

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Financial Statements

September 30, 2019

(Free Translation from the Original Spanish-Language Version)

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Balance Sheets

(Free Translation From the Original Spanish-Language Version)

Amounts in Thousands of Dominican Pesos (RD\$)

	<u>At September 30,</u> <u>2019</u>	<u>At December 31,</u> <u>2018</u>
<b>ASSETS</b>		
<b>Available funds (notes 3, 4, 34, 35 and 36)</b>		
Cash on hand	6,618,696	6,821,550
Central Bank	53,046,104	65,995,686
Local banks	4,234,548	3,359,184
Foreing banks	9,981,717	6,839,409
Other funds	672,860	212,839
Interests receivable	6,032	5,675
	<u>74,559,957</u>	<u>83,234,343</u>
<b>Investments (notes 3, 6, 14, 34, 35, 36 and 38)</b>		
Other investments in debt instruments	121,189,227	80,783,908
Interests receivable	1,461,896	1,810,025
Allowance for investments	(347,675)	(317,005)
	<u>122,303,448</u>	<u>82,276,928</u>
<b>Loans portfolio (notes 3, 7, 14, 34, 35, 36 and 38)</b>		
Current	301,938,861	305,327,975
Restructured	3,231,096	3,186,940
Past due	3,911,500	3,278,070
In legal collection	1,692,948	1,715,146
Interests receivable	4,616,171	5,261,829
Allowance for loans	(9,754,822)	(8,566,071)
	<u>305,635,754</u>	<u>310,203,889</u>
<b>Debtors by acceptances (notes 3, 8 and 34)</b>		
	<u>1,607,589</u>	<u>929,408</u>
<b>Accounts receivable (notes 3, 9, 34 and 36)</b>		
Commissions receivable	208,563	211,392
Accounts receivable	1,573,058	1,106,083
Insurance premiums receivable	2,430,805	2,387,539
Receivables from insurance and guarantees	6,881	5,820
Interests receivable	1,034	1,521
	<u>4,220,341</u>	<u>3,712,355</u>
<b>Assets received in lieu of foreclosure of loans (notes 10, 14 and 38)</b>		
Assets received in lieu of foreclosure of loans	9,539,221	9,507,348
Allowance for assets received in lieu of foreclosure of loans	(8,295,448)	(7,554,613)
	<u>1,243,773</u>	<u>1,952,735</u>
<b>Investments in shares (notes 3, 11, 14, 34, 35, and 38)</b>		
Investments in shares	1,356,098	1,269,854
Allowance for investments in shares	(28,905)	(31,247)
	<u>1,327,193</u>	<u>1,238,607</u>
<b>Property, furniture and equipment (note 12)</b>		
Property, furniture and equipment	18,321,837	17,307,888
Accumulated depreciation	(5,190,585)	(4,535,471)
	<u>13,131,252</u>	<u>12,772,417</u>
<b>Properties under development intended for sale and lease</b>		
	<u>881,895</u>	<u>905,681</u>
<b>Other assets (notes 3, 13, 22 and 34)</b>		
Deferred charges	3,744,428	3,704,144
Intangibles	3,046,498	3,065,876
Other assets	748,443	1,535,753
Accumulated amortization	(487,943)	(143,611)
	<u>7,051,426</u>	<u>8,162,162</u>
<b>TOTAL ASSETS</b>	<u><b>531,962,628</b></u>	<u><b>505,388,525</b></u>
Contingent accounts (notes 23 and 27)	<u><b>1,614,599,988</b></u>	<u><b>881,471,000</b></u>
Memorandum accounts (note 28)	<u><b>2,886,749,578</b></u>	<u><b>1,682,727,342</b></u>

(Continues)

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Balance Sheets

(Free Translation From the Original Spanish-Language Version)

Amounts in Thousands of Dominican Pesos (RD\$)

	<u>At September 30,</u> <u>2019</u>	<u>At December 31,</u> <u>2018</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Customers' deposits (notes 3, 15, 34, 35 and 36)</b>		
Checking	72,916,382	59,490,014
Savings	157,391,671	153,978,483
Time	46,612,911	38,745,933
Interests payable	<u>132,328</u>	<u>-</u>
	<u>277,053,292</u>	<u>252,214,430</u>
<b>Deposits from domestic and foreign financial institutions (notes 3, 16, 34 and 35)</b>		
From domestic financial institutions	11,943,525	25,044,419
Interests payable	<u>1,044</u>	<u>-</u>
	<u>11,944,569</u>	<u>25,044,419</u>
<b>Borrowed funds (notes 3, 17, 34 and 35)</b>		
From Central Bank	68,448	20,196
From domestic financial institutions	-	2,022,563
From foreign financial institutions	19,609,711	20,977,242
Others	1,757,404	5,554,541
Interests payable	<u>157,583</u>	<u>257,152</u>
	<u>21,593,146</u>	<u>28,831,694</u>
<b>Outstanding acceptances (notes 3, 8 and 34)</b>		
	<u>1,607,589</u>	<u>929,408</u>
<b>Outstanding securities (notes 18, 34, 35 and 36)</b>		
Securities	137,000,924	122,209,317
<b>Creditors for insurance and bank guarantees (notes 3 and 24)</b>		
	767,918	1,143,360
<b>Insurance premium deposits</b>		
	<u>402,927</u>	<u>399,277</u>
<b>Other liabilities (notes 3, 14, 19, 22, 27 and 34)</b>		
	<u>11,857,818</u>	<u>9,668,103</u>
<b>Technical reserves (note 3 and 21)</b>		
Mathematical and technical life insurance reserves	241,747	149,769
Reserves for unearned insurance premiums	<u>4,752,660</u>	<u>4,033,553</u>
	<u>4,994,407</u>	<u>4,183,322</u>
<b>Subordinated debts (notes 3, 20, 34 and 35)</b>		
Subordinate debts	25,516,272	24,874,305
Interest payable	<u>412,856</u>	<u>447,798</u>
	<u>25,929,128</u>	<u>25,322,103</u>
<b>TOTAL LIABILITIES</b>		
	<u>493,151,718</u>	<u>469,945,433</u>
<b>NET EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (notes 25 and 38)</b>		
Paid-in capital	10,000,000	10,000,000
Other equity reserves	19,641,993	19,641,993
Revaluation surplus	699,965	699,965
Retained earnings from previous periods	1,269,176	193,227
Net income for the year	6,877,876	4,651,699
	<u>38,489,010</u>	<u>35,186,884</u>
<b>Non-controlling interests</b>		
	<u>321,900</u>	<u>256,208</u>
<b>TOTAL EQUITY</b>		
	<u>38,810,910</u>	<u>35,443,092</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		
	<u>531,962,628</u>	<u>505,388,525</u>
Contingent accounts (notes 23 and 27)	<u>1,614,599,988</u>	<u>881,471,000</u>
Memorandum accounts (note 28)	<u>2,886,749,578</u>	<u>1,682,727,342</u>

These consolidated financial statements are to be read in conjunction with their accompanying notes.

