BANRESERVAS
El banco de los dominicanos

Santo Domingo, D. N.
02 de agosto de 2021

DGCUM-288-21

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Asunto: Notificación de Hecho Relevante del Banco de Reservas

Distinguida Sra. Vílchez:

En cumplimiento a las disposiciones establecidas en la Norma para los Participantes del Mercado de Valores sobre Información Privilegiada, Hechos Relevantes y Manipulación del Mercado, identificada bajo la numeración R-CNV-2015-33-MV en su Art. 12, inciso 1, literal a), tenemos a bien notificarle la mejora de la calificación de riesgos internacional del Banco de Reservas, de B2 a B1, conforme al Informe emitido por la firma Moody's Investors Service, en este mes de agosto del año 2021.

Esta información estará disponible en nuestra página web www.banreservas.com.

A su disposición para cualquier información adicional.

Atentamente,

Heiromy Castro
Director General de Cumplimiento

Anexo: Informe de Evaluación "Credit Opinion" emitido por Moody's el 2 agosto 2021

Documento firmado digitalmente por:
Heiromy Castro Milanes (02/08/2021 18:07 AST)
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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 August 2021

Update

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RATINGS

Banco de Reservas de la Republica Dominicana

Domicile	Santo Domingo, Dominican Republic
Long Term CRR	Ba3
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	Stable

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.

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Banco de Reservas de la Republica Dominicana

Update following BCA upgrade to b1; stable outlook

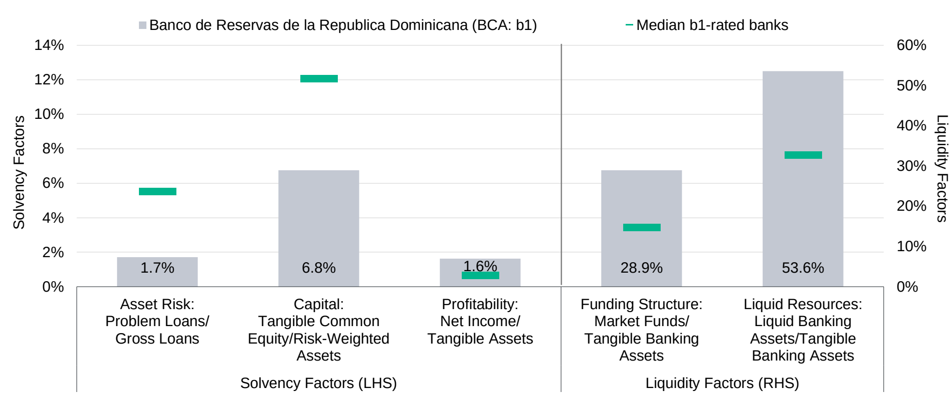
Summary

On 29 July 2021, we upgraded Banco de Reservas de la Republica Dominicana´s (Banreservas) Baseline Credit Assessment (BCA) to b1 from b2. In addition, we affirmed the local and foreing currency deposit ratings of Ba3 and Not Prime, long and short-term. The outlook remained stable, in line with the outlook of the sovereign rating.

The b1 BCA incorporates the consistent track record of good asset quality and profitability metrics the bank has reported in the last two years, including during the country´s weak economic activity in 2020 due to the Covid-19 pandemic. The BCA upgrade also reflects Banreservas solid access to inexpensive retail deposit funding and ample liquidity buffers. These credit strengths help balance the bank´s historically weak adjusted capitalization.

Banreservas' Ba3 local- and foreign-currency deposit ratings are at the level of the DR's rating, and receive one notch of uplift from the bank's b1 BCA because of our assumption of full government support. The bank is 100% owned by the Government of the Dominican Republic (DR, Ba3 stable). In addition, the assumption of government support reflects the close financial and business links between the two entities and the importance of the bank's deposit and lending franchise.

