MOODY'S INVESTORS SERVICE

CREDIT OPINION
18 August 2023

Update

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RATINGS

Banco de Reservas de la Republica Dominicana

Domicile	Santo Domingo, Dominican Republic
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Saul Atlatenco +52.55.1253.5735
Associate Analyst
saul.atlatenco@moodys.com

Rodrigo Marimon Bernales +52.55.4840.1315
AVP-Analyst
rodrigo.bernales@moodys.com

» Contacts continued on last page

Banco de Reservas de la Republica Dominicana

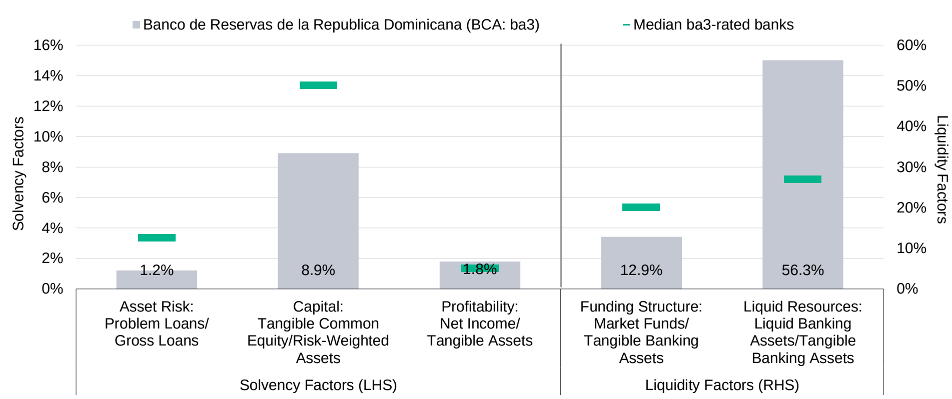
Update following BCA upgrade to ba3, outlook changed to positive

Summary

Banco de Reservas de la Republica Dominicana (Banreservas) has a Baseline Credit Assessment (BCA) of ba3, reflecting the bank's consistent track record of good asset quality, sound funding profile and strong recurring profitability levels that have supported improvement in its capitalization over the past three years. The BCA also reflects Banreservas' well-established franchise as the largest bank in the system by assets in the country which benefits its historically sound liquidity position, and provides a stable access to core deposits, that has helped to shield the bank from the heightened financial markets volatility since 2020. These credit strengths are counterbalanced by Banreservas' modest levels of capitalization as measured by Moody's.

Banreservas' Ba3 local- and foreign-currency deposit ratings are at the same level of the Government of Dominican Republic (DR, Ba3 positive) sovereign bond rating. As a bank 100% owned by the government, Moody's assesses Banreservas as a governmnent-backed institution which is also underpinned by the close financial and business links between the bank and the government, as well as Banreservas' significant deposit and lending franchise. Consequently, the deposit ratings carry the positive outlook of the sovereign rating.

Exhibit 1
Rating Scorecard - Key financial ratios
Historical scorecard ratios as of December 2022



For the asset-risk ratio and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio, where applicable, and base our starting point ratio on the weaker of the average of this period and the latest reported

figure. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Consistent track record of good asset quality

» Strong recurring profitability levels on the back of lower loss provisioning, higher non-interest income and stable operating expenses

» Good base of stable low-cost deposit funding, supported by its franchise as the largest bank in the Dominican Republic, and strong liquidity position that balances the short-term liability maturities

Credit challenges

» Strong loan growth strategy particularly into higher risk consumer lending products may pressure asset quality metrics

» Tighter interest margins due to faster funding re-pricing

» Modest adjusted capital position as measured by Moody's

Outlook

The outlook on Banreservas' deposit ratings is positive, in line with the outlook on the DR's Ba3 government bond rating.

Factors that could lead to an upgrade

An upgrade of Banreservas' long-term deposit rating is unlikely because they are rated at the same level as the DR's sovereign rating, reflecting the strong credit links between the sovereign and the bank. The bank's BCA is also at the same level of the DR ratings, and therefore has no upward pressure at this point.

Factors that could lead to a downgrade

Factors that could lead to a BCA downgrade include: (1) a substantial and consistent deterioration in asset risk and profitability and/or (2) weakened capitalization as a result of an acceleration of its loan origination. In addition, a downgrade of the DR's sovereign rating could lower Banreservas' supported ratings, as well as its ba3 BCA. However, these movements would be currently constrained by the positive outlook on the sovereign debt rating.