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**Simón Lizardo Mézquita**  
General Administrator

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**Andrés Guerrero**  
Comptroller

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Statements of Profit or Loss

*(Free Translation From the Original Spanish-Language Version)*

Amounts in Thousands of Dominican Pesos (RD\$)

	<b>Nine month periods ended</b>	
	<b><u>At September 30,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Financial income (notes 6, 7, 29 and 36)</b>		
Interest and commissions on loans	27,790,884	25,337,560
Interest on investments	7,881,623	6,159,533
Gains on sale of investments and securities	1,605,908	1,483,301
Insurance premiums net of returns and cancellations	5,826,084	5,210,585
	<u>43,104,499</u>	<u>38,190,979</u>
<b>Financial expenses (notes 15, 16, 17, 18, 20, 29 and 36)</b>		
Interest on deposits	(9,505,483)	(8,259,172)
Loss on sale of investments and securities	(515,777)	(375,473)
Interest and commissions on borrowed funds	(1,056,348)	(657,560)
Reinsurance expense	(1,708,007)	(1,496,927)
Insurance claims and contractual obligations	(2,212,197)	(2,263,374)
Expenses related to technical adjustment to reserves	(127,632)	(112,850)
Expenses related to acquisition, conservation and collection of insurance premiums	(600,023)	(535,470)
	<u>(15,725,467)</u>	<u>(13,700,826)</u>
<b>Gross financial margin</b>	<u>27,379,032</u>	<u>24,490,153</u>
Allowance for loan losses (note 14)	(2,452,493)	(2,562,353)
Allowance for investments (note 14)	-	(11,015)
	<u>(2,452,493)</u>	<u>(2,573,368)</u>
<b>Net financial margin</b>	<u>24,926,539</u>	<u>21,916,785</u>
<b>Foreign exchange gain (loss) (note 30)</b>	<u>(360,031)</u>	<u>(442,261)</u>
<b>Other operating income (notes 31 and 36)</b>		
Credit card fees	1,885,188	1,568,021
Service fees	5,090,074	4,701,619
Foreign exchange commissions	1,103,387	1,145,367
Miscellaneous income	3,023,344	1,575,458
	<u>11,101,993</u>	<u>8,990,465</u>
<b>Other operating expenses (notes 31 and 36)</b>		
Commissions for services	(960,873)	(683,018)
Miscellaneous expenses	(1,843,199)	(1,721,653)
	<u>(2,804,072)</u>	<u>(2,404,671)</u>
<b>Gross operating profit</b>	<u>32,864,429</u>	<u>28,060,318</u>
<b>Operating expenses (notes 14, 27, 33 and 37)</b>		
Salaries and personnel compensation	(13,690,387)	(12,490,303)
Professional fees	(2,489,729)	(1,995,990)
Depreciation and amortization	(1,375,370)	(947,644)
Other provisions	(1,242,240)	(1,121,197)
Other expenses	(5,514,750)	(4,757,367)
	<u>(24,312,476)</u>	<u>(21,312,501)</u>
<b>Net operating profit</b>	<u>8,551,953</u>	<u>6,747,817</u>

(Continues)

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Statements of Profit or Loss

*(Free Translation From the Original Spanish-Language Version)*

Amounts in Thousands of Dominican Pesos (RD\$)

	<b>Nine month periods ended</b>	
	<b><u>At September 30,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Other income (expenses) (note 32)</b>		
Other income	1,006,995	930,849
Other expenses	<u>(1,709,768)</u>	<u>(1,574,729)</u>
	<u>(702,773)</u>	<u>(643,880)</u>
<b>Profit before income tax</b>	7,849,180	6,103,937
Income tax (note 22)	<u>(905,612)</u>	<u>(493,066)</u>
<b>Net profit for the period</b>	<b><u>6,943,568</u></b>	<b><u>5,610,871</u></b>
<b>ATTRIBUTABLE TO:</b>		
Owners of the Bank		
(Parent Company)	6,877,876	5,583,611
Non-controlling interests	<u>65,692</u>	<u>27,260</u>
	<b><u>6,943,568</u></b>	<b><u>5,610,871</u></b>

These consolidated financial statements are to be read in conjunction with their accompanying notes.

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**Simón Lizardo Mézquita**  
General Administrator

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**Andrés Guerrero**  
Comptroller

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

*(Free Translation From the Original Spanish-Language Version)*

Amounts in Thousands of Dominican Pesos (RD\$)

	<b>Nine month periods ended</b>	
	<b><u>At September 30,</u></b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Interest and commissions collected from loans	28,436,542	24,062,693
Other financial income collected	9,319,620	7,010,172
Other operating income collected	11,101,993	8,990,465
Insurance premium collected	5,786,468	5,284,313
Insurance and guarantees	(2,001,080)	(1,496,948)
Interest paid on deposits	(9,512,888)	(8,276,122)
Interest and commissions paid on borrowed funds	(1,155,917)	(602,251)
General and administrative expenses paid	(21,710,160)	(19,246,245)
Other operating expenses paid	(2,804,072)	(2,404,671)
Income taxes paid	(905,612)	(493,066)
Insurance claims and contractual obligation	(2,212,197)	(2,263,374)
Miscellaneous payments by operating activities	<u>1,939,832</u>	<u>(2,684,711)</u>
<b>Net cash provided by operating activities</b>	<u>16,282,529</u>	<u>7,880,255</u>
<b>CASH FROM INVESTMENT ACTIVITIES</b>		
Increase (decrease) in investments	(40,455,841)	1,642,784
Loans granted	(371,849,464)	(165,610,770)
Loans collected	372,504,681	162,930,081
Interbank funds granted	(22,380,000)	(8,120,000)
Interbank funds collected	22,380,000	8,120,000
Decrease in properties under development intended for sale and lease	23,786	(26,358)
Acquisition of property, furniture and equipment	(1,627,830)	(643,915)
Proceeds from sale of property, furniture and equipment	261,773	29,709
Proceeds from sale of assets received in lieu of foreclosure of loans	<u>294,340</u>	<u>158,215</u>
<b>Net cash used in investment activities</b>	<u>(40,848,555)</u>	<u>(1,520,254)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Deposits received	4,602,148,993	4,020,859,216
Returned deposits	(4,575,618,374)	(4,015,045,847)
Borrowed funds received	62,175,774	40,259,679
Borrowed funds paid	(69,314,753)	(39,170,576)
Dividends paid and other payments to equityholders	<u>(3,500,000)</u>	<u>(3,010,406)</u>
<b>Net cash provided by financing activities</b>	<u>15,891,640</u>	<u>3,892,066</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(8,674,386)	10,252,067
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>83,234,343</u>	<u>58,854,519</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>74,559,957</u></u>	<u><u>69,106,586</u></u>

(Continues)

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(Free Translation From the Original Spanish-Language Version)

Amounts in Thousands of Dominican Pesos (RD\$)

	<b>Nine month periods ended</b>	
	<b>At September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Reconciliation between the net profit for the period and net cash provided by operating activities</b>		
Net profit for the period	6,943,568	5,610,871
Adjustments to reconcile net income for the period to net cash provided by operating activities:		
Provisions for risky assets and contingencies	3,694,733	3,694,565
Mathematical and Technical reserves increase	127,632	112,850
Depreciation and amortization	1,360,076	945,059
Gain on sale of property, furniture and equipment	(8,522)	(6,441)
Equity on earnings in other companies	(106,374)	(119,314)
Gain on sale of assets received in loan settlements	(30,294)	(9,700)
Currency exchange rate fluctuations, net	677,736	384,983
Amortization of debt issuance cost and discount on subordinated debts	27,537	26,485
Net change in assets and liabilities:		
Interests receivable	993,524	(1,532,056)
Debtors by acceptances	(678,181)	735,345
Commissions receivable	2,829	(183,835)
Accounts receivable	(487,140)	674,359
Insurance premiums receivable	(43,266)	(299,009)
Receivables from reinsurance and guarantees	(1,061)	1,938
Deferred charges	(40,284)	(719,001)
Intangibles	19,378	(22,714)
Other assets	787,310	(388,846)
Interests payable	(134,511)	11,874
Outstanding acceptances	678,181	(735,345)
Creditors of insurance and bank guarantees	(375,442)	(9,373)
Insurance premium deposits	3,650	372,737
Other liabilities	2,187,997	(1,208,061)
Technical reserves	683,453	542,884
<b>Total adjustments</b>	<b>9,338,961</b>	<b>2,269,384</b>
<b>Net cash provided by operating activities</b>	<b>16,282,529</b>	<b>7,880,255</b>

These consolidated financial statements are to be read in conjunction with their accompanying notes.