Exhibit 1
Rating Scorecard - Key financial ratios
Historical scorecard ratios as of March 2021



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

» Strong profitability on the back of an ample net interest margin (NIM), as well as moderate provisions and low taxes

» Stable deposit funding and good liquidity, which balance the short-term liability maturities

» Historically strong asset quality

Credit challenges

» Expected deterioration in asset quality driven by the coronavirus pandemic and the end of flexibility measures

» Weak core capitalization

» The DR's operating environment for banks, as measured by its Macro Profile of Weak+

Outlook

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

Factors that could lead to an upgrade

Banreservas' standalone BCA could be upgraded in case of steady improvement in the bank´s capital position, particularly if asset quality metrics remain under control during the recovery of economic activity in the country. In addition, a strengthening in profitability metrics would also affect the bank´s BCA positively. A BCA upgrade would result in an upward movement of the bank´s subordinated debt rating. Deposit ratings could be upgraded in case of an upgrade of the DR´s sovereign rating.

Factors that could lead to a downgrade

Banreservas' standalone BCA could be downgraded in case of consistent deterioration in asset quality and profitability metrics, which would have a negative impact on the bank's capitalization. Additionally, a significant increase in the transfers of earnings to the government could affect the bank´s capacity to replenish capital and have a downward pressure on its BCA. The deposit ratings could be downgraded in case of a downgrade of the sovereign rating.

Key indicators

Exhibit 2

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

	03-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (DOP Million)	722,604.4	717,013.1	570,493.7	505,388.5	463,425.3	14.6[4]
Total Assets (USD Million)	12,739.9	12,331.5	10,691.4	10,110.8	9,575.9	9.2[4]
Tangible Common Equity (DOP Million)	40,221.1	35,605.3	29,196.1	25,163.0	25,354.8	15.3[4]
Tangible Common Equity (USD Million)	709.1	612.4	547.2	503.4	523.9	9.8[4]
Problem Loans / Gross Loans (%)	1.7	1.9	1.4	1.5	1.8	1.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	6.8	6.3	6.9	6.9	6.8	6.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.5	11.1	12.8	14.6	15.5	12.7[5]
Net Interest Margin (%)	6.6	6.6	6.7	6.7	6.4	6.6[5]
PPI / Average RWA (%)	5.9	4.9	3.9	3.4	3.4	4.3[6]
Net Income / Tangible Assets (%)	1.9	1.5	1.6	1.4	1.4	1.6[5]
Cost / Income Ratio (%)	59.9	62.7	68.9	71.3	70.4	66.7[5]
Market Funds / Tangible Banking Assets (%)	29.6	28.9	30.7	35.3	35.8	32.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	52.8	53.5	36.3	33.0	32.4	41.6[5]
Gross Loans / Due to Customers (%)	81.7	78.9	111.8	126.8	130.5	105.9[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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Profile

Banreservas is the DR's largest bank, accounting for about one-third of the system's assets. 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 public-sector lending. Commercial loans to the private sector comprised 4% of the bank's loan book as of March 2021, followed by consumer loans (26%), mortgages (15%) and loans to public entities (12%).

The bank is 100% controlled by the Dominican State, and it reported total assets of $12.7 billion as of March 2021.

Recent developments

The outlook on the Central American banking systems is negative, based on our expectation that banks' nonperforming loans (NPLs) will rise in the region in the next 12 months, after the end of regulatory measures that enabled banks to defer loan payments. The negative outlook also reflects the linkages between banks' creditworthiness in the region and that of their respective sovereign governments, whose ratings are predominantly negative. Banks' profitability will benefit from stronger business volume, but earnings origination will likely be capped by the persistently high volume of loan-loss provisions, resulting in more modest growth than before the pandemic.

The Dominican Republic's Government, the Central Bank and the Superintendency of Banks have implemented several measures that involve the banking system to address the economic impact of the pandemic, including a reduction of minimum reserve requirements for banks that lend to households and small companies at capped interest rates, forbearance for the recognition and provisioning of problem loans, interest rate reduction and introduction of liquidity lines for banks both in local and foreign currency.

Detailed credit considerations

Asset quality may weaken due to end of relief measures during the pandemic

Despite relatively rapid loan growth in recent years, in line with the DR's GDP growth up to 2019, asset risks have remained contained in the past 12 months, as illustrated by a low level of nonperforming loans (NPLs) and thick reserve coverage of NPLs. In March 2021, total NPLs were at 1.7% of gross loans, in line with March 2020, and down from 1.9% in December 2020. Loan loss reserves were strong at about 3.5x of NPLs as of March 2021, higher than 3.0x in December 2020 and 1.9x in March 2020.

