic downturn and likely increase in unemployment. Additionally, a prolonged period of weak operating conditions could put some ratings at risk, particularly for those banks with a higher retail exposure, exposure to vulnerable sectors such as SMEs and tourism or greater reliance on wholesale funding. However, capital and liquidity buffers should be sufficient to support ratings at current levels in the short term.

The Central Bank of the Dominican Republic (BCRD) provided regulatory and monetary measures to temporarily alleviate corporates, households and banks. While this will relieve pressures on credit costs, it could also delay the recognition of impaired loans. The uncertainty about the magnitude of new impaired loans and restructured loans is yet unknown. Fitch also believes that some profitability pressures could arise for the banking system, from lower business volumes, increasing credit costs and a decline in fees due to lower transaction volumes in a scenario of prolonged economic weakness.

At 1Q20, the Dominican banks loans portfolio contracted by 1% as a result of the weaker economic environment and reduced demand for credit amid the pandemic. NPL's ratio deteriorated to 2.1% at 1Q20 (YE19: 1.6%) and reserves coverage reduced to 140% at 1Q19 (YE19: 176%). These ratios were negatively affected by the contraction of the loans portfolio and the economy as well.

Dominican banks' profitability improved at March 2020 and was supported by lower funding costs and delayed credit costs. Operating profits over risk-weighted assets (RWA) reached

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

3.2% at 1Q20 from 3.6% at YE19. Capitalization was stable and benefited by high profitability, and public-sector instrument holdings, which are not considered as RWA.

Company Profile

Strong Franchise

Banreservas is the largest financial institution in the Dominican Republic. On an unconsolidated basis, it reported a banking system market share by assets and loans of 28% and by deposits of 29% at YE19. Among universal banks, it is the market leader in commercial and consumer loans. It has the largest branch network in the country and is the only financial institution with presence in all provinces of the country. Although fully owned by the government of the Dominican Republic, it is an independent and autonomous legal entity.

Banreservas's business model has traditionally focused on serving large corporate and government entities, representing 64% of gross loans at YE19. Loans to the public sector continue to represent a significant proportion of its business (20% of total loans at YE19) while retail lending to individuals, including its consumer, mortgage and credit card portfolios, represented only 36% of gross loans at YE19.

Banreservas maintains its position as the largest local loan provider to the public sector in the Dominican Republic. Therefore, Fitch expects that public sector lending will remain as one of the bank's most important businesses over the long term. Like other state banks throughout the region, Banreservas provides important additional services to the government (central government and other public agencies) such as tax collection on a non-exclusive basis, collection services to the government's single treasury account for payment of debt obligations, payroll management (non-exclusive) and other services.

Management and Strategy

Senior management is relatively stable with adequate experience in private sector banking. In 2016, a former Finance Minister, with senior level private banking experience, was appointed as General Manager. The appointment highlights the close relationship between the government and the bank and the continued relevance of its public sector transactions.

The bank's strategic objectives are to maintain the bank's leading market share, improve profitability, increase cross selling, as well as focus on digital transformation and strong risk management. However, The achievement of financial objectives will be challenged amid the economic recession of at least 3.5% resulting from the coronavirus crisis.

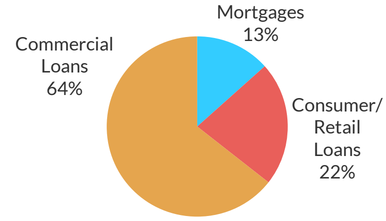
Risk Appetite

Banreservas' loan portfolio is its primary source of credit risk, representing 61.3% of total assets as of December2019. The bank uses standardized tools to review all loan applications and has defined approval and term limits by business line, client and collateral. All public sector exposures must be explicitly backed by the sovereign, in line with requirements of the Public Sector Debt Law, for approval. The bank uses a credit scoring system developed by an external provider for its consumer and loan portfolios.

In terms of growth, 2019 marked a significant increase in both asset and credit growth, primarily related to a 13% increase in private sector lending, focused mainly in consumer lending (+20%) and commercial to a lesser extent (+5%). The bank's balance sheet grew by 14% YoY at Dec 2019, while the loan portfolio grew by 9%. Both were fairly aligned with the banking system growth. The bank reduced public sector loans to 20% of gross portfolio in 2019 from 23% at YE18. Nevertheless, sovereign exposure (including loans and securities) increased and continues high at 5.3x equity at YE19. As reflected in the 7% contraction of the loan portfolio at March 2020, Fitch believes that loan growth will be uncertain and challenged due to the reduced demand for credit amid the coronavirus crisis.