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**Simón Lizardo Mézquita**  
General Administrator

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**Andrés Guerrero**  
Comptroller

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Consolidated Statements of Changes in Equity

Nine Month Periods Ended at September 30, 2019 and 2018

*(Free Translation From the Original Spanish-Language Version)*

Amounts in Thousands of Dominican Pesos (RD\$)

	Paid-in <u>Capital</u>	Other Equity <u>Reserves</u>	Revaluation <u>Surplus</u>	Retained Earning from Previous <u>Periods</u>	Net Income for <u>the year</u>	<u>Total</u>	Non-controlling <u>Interests</u>	Total <u>Equity</u>
Balances at January 1st, 2018	10,000,000	17,137,232	711,105	26,219	4,205,360	32,079,916	221,769	32,301,685
Transfer to retained earnings	-	-	-	4,205,360	(4,205,360)	-	-	-
Dividends in cash paid to minority interest	-	-	-	-	-	-	(10,406)	(10,406)
Dividends paid to the Dominican Republic Government (note 25):								
Cash	-	-	-	(3,000,000)	-	(3,000,000)	-	(3,000,000)
Voucher amortization of National Treasury Law 99-01	-	-	-	(75,000)	-	(75,000)	-	(75,000)
Voucher interest payment of National Treasury Law 99-01	-	-	-	(1,500)	-	(1,500)	-	(1,500)
Debt amortization of the Dominican Republic State	-	-	-	(972,992)	-	(972,992)	-	(972,992)
Net profit for the year	-	-	-	-	5,583,611	5,583,611	27,260	5,610,871
<b>Balances at September 30, 2018</b>	<b><u>10,000,000</u></b>	<b><u>17,137,232</u></b>	<b><u>711,105</u></b>	<b><u>182,087</u></b>	<b><u>5,583,611</u></b>	<b><u>33,614,035</u></b>	<b><u>238,623</u></b>	<b><u>33,852,658</u></b>
<b>Balances at December 31, 2018</b>	<b>10,000,000</b>	<b>19,641,993</b>	<b>699,965</b>	<b>193,227</b>	<b>4,651,699</b>	<b>35,186,884</b>	<b>256,208</b>	<b>35,443,092</b>
Transfer to retained earnings	-	-	-	4,651,699	(4,651,699)	-	-	-
Dividends paid to the Dominican Republic Government (note 25):								
Cash	-	-	-	(3,500,000)	-	(3,500,000)	-	(3,500,000)
Voucher amortization of National Treasury Law 99-01	-	-	-	(75,000)	-	(75,000)	-	(75,000)
Voucher interest payment of National Treasury Law 99-01	-	-	-	(750)	-	(750)	-	(750)
Net profit for the year	-	-	-	-	6,877,876	6,877,876	65,692	6,943,568
<b>Balances at September 30, 2019</b>	<b><u>10,000,000</u></b>	<b><u>19,641,993</u></b>	<b><u>699,965</u></b>	<b><u>1,269,176</u></b>	<b><u>6,877,876</u></b>	<b><u>38,489,010</u></b>	<b><u>321,900</u></b>	<b><u>38,810,910</u></b>

These consolidated financial statements are to be read in conjunction with their accompanying notes.

**Simón Lizardo Mézquita**  
General Administrator

**Andrés Guerrero**  
Comptroller



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

As of September 30, 2019 and December 31, 2018 and for the Nine Months Periods  
Ended September 30, 2019 and 2018

*(Free Translation From the Original Spanish-Language Version)*

Amounts in Thousands of Dominican Pesos (RD\$)

**1 Entity**

Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and subsidiaries (the Bank), is owned by the Dominican Republic State and was incorporated on October 24, 1941 under Law No. 581, amended by Law No. 6133 of December 17, 1962, which was modified by Law No. 281 of January 1<sup>st</sup>, 1976 and its modifications.

The Bank offers multiple banking services to the Dominican Republic Government, its autonomous entities and state-owned companies (public sector), as well as privately owned companies and the general public (private sector). Its main activities are to provide loans, placement of investments, deposits, financing, sales of insurances, management of pension funds and health services, sale and development of real estate projects, subscription and sale of securities, trust management, among others.

The main offices are located at Torre Banreservas on Winston Churchill Avenue, Santo Domingo, Dominican Republic.

A detail of the principal officers of the Bank is as follows:

<u>Name</u>	<u>Position</u>
Donald Guerrero Ortiz	Minister of Finance - Ex-Officio Chairman
Simón Lizardo Mézquita	General Administrator
Aracelis Medina Sánchez	Deputy Administrator - Administration
Rienzi M. Pared Pérez	Deputy Administrator - Subsidiary Entities
Andrés Guerrero	Comptroller
Melvin Felipe Deschamps	Treasury Director
Julio Enrique Páez Presbot	General Auditor

The Bank is regulated by the Monetary and Financial Law and its regulations as well as by resolutions of the Monetary Board and the Superintendence of Banks of the Dominican Republic.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 1 Entity (continued)

As of September 30, 2019 and December 31, 2018, a detail of the Bank's offices, automatic teller machines (ATMs) and post offices is as follows:

<u>Location</u>	<u>2019</u>			<u>2018</u>		
	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>
Metropolitan area	102	348	-	107	353	-
Provinces	<u>186</u>	<u>373</u>	<u>10</u>	<u>187</u>	<u>371</u>	<u>10</u>
	<u><b>288</b></u>	<u><b>721</b></u>	<u><b>10</b></u>	<u><b>294</b></u>	<u><b>724</b></u>	<u><b>10</b></u>

(\*) Correspond to branches, agencies and service centers.

The Bank signed service agreements with multiple merchants located in different parts of the country called banking subagents, through which general public has access to financial services. As of September 30, 2019 and December 31, 2018, the network of subagents was 1,260 (433 in the metropolitan area and 827 in the interior of the country) and 1,259 (433 in the metropolitan area and 826 in the interior of the country) businesses authorized, respectively.

The consolidated financial statements were approved for issuance by the Board of Directors on November 26, 2019.

## 2 Summary of significant accounting policies

### 2.1 Accounting basis of the consolidated financial statements

The financial information and accounting policies of the Bank are in accordance with the accounting practices established by the Superintendence of Banks of the Dominican Republic as stipulated in its Accounting Manual for Financial Institutions, regulations, circulars, resolutions, instructions and specific provisions issued by this agency and the Monetary Board of the Dominican Republic, as well as those provided in the Monetary and Financial Law. These practices differ in some aspects of form and content from the International Financial Reporting Standards (IFRS) applicable to banks and financial institutions. Consequently, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with IFRS.

The accompanying consolidated financial statements are prepared on the historical cost basis, except for certain land and buildings that were revaluated to carry out them at their market value as of December 31, 2004.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## **2 Summary of significant accounting policies (continued)**

### **2.1 Accounting basis of the consolidated financial statements (continued)**

Subsidiaries include: insurance companies, administrators of pension plans and funds and administrator of health plans, which financial information have been prepared in accordance with the accounting practices established by the Superintendence of Insurance, the Superintendence of Pensions and the Superintendence of Health and Labor Risks, respectively. Furthermore, non-regulated subsidiaries apply accounting practices according to International Financial Reporting Standards. The financial figures of these subsidiaries that are incorporated in the consolidated financial statements have been prepared following those accounting basis.