However, Banreservas' asset quality metrics may weaken in the second half of 2021 after the end of government's loan restructuring measures to provide relief to households and commercial borrowers because of the coronavirus pandemic. Despite that, Banreservas has built prudential provisions against expected credit losses, with total loan loss reserves representing 5.9% of gross loans as of March 2021, from 3.3% as of March 2020.

In addition, asset risk may rise because of previous rapid growth in the inherently higher-risk consumer financing segment, coupled with still high borrower concentration in loans to the public and private sectors. Loans to consumers accounted for 27% of gross loans in March 2021, after loan volume in the segment decrease slightly 1% from March 2020. However, this came after loans to consumers grew 13% year-over-year as of December 2020. Also in March 2021, the NPL ratio for consumer loans was at a still-manageable level of 2.4%, higher than the metric for the overall portfolio. At the same time, the 20 largest private loan exposures comprise about 1.2x the bank's tangible common equity (TCE) and the 20 largest public loan exposures comprise about 1.0x of the bank´s TCE as of March 2021.

Because of the dollarization of the balance sheet, Banreservas is also exposed to credit and market risks stemming from currency mismatches. As of March 2021, net foreign-currency loans represented about 15% of total loans.

Moody's-adjusted core capital ratio remains low

Banreservas' core capitalization remains weak when measured by our preferred TCE to risk-weithed assets (RWA) ratio, which was 6.8% as of March 2021. At this level, the TCE/RWA ratio 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 16.8% of risk-weighted assets in March 2021. The regulatory ratio benefits from non-tradable government bonds that the government has used to capitalize the bank in the past and a zero risk weight accor[illegible] bank's holdings of government securities and/or loans to the public sector.

The achievement of the paid-in capital goal of DOP10 billion in 2016 was offset by large dividend payments in 2017-20 of above 60% of net income, in line with Banreservas' organic law. The latter mandates that 35% of earnings must be retained, 15% must be used to repay the government's outstanding debt with the bank and 50% may be distributed as dividends after paying at least 5% of the National Treasury's outstanding bonds.

Strong profitability on the back of ample net interest margin

Banreservas' robust profitability is supported by its net interest margins (NIM) and by low, although rising, credit costs, which provide a key buffer against potential deterioration in asset quality. In March 2021, the ratio of net income to tangible assets increased to 1.95% from 1.67% as of March 2020. The bank's return on assets increased to 1.95% in the first three months of 2021 from 1.68% one year prior, mainly as a result of higher net interest income and non-interest income. The bank's NIM remained stable at 6.6% as of March 2021, in line with the last three-year average.

On the other hand, credit costs increased in 2020 and the bank reported a 256% increase in provisions in March 2021 from the previous year, reaching 4.1% of gross loans in 1Q 2021 from 1.2% in 1Q 2010. Unlike consumer credit, government loans, as well as credit to some power-generating and road infrastructure endeavors, are not required to be provisioned. In addition, Banreservas' fee income has been rising gradually and contributed 10% of net revenue as of March 2021.

Operating efficiency continues to represent a challenge, with relatively high operating costs, which consumed about 60% of net revenue. Likewise, operating costs were at 7% of total assets in Q1 2021, up from the 6% presented as of March 2020. Finally, the bank is exempted from income tax, although it voluntarily pays some taxes. The effective tax rate was about 9% as of March 2021.

The key risks to the bank's profitability include potentially rising credit costs because of asset-risk pressures arising from the pandemic, as well as increasing exposures to the consumer sector, although the latter are likely to be offset by higher margins.

Stable deposit funding 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 also benefits from ample access to low-cost deposits. The bank's reported market funds were at 30% of its total assets as of March 2021; however, if certificates of time deposits (valores en circulación) were deducted from market funds, the metric would have declined to 10%, indicating limited refinancing and repricing risks. These time certificates of deposits are reportedly equal to time deposits. The key difference is currency; certificates of time deposits are largely denominated in Dominican pesos, while time deposits are denominated in US dollars.