Key indicators

Exhibit 2
Banco de Reservas de la Republica Dominicana (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (DOP Million)	1,037,195.3	914,867.9	717,013.1	570,493.7	505,388.5	19.7[4]
Total Assets (USD Million)	18,448.9	15,966.3	12,331.5	10,691.4	10,110.8	16.2[4]
Tangible Common Equity (DOP Million)	61,087.1	47,579.5	35,605.3	29,196.1	25,163.0	24.8[4]
Tangible Common Equity (USD Million)	1,086.6	830.4	612.4	547.2	503.4	21.2[4]
Problem Loans / Gross Loans (%)	0.6	1.2	1.9	1.4	1.5	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.9	7.8	6.3	6.9	6.9	7.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.9	6.1	11.1	12.8	14.6	9.5[5]
Net Interest Margin (%)	5.0	6.0	6.6	6.7	6.7	6.2[5]
PPI / Average RWA (%)	3.8	5.6	4.9	3.9	3.4	4.3[6]
Net Income / Tangible Assets (%)	2.1	1.8	1.5	1.6	1.4	1.7[5]
Cost / Income Ratio (%)	69.1	56.5	62.7	68.9	71.3	65.7[5]
Market Funds / Tangible Banking Assets (%)	12.9	12.8	28.9	30.7	35.3	24.1[5]

Liquid Banking Assets / Tangible Banking Assets (%)	56.3	56.7	53.5	36.3	33.0	47.2[5]
Gross Loans / Due to Customers (%)	56.1	54.7	78.9	111.8	126.8	85.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel I periods.
Sources: Moody's Investors Service and company filings

Profile

Banreservas is the DR's largest bank, accounting for 41% of the banking system's assets as of June 2023. The bank offers a wide range of financial products, including loans, deposits, insurance, pension fund management and underwriting services. Banreservas mostly focuses on commercial and consumer lending. Commercial loans to the private sector comprised 47% of the bank's loan book as of December 2022, followed by consumer loans (27%), mortgages (14%) and loans to public entities (8%).

The bank is 100% controlled by the Dominican State, and it reported total assets of $18 billion in 2022.

Detailed credit considerations

Consistent track record of good asset quality, which may be affected by strong loan growth strategy

Banreservas has reported consistent track record of good asset quality in the past 12 months, despite relatively rapid loan growth and the lagging effects of the coronavirus pandemic. As of June 2023, the bank reported low level of nonperforming loans (NPLs) at 0.5% of gross loans, down from 0.8% one year earlier. Banreservas' asset quality metrics have improved since year end 2020 and we expect the level of nonperforming loans gradually returning to pre-pandemic average of 1.6% during 2017 and 2019.

Banreservas has built prudential provisions against expected credit losses, with total loan loss reserves covering 4.4% of gross loans and 8.6 times of nonperforming loans as of June 2023. The bank continues to maintain a relatively large amount of restructured loans that accounted for 1.6% of gross loans in December 2022, related to programs implemented during the pandemic. About 95% of these loans are under due course supporting the quality of this portfolio.

The bank has demonstrated accelerated annual loan growth of 15% as of June 2023, 14% in 2022 and 16% in 2021. This increases asset risk as consumer lending products grew 19% year-over-in June 2023, in line with the 2022 growth rate. However, NPL ratio for consumer loans remains manageable at 1.5% as of June 2023. At the same time, the 20 largest loan exposures comprise about 1.3x the bank's tangible common equity (TCE) as of March 2023.

Banreservas' loan dollarization, at 19% of total loans in June 2023, is lower than the system average of 25%, but it still exposes the bank to the risk of a sudden depreciation of the Dominican peso, considering that a large portion of these loans are granted to industries that in some cases do not generate hard currency.

Despite recent improvements, Moody's-adjusted core capital ratio remains moderate

Banreservas' core capitalization remains modest -compared with that of other banks with a ba3 BCA- despite improvements during the last three years supported by earning generation. Capital position, when measured by our preferred TCE to risk-weighted assets (RWA) ratio, was at 8.9% as of December 2022 up from the 7.8% at the end of 2021. However, at this level, the TCE/RWA ratio still provides limited loss absorption of unexpected credit or investment losses. We have a more conservative view on capital adequacy and adjust the TCE/RWA ratio by assigning a 100% weight for government securities.