The consolidated financial statements and their explanatory notes have been prepared in thousands of Dominican Pesos (RD\$).

#### *2.1.a Differences between banking regulations and IFRS*

The accounting practices set forth by the Superintendence of Banks of the Dominican Republic differ from IFRS in certain aspects. A summary of the most relevant differences are as follows:

- i) The provision for the loan portfolio corresponds to the amount determined based on a risk assessment carried out by the Bank and the levels of provisions required for the classification assigned to each loan. The evaluation for the major commercial debtors through the payment capacity, includes the documentation of the credit files considering the financial information of the borrower's financial statements, as well as the opinion of the auditor, quality of the administrative management and corporate structure, economic environment, evaluation of financial reasons, payment record and collateral levels; for medium commercial debtors, it includes a simplified assessment based on operating losses and adjusted equity, payment record and collateral levels and for other debtors (consumption, mortgages and minor debtors based on days of delay). The collaterals are only considered for the determination of the provision according to the guidelines established in the Asset Evaluation Regulation (REA per its Spanish acronyms).

In accordance with IFRS, specifically IFRS 9 Financial Instruments (mandatory for years beginning on January 1<sup>st</sup>, 2018, replacing IAS 39), an entity must recognize the impairment of the value of the loan portfolio for expected losses during their life time (evaluated on a collective or individual basis), considering all reasonable and sustainable information, including those which refers to the future. The IFRS 9 establishes a three-phase approach for accounting the impairment provision, which is based on the change in the credit quality of financial assets since their initial recognition.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.1 Accounting basis of the consolidated financial statements (continued)**

*2.1.a Differences between banking regulations and IFRS (continued)*

- ii) Banking regulations require financial institutions to establish an allowance for assets received in lieu of foreclosure of loans, according to the following criteria: moveable goods are reserved over a two year period, on a straight-line basis, starting six months following the foreclosure; real estate is reserved over a three year period, on a straight-line basis counted as of the first anniversary of its recording in the Bank's books and the debt securities follow the basis of provision of investments. Both criteria counting from 120 days after the date of the foreclosure of the property or of the payment contract duly legalized. IFRS require that these assets are reserved only in the event of impairment.
- iii) Interests receivable past due for less than 90 days, are reserved according to the classification granted to the corresponding principal. Past due interests receivable with more than 90 days are fully reserved, except for credit card transactions, which are fully reserved after 60 days past due. Subsequently, accrued interests are not recognized in the consolidated financial statements, and are recognized in memorandum accounts. In accordance with IFRS, the same criteria apply as for the provision on credit portfolio, considering that the receivables continue to be accrued based on their book value, net of impairment.
- iv) Financial entities translate all foreign currency balances at the official exchange rate as established by the Central Bank of the Dominican Republic at the reporting date. IFRS require that all foreign currency balances be translated at the exchange rate at which the Bank had access at the reporting date.
- v) The Superintendence of Banks of the Dominican Republic requires that reserves held on loans at the moment of executing their collateral, be transferred to assets received in lieu of foreclosure of loan settlements. IFRS only require reserves when the fair value of the asset is lower than its carrying value or when impairment exists.
- vi) According to banking practices, other operating income, such as credit card renewal fees, letters of credit and acceptances outstanding are recognized immediately. In accordance with IFRS, income must be recognized when an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation. The income is recognized by the price of the transformation that is assigned to that performance obligation.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.1 Accounting basis of the consolidated financial statements (continued)**

*2.1.a Differences between banking regulations and IFRS (continued)*

- vii) The Superintendence of Banks of the Dominican Republic require leasehold improvements and computer software to be authorized by the Superintendence of Banks before recognize it as property, furniture and equipment and intangible assets, respectively, and classify them as other assets until such approval is obtained. The Superintendence of Banks indicates the amount that could be capitalized and the maximum amortization period during which the deferral is allowed. IFRS require that these items be recognized as property, furniture and equipment and intangible assets as long as they generate future economic benefits.
- viii) The Bank determine the useful life of property, furniture and equipment at the time of acquisition, and recognizes in memorandum accounts those fixed assets that are fully depreciated. IFRS require that the residual value and the useful life of an asset be reviewed at least at each financial year-end, and if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimates.
- ix) The Superintendence of Banks of the Dominican Republic has established that short-term highly liquid investments that are easily convertible to cash be classified as investments. IFRS require that this type of investments with original maturities of three months or less be classified as cash equivalent.
- x) The Superintendence of Banks of the Dominican Republic require that financial institutions classify investments into four categories, which are: trading, available-for-sale, held-to-maturity, and other investments in debt securities. Also, the Superintendence allows classifying in one of the first three categories only those investments listed in an active market. Investments held for trading and available-for-sale should be measured at fair value, and investments held to maturity and other investments in debt securities at amortized cost. IFRS do not prescribe the category of other investments in debt securities. IFRS 9 establishes three categories of debt instruments: amortized cost, fair value with changes in other comprehensive income (equity) and fair value through profit or loss and, consequently, must be reported at cost or fair value depending on the classification granted. This classification depends on the business model for the management of financial assets and the characteristics of contractual cash flows.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.1 Accounting basis of the consolidated financial statements (continued)**

*2.1.a Differences between banking regulations and IFRS (continued)*

- x i) The investment portfolio is quantified according to the risk categories determined by the Superintendence of Banks that requires specific provisions, following the instructions of the Assets Evaluation Regulation (REA), the Instructions for Credit Evaluations, Investments and Contingent Operations of the Public Sector, the instructive for the Asset Evaluation Process in Permanent Regimes and Specific Provisions. The IFRS require that impairment for investments accounted for at amortized cost be determined following the same considerations indicated for the loan portfolio indicated in item i) above.
- x ii) The Superintendence of Banks requires that cash flows from loans portfolio and customers' deposits, be classified as investing and financing activities, respectively. IFRS require that the cash flows from these transactions be recognized as part of operating activities.
- x iii) The Superintendence of Banks allowed multiple service banks the revaluation of its properties as of December 31, 2004 and has not required updating these values after that date. IFRS state that these updates must be performed whenever such assets have significant value changes.
- x iv) The Superintendence of Banks of the Dominican Republic requires banks to recognize a provision for contingent operations, which includes, among others, granted collateral, non-negotiable letters of credit issued, and unused amounts of lines of credit of automatic use, based on a classification of risk category following the REA. IFRS require the recognition of estimated expected losses on loan commitments in a consistent manner, with their expectations of provisions of that loan commitment.
- x v) The Superintendence of Banks granted a no objection to the Bank to recognize the actuarial liability related to the Pension and Retirement Funds and those paid directly by the Bank over a nine year period beginning in 2011. IFRS establish that pension plan obligations must be recognized initially in full and periodically updated in subsequent periods and the effects to be recognized either in profit or loss or other comprehensive income.
- x vi) In accordance with current banking regulations, the Bank must quantitatively disclose the risks derived from its financial instruments, such as liquidity and interest rate risks and the credit risk of loans, among others. IFRS require the following disclosures that allows users of the financial statements to evaluate: a) the importance of the financial instruments in relation to the financial position and performance of the entity and b) the nature and scope of risks resulting from the financial instruments to which the entity is exposed during the period and at the reporting date and how the entity manages those risks.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.1 Accounting basis of the consolidated financial statements (continued)**