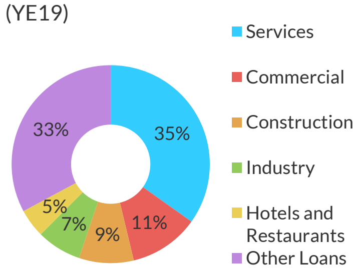
Exposure to market risk is moderate. The ability to adjust interest rates for both assets and liabilities at frequent intervals and a high proportion of non-interest-bearing liabilities mitigates interest rate risk. Per local regulation, the bank is required to conduct periodic analyses of key risk factors, including value at risk and stress testing for interest rate movements and currency fluctuations. At year-end 2019, Banreservas reported value at risk

Loan Portfolio
(YE19)



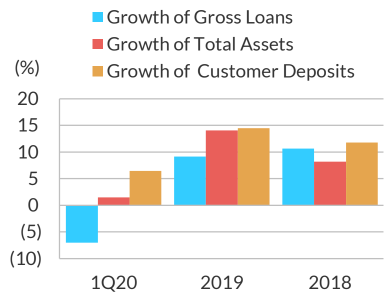
Source: Fitch Ratings, Fitch Solutions, Banreservas.

Loan Portfolio by Sector
(YE19)



Source: Fitch Ratings, Fitch Solutions, Banreservas.

Growth



Source: Fitch Ratings, Fitch Solutions, Finanaiclal Statements.

from interest rate movements in its banking book of 4.0% and 1.0% of Fitch Core Capital for local and foreign currency, respectively. Banreservas' long position in USD was approximately 0.9% of equity at YE19, well below the regulatory limit.

Key Financial Metrics — Latest Developments

Modest Deterioration in Assets Quality

The 90-day past-due loans ratio increased to 1.6% at 1Q20 from 1.4% at YE19. It mainly reflected deterioration in the mortgages segment. Given the regulatory measures taken to assist debtors due to the coronavirus contingency, a complete deterioration of the portfolio has not yet been observed. Fitch believes that a prolonged period of weak operating conditions, the expected increase in unemployment and decrease in the ability of debtors to pay amid the pandemic, could exert some pressure on Banreservas' assets quality in the second half of the year. Moreover, Banreservas has significant exposure to sensitive sectors such as retail (36% of total loans), commerce (11%), construction (9%), industry (7%) and tourism (5%).

Loans to the private sector account for nearly the entirety of impaired loans. Public sector exposures are backed directly by the government through explicit guarantees and are current, with assigned payment flows authorized by the Ministry of Finance in the government's budget. Specifically, while the banks' impaired loans represented 1.4% of total gross loans at YE19 (better than the sector average), private sector impaired loans represented 1.7% of gross loans at the same date (banking system: 1.6%). Banreservas' loan portfolio concentration increased at 1Q20, with the top 20 borrowers (public and private sector) representing 25.8% of gross loans (YE19: 20%).

Banreservas also faces credit risk with its investment portfolio, which consists primarily of central bank and government securities. At YE19, public sector securities represented 98% of Banreservas' securities portfolio. Taken together, securities and loan exposure to the speculative grade sovereign represented approximately 5.3x the bank's equity at YE19.

Low Profitability

The bank's operating profitability/average total assets improved to 1.9% at 1Q20 (1.2% at YE19) but remains low compared with similarly-rated peers. The bank's sound margin and income diversification are offset by high operating expenses. Lower business volumes, tighter net interest margins due to recent policy rate cuts, and higher credit costs due to the economic impact of the coronavirus pandemic will pressure profitability in 2020.

As the bank increased its exposure to private sector consumer lending and funding cost remained low and stable, its net interest margin remained high at 8.2% of average earning assets at 1Q20. However, improvements in pre-impairment income have been partially offset by high operating expenses, equivalent to 70% of gross revenues. Significant IT investments, including a new core banking system, and strategic initiatives to improve delivery of services through alternative channels resulted in high operating expenses, thus resulting in weak efficiency metrics.

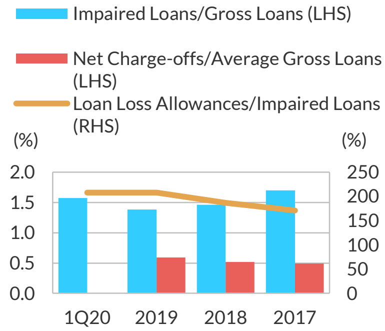
Provision expenses reduced to 26.7% of pre-impairment operating profit at 1Q20 (34.8% at YE19). Fitch expects provision expenses to increase due to the higher proportion of consumer private sector loans and the higher expected delinquency due to the coronavirus pandemic. Public sector loans guaranteed by the Ministry of Finance do not require a generic provision.

