

Fitch Affirms Banreservas' IDRs at 'B'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Banco de Reservas de la Republica Dominicana Banco de Reservas de la Republica Dominicana, Banco de Servicios Multiples y Subsidiarias' (Banreservas) long-term International Default Ratings (IDRs). The Ratings Outlook is Stable. A complete list of rating actions is provided at the end of this press release.

Fitch affirmed Banereservas' Viability Rating (VR) at 'b' as the deterioration of the bank's financial profile through mid-2013 has reversed as anticipated. The Stable Outlooks on Banreservas' long-term IDRs and National rating are in line with those of the sovereign.

KEY RATING DRIVERS - IDRs, VR, National Ratings and Subordinated Notes

Banreservas' VR drives its IDR and National ratings. The operating environment highly influences Banreservas' VR given the challenges associated with operating in a small island economy relative to banks operating in larger Latin American economies. Other factors that weigh heavily on the bank's VR include its high and volatile public sector exposure and low capital base. Furthermore, swings in profitability and asset quality metrics relative to both domestic and similarly rated international peers (emerging market commercial banks with a VR of 'b-', 'b', or 'b+') also drive the bank's VR.

The rating on Banreservas' subordinated notes is one notch below its VR, reflecting one notch for loss severity, but no notches for incremental non-performance risk relative to the bank's VR.

Fitch views the bank's capitalization as weak relative to domestic and international peers, given its large public sector exposure and lower reserve coverage of problem assets. Banreservas' tangible common equity/tangible assets ratio of 6.6% as of March 31, 2014, is the lowest among large Dominican banks as asset growth significantly exceeded internal capital generation in 2013.

Banreservas' lower yield on its loan portfolio contributes to its weak net interest margin

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(NIM) relative to other large domestic banks. However, better efficiency and asset growth continued to bolster profitability into the first quarter of 2014. The profitability gap with the market average and international peers has been narrowing. With a reduction in credit costs starting in 2014, the bank's operating ROAA is expected to remain between 2.0% and 2.5% over the medium term.

Loan quality improved in 2013 reflecting a combination of charge-offs, restructurings and robust loan growth. Private sector impaired loans/gross private sector loans declined to 3.2% at end-March 2014 from 10.9% at YE2012. Reserves for impaired loans also increased slightly in nominal terms, which combined with lower impaired loans led to an improvement in the bank's reserve coverage of impaired loans to 143% from 64% during this same period. Nevertheless, this ratio continued to compare unfavorably to both large domestic and international peers.

The bank's liquidity was in line with domestic peers. Like most emerging market banks, Banreservas has a significant negative contractual maturity gap for assets and liabilities maturing in less than one year. The cumulative gap for less than one year was covered by the bank's liquid assets at the end of December 2013 (cash and other securities excluding treasury bonds). Similar to other domestic banks, a high proportion of Banreservas' securities holdings (47% at YE2013) were issued domestically by the Dominican government. Fitch notes these can be of limited liquidity in a stress scenario, given the shallow domestic debt market.

As of March 31, 2014, Banreservas was the largest bank out of 15 commercial and multiple service banks, with 28% of total financial system assets. The bank is the government's main paying agent and also holds the largest share of deposits in the system.

RATING SENSITIVITIES - IDRs, VRs, National Ratings and Subordinated Notes

Changes in the IDRs and National ratings are contingent on sovereign rating actions.

An unexpected deterioration in asset quality or profitability and sustained high

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disbursements of income to the government that pressures Banreservas' equity/assets ratio below 5.5% could trigger a downgrade of its VR. Even in the event of a sovereign upgrade, upside potential for Banreservas' VR is limited in the medium term given important asset and liability concentrations and the bank's comparatively weaker loan quality and capitalization.

The subordinated debt rating is sensitive to any change in Banreservas' VR.

KEY RATING DRIVERS - Support and Support Rating Floor

The bank's systemic importance, its role as the government's main paying agent and provider of domestic loans, results in an equalization of its Support Rating Floor with the sovereign's LT IDR of 'B'. Additionally, Fitch believes the government's willingness to support Banreservas should it be required is substantial given its 100% stake in the bank. However, the Dominican Republic's speculative-grade rating limits the sovereign's capacity of support, resulting in a Support rating of '4'.

RATING SENSITIVITIES - Support and Support Rating Floor

Any changes to the bank's Support Rating and Support Rating Floor will depend on future sovereign rating actions. Currently, the Outlook on the Dominican Republic's long-term local- and foreign-currency IDRs is Stable.

Fitch affirmed Banreservas' ratings as follows:

--Foreign and local currency IDRs at 'B'; Outlook Stable;

--Short-term foreign and local currency IDRs at 'B';

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--Viability Rating at 'b';

--Support Rating at '4';

--Support Floor at 'B';

--Long-term subordinated notes at 'B-'

--National long-term rating at 'AA-(dom)'; Outlook Stable;

--National short-term rating at 'F1+(dom)'.

Additional information is available at 'www.fitchratings.com' and 'www.fitchdominica.com'.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (Jan. 31, 2014);

--'Assessing and Rating Bank Subordinated and Hybrid Securities' (Jan. 31, 2014);

--'Fitch Affirms Dominican Republic's Ratings at 'B'; Outlook Stable; (Nov. 26, 2013);

--'2014 Outlook: Central America and the Dominican Republic' (Dec. 16, 2013).

Applicable Criteria and Related Research:

2014 Outlook: Central America and the Dominican Republic

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725825

Assessing and Rating Bank Subordinated and Hybrid Securities Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732137

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

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