*2.1.a Differences between banking regulations and IFRS (continued)*

- xvii) The Superintendence of Banks authorizes financial intermediation institutions to write-off a loan with or without collateral when it becomes past due and is 100% provisioned, excluding related-party loans that should be written off when all legal collection processes have been exhausted and the involved officers and/or directors have been removed from their duties. In accordance with IFRS, an entity will directly reduce the carrying amount of a financial asset when it has no reasonable expectation of recovering all or a part of this.
- xviii) IFRS require that, if the Bank maintains other comprehensive income, a statement of other comprehensive income or a separate statement of other comprehensive income must be presented showing the nature and amount of items comprising other comprehensive income during the reporting period. The Superintendence of Banks of the Dominican Republic does not include this requirement in the presentation of financial statements.
- xix) The Superintendence of Banks of the Dominican Republic authorized the inclusion in the consolidated financial statements, the financial statements of subsidiaries that were prepared following different accounting practices to those set in the Accounting Manual for Financial Institutions, without being homogenized with the accounting practices followed by the Bank. Under IFRS, entities included in the consolidation should follow the same accounting policies.
- xx) There are differences between the presentation and certain disclosures for the financial statements according to IFRS and those required or authorized by the Superintendence of Bank.

*2.1.b Differences between the accounting practices issued and allowed by the Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS*

- i) As established by the Superintendence of Insurance, short-term insurance contracts are recognized as revenue when billed; as a result, unearned premium reserves are computed based on specific percentages according to the line of business. These minimum percentages are established in Article 141 of the Insurance and Insurance Bonds Law No. 146-02, as follows:

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## **2 Summary of significant accounting policies (continued)**

### **2.1 Accounting basis of the consolidated financial statements (continued)**

#### *2.1.b Differences between the accounting practices issued and allowed by the Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS (continued)*

- 15 % Transportation and freight.
- 5 % Collective life insurance, accidents and health, provided premiums are collected on a monthly basis.
- 40 % Insurance bonds.
- 40 % Other insurances.

In accordance with IFRS, income from insurance contracts, both general and short-term life insurance, are recognized proportionately over the term of the policy.

In the case of long-term life insurance contracts with a guaranteed minimum term, the premium income is recognized when payment is received from the insured party.

- ii) In the case of long-term life insurance contracts without a fixed guaranteed term, such as death or survivorship insurance, premiums are recognized as deferred income, which increases by the interest or changes in unit prices and lowers by management fee policy, fees, mortality and any other withdrawals.
- iii) In accordance with IFRS, based on its intention of use, investments are classified into four categories: financial assets at fair value with changes through profit and loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. Under IFRS, these investments are recognized initially at fair value and subsequent to their initial recognition measured at amortized cost, at fair value with changes in profit or loss or at fair value with changes in equity, depending on its initial classification. The accounting practices followed by the Bank initially recognizes investments at fair value and subsequently measured it at amortized cost.
- iv) The Superintendence of Insurance establishes that insurance premiums receivable that are considered uncollectible by the Bank, are reversed against income. In accordance with IFRS, premiums receivable should be assessed regularly and a provision should be created for amounts deemed uncollectible. This provision should be recognized through a charge to operating expenses of the year.
- v) The Superintendence of Insurance does not require the recognition of specific reserves for claims incurred but not reported at the reporting date. IFRS require to create a provision for those probable and quantifiable losses and that these be recognized through a charge to operations of the year in which the damage occurred.



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.1 Accounting basis of the consolidated financial statements (continued)**

*2.1.b Differences between the accounting practices issued and allowed by the Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS (continued)*

- vi) According to accounting practices of the Superintendence of Insurance, the Bank recognizes salvage and recoveries in memorandum accounts, and these should not be recognized in accounting records until their disposal. IFRS sets out that at the reporting date of the consolidated financial statements, such assets shall be measured at fair value less any cost of sale and recognized as other assets against a deduction of the cost of the claims, that gave rise to the salvages, in the accounting period in which the Bank obtained the rights over the salvages and recoveries.
- vii) In accordance with accounting practices of the Superintendence of Insurance, savings components included in life insurance contracts are not accounted separately. As per IFRS, when an insurance policy has a saving component this saving component should be separated from the premium paid in a life insurance policy, and recognize it as a separate financial liability.
- viii) According to accounting practices established and permitted by the Superintendence of Insurance, the service components that form part of the insurance contract are not separated, and are recorded as revenue in conjunction with the premium income subscribed. Under IFRS, the components of services over which the company does not withhold insurance risks, should be separated from the insurance contract. Such components must be recognized as a liability, and defer any commission earned by the company in the intermediation in the service as income during the term of the policy that originated such commission.
- ix) Additional costs incurred in the process of acquisition and issuance of insurance contracts are recognized as expenses when they occur, except commissions to agents, which are deferred and amortized in proportion to the premium that originated it following the percentages established by the Superintendence of Insurance. In accordance with IFRS, these costs must be deferred and recognized as expense using the straight line method over the life of the related insurance contract.
- x) According to the accounting practices established and permitted by the Superintendence of Insurance, property, furniture and equipment are recognized as such, regardless of their use. IFRS require that property, plant and equipment, which intention of use is to obtain income or goodwill, shall be considered investment property and therefore, their recognition and disclosure are different from the other assets being used in the operations of the Bank.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.1 Accounting basis of the consolidated financial statements (continued)****2.1.b Differences between the accounting practices issued and allowed by the Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS (continued)**

- x i) The IFRS require to perform a liability adequacy test. This test is basically a calculation based on a statistical methodology that determines if provisions recognized by the Bank are enough to cover possible commitments arising from current insurance contracts. The accounting practices of the Superintendence of Insurance do not require this kind of provision.
- x ii) The Superintendence of Insurance and the Superintendence of Health and Labor Risk require that short-term investments, highly liquid investments and investments easily convertible to cash to be classified as investments. However, IFRS require that such investments to be classified as cash equivalents.
- x iii) IFRS require that, if an entity maintains derivate financial instruments, to separate embedded derivative from the host contract and accounted for as a derivative if economic characteristic and risks of the embedded derivative are not closely related to the economic characteristic and risks of the host contract. Accounting practices established by the Superintendence of Insurance and the Superintendence of Health and Labor Risk of the Dominican Republic do not provide for guidance on accounting of derivatives financial instruments.
- x iv) There are certain differences in the presentation and disclosures of financial statements according to the accounting practices established by the Superintendence of Insurance and the Superintendence of Health and Labor Risk of the Dominican Republic and financial statements prepared in accordance with IFRS.
- x v) The Superintendence of Insurance and the Superintendence of Health and Labor Risk allow that significant revenues and expenses that affect the consolidated financial statements of previous years, be recognized in retained earnings without restating the previous reported amounts of the consolidated financial statements. The IFRS require these transactions to be recognized retroactively, correcting previously reported financial statements, including the presentation of the statements of financial position for the most recent three years.
- x vi) The Superintendence of Pensions of the Dominican Republic requires that investments in commercial papers and certificates of deposits be classified as investments, regardless of their maturity. IFRS require that investments in these types of instruments to be classified as cash equivalents, when they are highly liquid instruments and their maturity is 90 days or less.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## **2 Summary of significant accounting policies (continued)**

### **2.1 Accounting basis of the consolidated financial statements (continued)**

#### *2.1.b Differences between the accounting practices issued and allowed by the Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS (continued)*

- xvii) The Superintendence of Pensions of the Dominican Republic requires that the administrators recognize their balances in foreign currency at the average cash purchase rate of commercial banks, published by the Central Bank of the Dominican Republic. IFRS require that the balances in foreign currency be converted to the last access rate that the Administrator had.
- xviii) The Superintendence of Pensions requires the Administrator to disclose its investments in securities by sector and by type of instrument. IFRS require additional disclosures that allow users of the consolidated financial statements to evaluate: a) the importance of financial instruments in relation to the financial position and results of the entity and b) the nature and extent of the risks resulting from the financial instruments to which the Entity is exposed during the year and the reporting date and how the entity handles those risks.
- xix) IFRS require that if an entity maintains derivative financial instruments, they are separated from its host contract and recognize it separately, if the characteristics and risks of the host contract and the derivative are not closely related. The Superintendence of Pensions of the Dominican Republic does not have standards in place for the recognition and presentation of derivative financial instruments.
- xx) There are differences between the presentation and certain disclosures of the financial statements according to IFRS and those required by the Superintendence of Pensions of the Dominican Republic.