However, the deposit base is concentrated, with the top 20 deposits representing close to 20% of the total deposits in March 2021, while about 19% of total deposits and certificates of time deposits are held by the public sector. In addition, the bank's funding structure is significantly skewed toward short-term maturities, reflected by the fact that 63% of its total liabilities are due in less than 30 days. However, as of March 2021, 88% of total deposits comprised core deposits (demand deposits and savings accounts), which tend to be sticky, allowing for a better match of the longer-term loan book.

Liquidity remains thick and has recently improved in line with the growth of the deposit base and more subdued loan growth, with liquid banking assets representing 53% of tangible banking assets, chiefly constituting government securities and deposits at the central bank.

Banreservas' credit profile is influenced by the DR's Weak+ Macro Profile

The DR's Weak+ Macro Profile balances robust medium-term growth prospects and contained external and government liquidity risks with weak fiscal and institutional strength. The coronavirus pandemic caused a severe negative shock to the economy and to the government's fiscal and debt metrics. While the debt burden will remain lower than the Ba median, debt affordability is notably weaker. We expect revenue-enhancing measures to bolster this long-standing credit weakness.

After growing by 5% in 2019, in line with the country's potential growth rate, the economy is estimated to have contracted significantly in 2020 (-6.7%) because of the sharp decline in tourist arrivals (borders were closed from mid-March to the end of June 2020) and the impact on domestic consumption of the pandemic-induced social distancing and quarantine measures. This year, we expect growth to rebound to 6%, better than what we previously expected.

Notwithstanding still-low financial intermediation, bank credit has grown substantially in the last few years. NPLs have remained relatively low, although we expect an increase because of the virtual halt of economic activity in the country due to the pandemic. The highly concentrated banking system provides the country's leading banks strong pricing power, while stable deposits and ample liquidity buffers support financial flexibility.

ESG considerations

Banreservas' exposure to environmental risks is low, consistent with our general assessment for the global banking sector. See our environmental risk heat map for further information.

Overall, we view banks as facing moderate social risks. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries affecting demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue base. See our social heat map for further information.

Governance is highly relevant for Banreservas, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Banreservas, we do not have any particular governance concerns. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Government support

The bank's local and foreign currency deposit ratings of Ba3 receive a one-notch uplift from the adjusted BCA of b1 reflecting our assessment that, as a government-backed bank, Banreservas receives full government support. Banreservas is 100% owned by the government of the DR. 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.

The B2 foreign-currency subordinated debt rating reflects a low probability of government support for the bank's subordinated debt because the purpose of this instrument is to absorb losses.

Counterparty Risk (CR) Assessment

Banreservas' CR Assessment is positioned at Ba3(cr)/NP(cr)

The CR Assessment is positioned one notch above the Adjusted BCA of b1 and, therefore, in line with the deposit rating, reflecting our view that its probability of default is in line with deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions.

Counterparty Risk Ratings (CRRs)

Banreservas' CRRs are positioned at Ba3/NP

The CRR is positioned one notch above the Adjusted BCA of b1 and, therefore, in line with deposit ratings, reflecting our view that CRR liabilities have a the same probability of default than the bank's deposits.

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 3

Banco de Reservas de la Republica Dominicana

Macro Factors		
Weighted Macro Profile	**Weak +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.7%	ba1	↔	ba2	Single name concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel I)	6.8%	caa1	↔	caa1	Capital fungibility	
Profitability						
Net Income / Tangible Assets	1.6%	ba1	↔	ba2		
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	28.9%	b1	↔	ba3	Deposit quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	53.5%	baa2	↔	ba2	Quality of liquid assets	
Combined Liquidity Score		ba2		ba3		
Financial Profile				b1		
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				ba3 - b2		
Assigned BCA				b1		
Affiliate Support notching				0		
Adjusted BCA				b1		

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	ba3	0	Ba3	Ba3
Counterparty Risk Assessment	1	0	ba3 (cr)	0	Ba3(cr)	
Deposits	0	0	b1	1	Ba3	Ba3
Dated subordinated bank debt	-1	0	b2	0		B2

[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 4

Category	Moody's Rating
BANCO DE RESERVAS DE LA REPUBLICA DOMINICANA	
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba3(cr)/NP(cr)
Subordinate	B2

Source: Moody's Investors Service

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