Tight Capitalization

Banreservas' capitalization is considered tight relative to its rating category, particularly when considering its high asset concentrations and favorable risk weighting of its assets. Nevertheless, historically, the government has injected capital into the bank to support balance sheet expansion, and dividend payments of earnings generated in previous periods are not allowed, thus supporting dividend pay-out stability. Cash dividends in 2019 represented 38% of prior year net income (36% on average over the last 3 years).

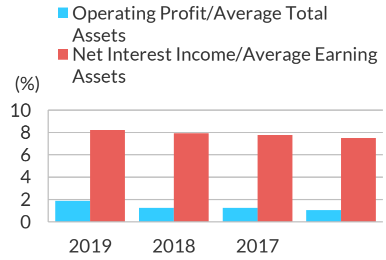
The Fitch core capital to weighted-risks ratio is the agency's main ratio for assessing capital adequacy. However, in light of Banreservas' high exposure to the public sector, which receives zero risk weighting, Fitch prefers to use the tangible common equity-to-tangible assets ratio

Asset Quality



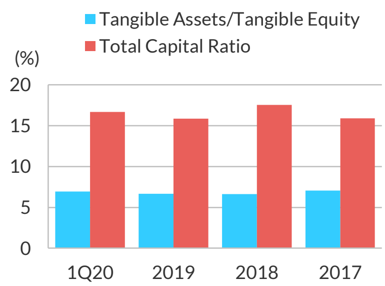
Source: Fitch Ratings, Fitch Solutions, Banreservas.

Operating Profit/Average Total Assets



Source: Fitch Ratings, Fitch Solutions, Banreservas.

Capitalization



Source: Fitch Ratings, Fitch Solutions, Banreservas.

for peer comparisons. This ratio remained low at 6.95% at 1Q20 (6.7% at YE19), benefited by lower assets growth. Furthermore, its tangible capital ratio continued to lag the banking system average of 11.6% at March 2020. The bank's regulatory capital ratio is higher due to the inclusion of subordinated notes as Tier II capital.

Sound Liquidity

Banreservas' loans to deposits ratio remained sound and improved to 70% at 1Q20 (80% at YE19). Deposits represented 88.6% of total funding at 1Q20, while wholesale funding comprising two subordinated debts due in 2023 and 2024, as well as institutional borrowings, represented 9%. The bank also has access to unsecured, short-term lines of credit from domestic and international sources.

Banreservas has the largest deposit market share in the Dominican Republic (29% t YE19) and serves as paying agent and administrator of most payroll accounts for the government. Banreservas has served as a refuge bank in times of systemic stress.

Deposit concentration is now moderate, with the largest 20 depositors (public and private) representing 21% of total deposits (including financial institution deposits) at 1Q20. The bank has significant concentration of public funds on its balance sheet as the 20 largest public depositors represent 19% of total customer deposits at 1Q20. While this contributes to cyclical deposit volatility throughout the year, good communication with the Treasury helps manage these flows.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BB- or B+
Actual country D-SIB SRF			B+
Support Rating Floor:			**BB-**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy	✓		
Size of potential problem	✓		
Structure of banking system		✓	
Liability structure of banking system			✓
Sovereign financial flexibility (for rating level)			✓
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank			✓
Ownership			
Specifics of bank failure			✓
Policy banks			
Policy role	✓		
Funding guarantees and legal status		✓	
Government ownership	✓		

The bank's Support Rating of '3' and its Support Rating Floor of 'BB–' reflect its systemic importance, its role collecting funds for the government's single treasury account to pay debt obligations, its role as a provider of public sector loans, and its 100% government ownership. The Support Rating of '3' also reflects some uncertainty over the Dominican Republic's capacity to provide support due to its speculative-grade IDR, should it be needed.