The Bank has not quantified the effects of differences between the accounting basis and IFRS on the consolidated financial statements.

### **2.2 Use of estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the period.

The estimates are used primarily to account for provisions for risky assets, accounts and premium receivable, depreciation and amortization of long-term assets, impairment of long-term assets, current and deferred income tax, technical reserves for insurance and contingencies. Actual results may differ from those estimates.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 2 Summary of significant accounting policies (continued)

### 2.3 Consolidation

The consolidated financial statements include the figures of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples, and subsidiaries owned either directly or indirectly in more than 50 %, which are: Tenedora Reservas, S. A. and subsidiaries, which include Seguros Reservas, S. A., Reservas Asistencia, S.A.S., Inmobiliaria Reservas, S. A. and subsidiary, Administradora de Fondos de Pensiones Reservas, S. A., Inversiones & Reservas, S. A., Fiduciaria Reservas, S. A., Seguridad y Protección Institucional, S. A. (SEPROI), Inversiones Finanprimas SB, S.A.S., Sociedad Administradora de Fondos de Inversión Reservas, S. A. and Advanced Auto Technology, S. A. S. Additionally, Administradora de Riesgo de Salud Reservas, Inc., a non-profit entity whose net assets are included as other liabilities.

All these entities are located and incorporated under the laws of the Dominican Republic. Balances and transactions among the consolidated entities are eliminated in consolidation. There are differences among some of the accounting policies of the subsidiaries, which prepare their financial statements in accordance with the accounting practices issued by the Superintendence of Insurance, Pensions, Health and Labor Risk and Securities of the Dominican Republic.

The Superintendence of Banks of the Dominican Republic approved the incorporation of the financial statements of these subsidiaries in the consolidated financial statements, without homogenizing its accounting practices to the ones followed by the Bank.

The entities included in the consolidated financial statements of Banco de Reservas de la República Dominicana, are Banco de Servicios Múltiples, Parent Company, and the following subsidiaries:

<u>Subsidiaries</u>	<u>Country of operation</u>	<u>Percentage of ownership (%)</u>
<i>Directly subsidiaries:</i>		
Tenedora Reservas, S. A. and Subsidiaries	Dominican Republic	97.74
Administradora de Riesgo de Salud Reservas, Inc.	Dominican Republic	-
<i>Indirectly subsidiaries:</i>		
Administradora de Fondos de de Pensiones Reservas, S .A.	Dominican Republic	98.50
Seguros Reservas, S. A.	Dominican Republic	97.91
Inmobiliaria Reservas, S. A.	Dominican Republic	99.99

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.3 Consolidation (continued)**

<u>Subsidiaries</u>	<u>Country of operation</u>	<u>Percentage of ownership (%)</u>
Operadora de Zonas Francas Villa Esperanza, S.A.	Dominican Republic	99.99
Inversiones & Reservas, S. A.	Dominican Republic	100.00
Reservas Asistencia, S.A.S.	Dominican Republic	100.00
Fiduciaria Reservas, S. A.	Dominican Republic	100.00
Seguridad y Protección Institucional, S. A. (SEPROI)	Dominican Republic	100.00
Inversiones Finanprimas SB, S.A.S.	Dominican Republic	100.00
Sociedad Administradora de Fondos de Inversión Reservas, S. A.	Dominican Republic	100.00
Advanced Auto Technology, S. A. S.	Dominican Republic	<u>90.00</u>

All intra-group balances and transactions among companies included in the consolidated financial statements, were eliminated on consolidation.

The Superintendence of Banks of the Dominican Republic authorized the Bank to not eliminate in the consolidation, the allowance for investment in subsidiaries.

*Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples - Regulated by the Superintendence of Banks of the Dominican Republic.*

The Bank is the most important entity and provides financial intermediation services such as loans, investments, deposits and financing to the Dominican Republic Government, its autonomous entities and the Dominican Republic state enterprises (public sector) and to privately owned enterprises and the general public (private sector).

*Administradora de Riesgo de Salud Reservas, Inc. - Regulated by the Superintendence of Health and Labor Risks of the Dominican Republic.*

A not-for-profit organization engaged in the management of health insurance plans, established by the National Council of Social Security, in accordance with Law No. 87-01 and its complementary regulations.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.3 Consolidation (continued)**

*Tenedora Reservas, S. A. and Subsidiaries*

Is the Parent Company of the following subsidiaries:

(a) *Seguros Reservas, S. A. - Regulated by the Superintendence of Insurance of the Dominican Republic.*

In accordance with Insurance Law No. 146-02, the company is authorized to operate in the industry of general and personal insurance in the country.

(b) *Administradora de Fondos de Pensiones Reservas, S. A. (AFP per its Spanish acronyms Reservas) - Regulated by the Superintendence of Pensions of the Dominican Republic.*

Entity engaged in the administration of pension funds of third parties, or plans and pension funds of companies or associations that are entrusted for administration on the basis of specific contracts, in accordance with Law 87-01 that created the Dominican system of the Social Security and the complementary regulations to this law.

Currently, AFP Reservas manages Pension Fund T-1 AFP Reservas (Contributive), Pension Fund T-4 AFP Reservas (Distributive) and Pension Funds T-5 AFP Reservas (Social Solidarity), as provided by Law 87-01. The AFP is regulated by the Superintendence of Pensions of the Dominican Republic.

(c) *Inmobiliaria Reservas, S. A. and Subsidiary.*

Performs all type of real estate transactions, such as buying, selling, leasing, management and development of real estate properties.

The Subsidiary of Inmobiliaria Reservas, S. A. is Operadoras Zonas Francas Villa Esperanza, S. A., which is certified by the National Council of Export Free Zones and is engaged in leasing under the free zone regime.

(d) *Inversiones & Reservas, S. A. - Regulated by the Superintendence of Securities of the Dominican Republic.*

Inversiones & Reservas, S. A., was incorporated under the laws of the Dominican Republic. Its main purposes consist in buying and selling securities, exchange of securities, underwriting issuance of securities in part or as a whole, for subsequent trade to the public, promote the release of securities in public offerings and facilitate their placement and all those operations authorized by the Superintendence of Securities of the Dominican Republic.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.3 Consolidation (continued)***(e) Fiduciaria Reservas, S. A.*

Incorporated under the laws of the Dominican Republic, its main objective is to manage all types of business in accordance with Law 189-11, Mortgage Market Development and Trust in the Dominican Republic and all operations authorized by the Superintendence of Securities of the Dominican Republic.