Despite that, Banreservas' regulatory total capital ratio remained strong at 13.7% of risk-weighted assets in Dec-22. The regulatory ratio benefits from a zero risk weight accorded to the bank's holdings of government securities and to loans to the public sector.

Banreservas has historically paid high levels of dividend payments but have decreased at around 40% in the period 2021-2022. which is in line with Banreservas' organic law. Currently, it mandates that 60% of earnings must be retained, 25% must be paid to the government and 15% must be used to repay the government's outstanding debt with the bank.

Strong recurring profitability levels supported by low levels of loss provisioning

Banreservas' profitability continues to benefit from low credit costs despite tighter margins and stable but still high operating expenses. Net income to tangible assets increased to 2.3% as of June 2023, from 2.0% one year earlier and 2.1% in December 2022.

Margins remain ample but have decreased as bank's funding base reprices faster with high interest rates in contrast with its largely fixed-rate loan book. Since 2022, Banreservas pays interest on deposits from public entities, which has contributed to tighter margins. However, margins will strengthen as the bank manages to reprice its loans at a higher rate while its funding cost decrease in light of easing monetary policy and the bank's expansion of higher rate consumer loans. Net interest margins (NIM) stood at 4.7% as of June 2023 down from 4.9% a year earlier. This as interest income to interest earning assets ratio stood at 7.8% as of June 2023, up from the 6.4% a year earlier and interest expense to total funding stood at 3.3% as of December, above the 1.7% a year earlier.

Lower provisioning has supported earnings, counterbalancing tighter margins. Banreservas reported a 90% decrease in loan loss provisions in June 2023 from the previous year, reaching a low 0.1% of gross loans in June 2023, as the bank aims at reducing the high levels of reserves that were built over the last three years and the expectation that lower inflationary pressures and interest rates will support customers' repayment capacity behavior. In addition, earnings have been supported by stronger net fee and commissions income, with an annual growth of 35% in June 2023.

Efficiency remains relatively low given the high operating cost derived from its large franchise network in the country. Cost to income ratio stood at 67.2% as of June 2023, up from the 66.8% a year earlier. Operating expenses represented 4.7% of total assets as June 2023, below historical average of 5.4% during 2019 and 2022.

The key risks to the bank's profitability include rising credit costs given the accelerated growth and low efficiency levels. However, margins should strengthen as the bank manages to reprice its loans at a higher rate while it expands into the consumer sector, which would partly offset the increases in funding costs.

Stable low-cost deposit funding base and good liquidity balance the short-term liability maturities

Because of its status as the largest bank in the country and its state ownership, Banreservas benefits from ample access to low-cost deposits. Deposits represented 77% of total assets and demand deposits represented 20% of total deposits as of June 2023. However, the deposit base is concentrated, with the top 20 deposits representing around 24% of the total deposits in March 2023.

In addition, the bank maintains a low reliance in market funding with market funds representing 12.7% of total assets as of June 2023. The bank's funding structure is significantly skewed toward short-term maturities, reflected by the fact that approximately 62% of its total liabilities are due in less than 30 days.

Liquidity remains thick and has recently improved in line with the growth of the deposit base, with liquid banking assets representing 56.4% of tangible banking assets as of June 2023, chiefly constituting government securities and deposits at the central bank.

Banreservas' credit profile improved from Weak+ to Moderate-

The improvement in the DR's Macro Profile to Moderate-, from Weak+, reflects steady improvement in the country's economic conditions, with sustained high growth rates over the past two decades that have supported the scale and wealth levels of the economy, bolstering the sovereign's resilience to shocks. The country's economic strength also reflects strong real GDP growth of more than 12% in 2021 and the expectation that growth will average around 5% over the medium term, supporting a favorable operating environment for banks. It also incorporates the ongoing development of the tourism sector, which has expanded into higher-end offerings and more international markets, contributing significantly to growth in recent years.

Despite the rapid credit growth in the last decade, the Dominican Republic has one of the lowest financial intermediation rates in Latin America, at around 27% in 2022. Nonperforming loans (NPLs) have remained low as a percentage of gross loans and we expect asset quality to remain at healthy levels supported by tourism, investment and remittances inflows, boosting economic growth and debtholders' repayment capacity. The highly concentrated banking system provides leading banks with strong pricing power, while a stable base of core deposit funding and ample liquidity buffers support the banks' financial flexibility.