Summary Financials and Key Ratios

	Three Months — First Quarter 3/31/20[a]		2019[a]	2018[a]	2017[a]	2016[a]
	USD Mil.	DOP Mil.	DOP Mil.	DOP Mil.	DOP Mil.	DOP Mil.
(Years Ended Dec. 31)						
Summary Income Statement						
Net Interest and Dividend Income	175	9,410.8	33,162.2	28,914.0	26,521.9	23,746.9
Net Fees and Commissions	55	2,940.4	10,133.3	9,073.5	7,244.0	7,356.2
Other Operating Income	(6)	(299.5)	(203.8)	(74.4)	1,098.6	586.5
Total Operating Income	224	12,051.7	43,091.6	37,913.1	34,864.5	31,689.6
Operating Costs	157	8,449.0	33,025.4	28,720.9	26,629.3	25,939.9
Pre-Impairment Operating Profit	67	3,602.7	10,066.2	9,192.2	8,235.2	5,749.6
Loan and Other Impairment Charges	18	960.4	3,504.4	3,178.2	3,467.4	2,144.2
Operating Profit	49	2,642.4	6,561.8	6,014.0	4,767.8	3,605.4
Other Non-Operating Items (Net)	(4)	(206.1)	2,875.4	1,311.5	1,865.0	2,675.8
Tax	1	41.5	187.8	169.1	163.0	128.1
Net Income	44	2,394.8	9,249.3	7,156.5	6,469.8	6,153.2
Other Comprehensive Income	N.A.	N.A.	(22.3)	0.0	(11.1)	(11.2)
Fitch Comprehensive Income	44	2,394.8	9,227.1	7,156.5	6,458.6	6,142.0
Summary Balance Sheet						
Assets						
Gross Loans	5,925	319,293.7	343,281.1	314,509.9	284,272.9	284,285.1
- Of Which Impaired	93	5,023.8	4,720.7	4,591.2	4,839.2	3,716.2
Loan Loss Allowances	194	10,440.0	9,815.6	8,566.1	8,267.3	6,694.6
Net Loans	5,731	308,853.7	333,465.5	305,943.8	276,005.6	277,590.5
Interbank	0	0.0	0.0	0.0	0.0	N.A.
Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other Securities and Earning Assets	2,886	155,512.8	123,826.7	73,814.0	88,570.6	62,949.1
Total Earning Assets	8,617	464,366.5	457,292.2	379,757.8	364,576.2	340,539.6
Cash and Due From Banks	1,535	82,746.7	79,045.3	83,181.5	58,816.3	84,549.0
Other Assets	392	21,150.2	23,677.4	28,069.5	30,373.5	25,984.0
Total Assets	10,545	568,263.4	560,014.9	491,008.9	453,765.9	451,072.7
Liabilities						
Customer Deposits	8,509	458,540.8	430,737.8	376,310.4	336,632.0	329,311.9
Interbank and Other Short-Term Funding	607	32,727.9	52,718.3	46,041.8	49,420.4	56,581.6
Other Long-Term Funding	483	26,015.4	25,722.2	24,875.3	24,236.7	23,729.3
Trading Liabilities and Derivatives	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Funding	9,599	517,284.1	509,178.4	447,227.5	410,289.1	409,622.9
Other Liabilities	164	8,828.7	10,750.3	8,594.5	11,396.9	11,844.0
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	782	42,150.6	40,086.2	35,186.9	32,079.9	29,605.8
Total Liabilities and Equity	10,545	568,263.4	560,014.9	491,008.9	453,765.9	451,072.7

[a]Exchange rate: 2020 – USD1 = DOP53.89; 2019 – USD1 = DOP52.90; 2018 –USD1 = DOP50.28; 2017 – USD1 = DOP48.20; 2016 – USD1 = DOP46.73. N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Banreservas

Summary Financials and Key Ratios

Ratios (%, Annualized as Appropriate)	Three Months — First Quarter 3/31/20	2019	2018	2017	2016
Profitability					
Operating Profit/Risk-Weighted Assets	4.2	2.5	2.6	2.0	1.7
Net Interest Income/Average Earning Assets	8.2	7.9	7.8	7.5	7.7
Non-Interest Expense/Gross Revenue	70.1	76.6	75.8	76.4	81.9
Operating Profit/ Average Total Assets	1.88	1.26	1.27	1.05	0.88
Net Income/Average Equity	23.4	24.9	21.3	21.0	22.5
Asset Quality					
Impaired Loans Ratio	1.6	1.4	1.5	1.7	1.3
Growth In Gross Loans	(7.0)	9.2	10.6	0.0	4.6
Loan Loss Allowances/Impaired Loans	207.8	207.9	186.6	170.8	180.2
Loan Impairment Charges/Average Gross Loans	1.2	1.1	1.1	1.2	0.8
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	15.7	14.4	13.9	13.6	13.6
Tangible Common Equity/Tangible Assets	7.0	6.7	6.6	7.1	6.6
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	(13.8)	(13.7)	(12.3)	(10.7)	(10.1)
Funding and Liquidity					
Loans/Customer Deposits	69.6	79.7	83.6	84.5	86.3
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	88.6	84.6	84.1	82.1	80.4
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

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

Environmental, Social and Governance Considerations

FitchRatings **Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS)**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has 1 ESG rating driver and 5 ESG potential rating drivers

- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has exposure to impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations but this has very low impact on the rating.
- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) 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.
- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has exposure to operational implementation of strategy but this has very low impact on the rating.
- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples (BANRESERVAS) has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	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	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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	5
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	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
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	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	4	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	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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 Priniciples 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.

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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.