*(f) Seguridad y Protección Institucional, S. A. (SEPROI)*

Constituted under the laws of the Dominican Republic, its objective is to provide private security services, securities transport services, as well as any activity related to its objective.

*(g) Inversiones FinanPrimas SB, S.A S.*

Incorporated under the laws of the Dominican Republic, its main purpose is to provide financing to the insured parties of Seguros Banreservas, S. A., so they can obtain premiums of all types of insurance policies, as well as the efforts of collection and legal procedures and compulsive fees and other related services to both individual and corporate level.

*(h) Sociedad Administradora de Fondos de Inversión Reservas, S. A. - Regulated by the Superintendence of Securities of the Dominican Republic*

Incorporated under the laws of the Dominican Republic, its main objective is to manage investment funds in accordance with the provisions of the Securities Market Law and its complementary provisions and others determined by the authorities of the National Securities Council.

*(i) Advanced Auto Technology, S. A. S.*

Constituted according to the laws of the Dominican Republic, its main objective is to repair and maintain motor vehicles.

**2.4 Loan portfolio**

Loans are recognized at their outstanding principal balance less the required allowance for loan losses.

The Bank considers the balance of the corresponding capital as the basis for calculating the interest on credit to cardholders.

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Notes to the Consolidated Financial Statements (continued)

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**2 Summary of significant accounting policies (continued)****2.4 Loan portfolio (continued)**

The Bank assigns the risk classification to the restructured loans considering what was in force at the time of restructuring the debt or that arising from the days of default of the loan at the time of restructuring, or the worst of both, according to the Regulations of Asset Evaluation. The risk classification of the restructured loan will be the classification assigned to all the debtor's credits within the same type of portfolio. An initial classification of no lower than "B" is assigned, which may be modified to a lower risk category, depending on the evolution of its payments up to the "A" classification, as long as it meets the conditions agreed in the contract. For the major commercial debtors, their payment behavior and country risk are evaluated, in addition to the payment capacity, for the improvement in their risk classification.

Furthermore, the Bank applies the arrears method to over 90 days past due loans, considering the total amount of principal past due when one installment payment has fallen into arrears.

The Bank suspends the accrual of interest on loans when past due for more than 90 days and 60 days for credit cards (see note 2.5.3).

**2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations****2.5.1 Allowance for loans portfolio**

The determination of allowance to cover uncollectibility risks of the loan portfolio is based on the criteria established in the Asset Evaluation Regulation issued by the Monetary Board of the Central Bank of the Dominican Republic.

According to such regulation, the estimation of loan loss on the loan portfolio depends on the type of loan, which can be classified as: major commercial debtors, minor commercial debtors, consumer and mortgage loans.

The estimation of the allowance for loan losses for major commercial debtors is based on a detailed quarterly review of each debtor's solvency, payment behavior and country risk performed by the Bank for 100 % of its major commercial debtors (subject to review by the Superintendence of Banks), using specific percentages based on debtor classification, except for loans of the Dominican Republic Central Government institutions and other public institutions that are classified as established by the Instructive for Loan Evaluation, Investments and Contingent Operations of the Public Sector, as established by the first Resolution of the Monetary Board dated July 9, 2015.



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**2 Summary of significant accounting policies (continued)****2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)****2.5.1 Allowance for loans portfolio (continued)**

The major commercial debtors are classified quarterly considering a categorized analysis of each debtor based on their payment capacity, as established in the Asset Evaluation Regulation and evaluating other factors such as: liquidity indexes, profitability, leverage, analysis of market, historical payment behavior, country risk and alignment. The guarantees, as a factor of security in the recovery of credit operations, are considered as a secondary element and are not taken into consideration in the classification of the debtor, although they do count in the calculation of the coverage of the provisions.

Major commercial debtors are those whose total credit operations owed in the financial system are equal to or greater than RD\$40 million, both at the individual and consolidated levels in the system.

As of 2018, the Assets Assessment Regulation establishes the constitution of a 100 % provision for the effect of fluctuation of the positive exchange rate on loans in foreign currency classified D1, D2 and E, and with more than 90 days in arrears.

For the recognition of provisions on medium-sized commercial debtors, a simplified evaluation is required considering operational losses and relation to adjusted assets, as well as payment history and guarantee levels. It is understood by adjusted equity, which for its determination considers the amounts of paid-in capital, reserves and retained earnings, premium on shares, contributions for future capitalizations and subordinated debt. Contributions for future capitalization will be considered as long as they are authorized in writing by the contributors for these purposes, recognizing in addition the condition that the funds contributed are not subject to refund.

Medium-sized commercial debtors are those whose total credit operations owed to the financial system are equal to or greater than RD\$25 million and less than RD\$40 million both individually and consolidated in the financial system.

For the minor credits of commercial, consumer and mortgage loans, the classification is determined based on the delinquency at the date of the classification of each one of the debtor's commercial operations, assigning an unique classification on its payment behavior. The collaterals are considered in the computation of the coverage of the necessary allowance.

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**2 Summary of significant accounting policies (continued)****2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)****2.5.1 Allowance for loans portfolio (continued)**

For direct financing granted to the Dominican State or indirect funds that are guaranteed by this or with funds for the repayment of the debt coming from real flows recorded in the General State Budget Law, they will be classified "A" for payment capacity and will not be subject to allowance requirements.

Write-offs of loans consist of operations by which the uncollectible loans are removed from the balance sheet, and are recognized only in memorandum accounts. When the financial institution does not have the total loan allowance, it should establish the amount before performing the write-off, in order to not affect the level of allowance required for other loans. A loan may be written off, with or without a collateral, from the day in which the loan enters in a non-performing loan category, excluding related party loans with collaterals that can only be written-off when the Bank can prove that the legal procedures for recovery have been exhausted and the officers or managers directly related have been released from their duties. Loans written-off remain in memorandum accounts until the reasons that led to the write-off are not overcome.

***Collateral***

The collaterals that support credit operations are classified according to the Asset Evaluation Regulations, based on their multiple uses and facilities. Each type of collateral is considered as a secondary element for the calculation of the coverage of the provisions, based on an established admissible amount. The admissible collaterals will be accepted based on the percentages of discount established in this regulation and on their market value. These are classified in:

***Multi-use collateral (Multipurpose collateral)***

Multipurpose collaterals are considered to be not specific to an activity, but can be multipurpose, realizable, valuable, easy to execute, transferable without excessive costs and stable in value. These collaterals are considered between 50 % and 100 % of their appraised value for purposes of covering the risks they support, depending on the guarantee.

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**2 Summary of significant accounting policies (continued)****2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)****2.5.1 Allowance for loans portfolio (continued)*****Specific use collateral (Non-Multipurpose collateral)***

They are the collaterals backed by goods that, due to their difficult realization, generally cannot be used for different activities. These collaterals will only apply between 50 % and 60 % of the appraisal value for purposes of calculating the coverage of the risk they support.

Each classification of collateral is taken into account for calculating the amount of loan coverage based on a schedule table No. 5 established in the Asset Evaluation Regulation and its modifications.

Collaterals are measured at fair value, that is, at their net realizable value based on appraisals reports prepared by qualified and independent professionals. The appraisal report for this purposes should not be older than 18 months for personal property, excluding securities, and an aging not exceeding 24 months for real estate.

With the purposes of establishing the allowance of commercial, consumer and mortgage loans, the Bank adjusts the value of collateral by determining the portion covered and exposed, in order to establish the amount of the allowance to be recognized. In this manner, the initial classification is adjusted based on the criteria established in Matrix 6 of the Asset Evaluation Regulation.