ESG considerations

Banco de Reservas de la Republica Dominicana's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score

CIS-2
Neutral-to-Low

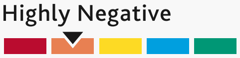
For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Banco de Reservas de la Republica Dominicana's (Banreservas) **CIS-2** indicates that ESG considerations are not material to the rating because the very high level of government support mitigates the impact of environmental, social and governance risks on the ratings. The bank has risk management practices that have supported its credit profile over past years, despite a majority government ownership.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-4
Highly Negative



SOCIAL
S-4
Highly Negative

GOVERNANCE
G-3
Moderately Negative

Source: Moody's Investors Service

Environmental
Banreservas faces high environmental risks, stemming primarily from its direct and indirect portfolio exposure to physical climate change and water issues. Banreservas' location and business operation in Dominican Republic expose it to natural disasters from increased storm severity, hurricanes and rising sea levels that can harm the agricultural, exporting and tourism sector. Additionally, in line with its regional peers, Banreservas has exposure to carbon transition risks, which are partly mitigated by the bank's broadly diversified loan portfolio. Similarly to other banks in Latin America, Banreservas is facing mounting business risks and pressure to meet more demanding carbon transition targets.

Social
Banreservas' high social risks are related to regulatory and litigation risk, requiring the bank to meet high compliance standards. High cyber and personal data risks are mitigated by a sound IT framework. Opportunities from financial inclusion are reflected in a better-than-industrywide exposure to demographic and societal trends.

Governance
Banreservas' governance risks are moderate overall. Corporate governance risks stem from its government ownership which may give rise to directed lending and taking politically and socially motivated decisions that could impair the bank's financial profile. However, these risks have not materialized in the past years and are mitigated by a strong conduct track record, well-developed risk management framework and an organizational structure in line with industry practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

Banreservas is 100% owned by the government of the DR and, as a government-backed bank, receives full government support. The bank's adjusted BCA of ba3 is at the same level than the sovereign so it does not benefit from any notching uplift. In addition, there are close financial and business links between the bank and the government. The full support is also based on the importance of Banreservas' deposit and lending franchise as the country's largest bank.

Counterparty Risk (CR) Assessment

Banreservas' CR Assessment is positioned at Ba2(cr)/NP(cr)

The CR Assessment is positioned one notch above the Adjusted BCA of ba3 and also benefits from out assumption of a full government support. This assumption is based on our view that the government would likely support operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that the government is likely to maintain such operations as a going concern to reduce contagion and preserve the bank's critical functions.

Counterparty Risk Ratings (CRRs)

Banreservas' CRRs are positioned at Ba2/NP

The CRR is positioned one notch above the Adjusted BCA of ba3 and, therefore, above deposit ratings, reflecting our view that CRR liabilities have a lower probability of default than the bank's deposits because they will more likely be preserved to minimize banking system contagion, reduce losses and avoid the disruption of critical functions.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Banco de Reserves de la Republica Dominicana

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.2%	baa2	↔	ba2	Single name concentration	Loan growth
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)		8.9%	b1	↔	b3	Capital fungibility	
Profitability							
Net Income / Tangible Assets		1.8%	baa2	↔	ba2		
Combined Solvency Score			ba1		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		12.9%	baa3	↔	ba2	Deposit quality	Term structure
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		56.3%	baa1	↔	ba2	Quality of liquid assets	
Combined Liquidity Score			baa2		ba2		
Financial Profile					ba3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Ba3		
BCA Scorecard-indicated Outcome - Range					ba2 - b1		
Assigned BCA					ba3		
Affiliate Support notching					0		
Adjusted BCA					ba3		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	ba2	0	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba2 (cr)	0	Ba2(cr)	
Deposits	0	0	ba3	0	Ba3	Ba3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA	
Outlook	Positive
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)
PARENT: DOMINICAN REPUBLIC, GOVERNMENT OF	
Outlook	Positive
Issuer Rating	Ba3
Senior Unsecured	Ba3

Source: Moody's Investors Service

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Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Saul Atlatenco +52.55.1253.5735
Associate Analyst
saul.atlatenco@moodys.com

Rodrigo Marimon Bernales +52.55.4840.1315
AVP-Analyst
rodrigo.bernales@moodys.com

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