***Other considerations***

As of September 30, 2019 and December 31, 2018, the Bank has received waivers and no objections from the Central Bank of the Dominican Republic and the Superintendence of Banks to specifically recognize for and report on certain loans granted to specific sectors of the Dominican Republic economy, such as: contractors of priority works of the Dominican State, development of road network, loans granted to some power generators and other operations linked to the sector, some credits to the agricultural sector and loan portfolio acquired from a local financial institution.

According to the second resolution of the Monetary Board, dated December 20, 2018, the loans granted by the Bank to the Dominican Republic State, as well as the facilities granted through the program of contractor and suppliers of the Dominican Republic State, will be classified in risk category "A" with a 0 % provision requirement, reported as current portfolio and private sector.

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)**

**2.5.1 Allowance for loans portfolio (continued)**

A non-objection was granted until December 31, 2018 to the Bank to classify these loans with risk category "A" and 0 % provision requirement, as well as their accounting as current credits of the private sector. These terms were extended until December 31, 2019, through the second resolution of the Monetary Board dated December 20, 2018.

**2.5.2 Allowance for loans portfolio of the public sector**

As of September 30, 2019 and December 31, 2018, the Bank evaluated the portfolio for major commercial debtors of the public sector, following the Instructional Guidelines for the Evaluation of Investment Loans and Contingent Operations of the Public Sector and related circulars. Provisions for public sector loans, with collaterals of the own public sector with real cash flows according to the Law on General Budget of the State are classified as "A", and have a provision requirement of 0 %, according to the First Resolution of the Monetary Board dated July 9, 2015.

**2.5.3 Allowance for interest receivable**

The allowance for receivables from current, commercial and microenterprise loans is determined using specific percentages according to the classification provided and considering the collateral for the related loan portfolio. The allowance for interest receivable on consumer loans and mortgages, is based on specific percentages of each type of loan and the aging established in the Assets Evaluation Regulation.

Interests receivable with 90 days past due (except for credit card transactions) are fully reserved. Interests receivable on credit cards are fully reserved after 60 days past due. Such accounts are then maintained on a non-accrual basis, recognized as memorandum accounts and its interest are recognized as income only when collected.

**2.5.4 Allowance for other assets**

The Asset Valuation Regulation establishes a maximum term for the disposal of assets received in lieu of foreclosure of loans of three years, starting 120 days from the date of adjudication of the asset, establishing a provision in accordance with the following criteria:

Movable goods:	100 %	Over two years, recognized on a straight-line basis starting on the seventh month.
Real estate:	100 %	Over three years, recognized on a straight-line basis starting on the thirteenth month.

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Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)**

**2.5.4 Allowance for other assets (continued)**

The corresponding allowance to the loan portfolio for debtors, which collaterals have been received in lieu of foreclosure of loans, must be transferred to allowances for losses on assets received in lieu of foreclosure of loans. The allowance on assets received in lieu of foreclosure of loans that have been sold, released and/or transferred according to the requirements of allowance in other risky assets.

The impairment on the value of assets received in lieu of foreclosure of loans is computed as the difference between book value and fair value determined by independent appraisers, and provisioned when determined.

**2.5.5 Allowance for contingencies**

The allowance for contingent operations, which includes insurance bonds, endorsements, non-negotiated letters of credit, lines of credit and unused credit cards, among others, and which are recognized as other liabilities, is determined in conjunction with the rest of the obligations of the debtors' loan portfolio, based on the risk classification of the debtor and the deductible eligible collateral for the purposes of calculating the allowance. The nature and amounts of contingencies are described in note 27 to the consolidated financial statements.

**2.6 Employee benefit cost**

**2.6.1 Bonuses and other benefits**

The Bank recognizes a provision for personal benefits to its employees such as bonuses, Christmas bonus, vacations and other benefits, among others, as incurred and in compliance with local laws and its own compensation plans.

**2.6.2 Defined benefits plan**

The Bank - Parent Company has a defined benefit pension plan for employees who worked at the Bank when the Social Security Law No. 87-01, which established the Social Security System of the Dominican Republic, was enacted on May 9, 2001.

The Bank's contribution to the plan is 17.5 % of the monthly salaries paid to officers and employees, plus 2.5 % of the gross profits of the Bank and extraordinary contributions, as established in the statutes of the Pension Plan approved by the Board of Directors of the Bank. In December 31, 2010, the Superintendence of Banks allowed that the liability for the defined benefit pension plan be recognized prospectively over a nine year period beginning in December 2011.

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.6 Employee benefit cost (continued)****2.6.2 Defined benefits plan (continued)**

Additionally, the Board of Directors approved pensions to be paid directly by the Bank, which are included in the determination of actuarial liability of the Plan.

The Bank's net obligation with respect to the defined benefit plans, is calculated by estimating the amount of future benefits that employees will have earned in the current and previous periods, discounting that amount and deducting the fair value of the plan's assets.

The calculation of the defined benefit obligation is annually performed by a qualified actuary, using the projected unit credit method.

**2.6.3 Defined contribution plan**

The Bank makes contributions to the mandatory pension plan, according to the Social Security Law No. 87-01, which created the Social Security System of the Dominican Republic. This system operates under an individual capitalization scheme and requires that individual contributions made by the employer and employee must be managed by the Pensions Funds Administrator (AFP). The contributions made by the Bank are recognized as expenses when incurred. At the retirement age, the employees will receive from the AFP the amount of their contributions and of the employer plus the accrued income on their individual capital account.

**2.6.4 Severance indemnities**

The Labor Code of the Dominican Republic sets forth the payment of severance indemnities to employees whose contracts have been terminated without justified cause. The Bank recognizes as expenses the amounts paid for this concept at the time of the termination of employment contracts.

**2.7 Outstanding securities and subordinated debts**

Outstanding securities comprises liabilities derived from the acquisition of public resources through the issuance of bonds, time certificates, and other securities issued by the Bank which are held by the public.

The Bank has subordinated debts relating to financing obtained in US dollars (US\$) by issuing debt securities denominated "Subordinated Debt Notes," issued in the United States of America, and subordinated debt bonds in Dominican pesos issued in the Dominican Republic's market. The subordinated debts are initially recognized at fair value, net of transaction costs incurred, which are amortized on the straight-line method over the term of the debt. Financial expenses resulting from interest, commissions, exchange differences and other financial charges arising from the aforementioned obligations are recognized and charged to profit or loss in the period in which they are incurred.

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Notes to the Consolidated Financial Statements (continued)

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## **2 Summary of significant accounting policies (continued)**

### **2.8 Valuation of different types of investments**

#### **2.8.1 Investments in securities and allowances**

Investments are measured at cost less the required allowances.

The Accounting Manual for Financial Institutions requires financial institutions to classify investments in: trading, held to maturity, available-for-sale and other investment in debt instruments.

**Trading investments:** These are investments that entities hold, with the purpose of obtaining profits derived from the fluctuation in prices as market participants, which are listed on a stock exchange or other type of organized market. Trading investments are carried at fair value, and the changes in their values are recognized in the consolidated income statements.

**Available-for-sale investments:** Includes investments held to achieve a reasonable return for their temporary surplus or investments that the entity is willing to sell at any time, and are quoted in an active or organized market. Available-for-sale investments are initially recognized at fair value and the changes in the fair value are recognized in equity.

**Held to maturity investments:** These are investments the Bank has the intent and ability to hold until maturity, are listed in an active and organized market and are recognized at amortized cost using the effective interest method. Premiums or discounts are amortized over the period of the instrument using the effective interest rate.

**Other investments in debt instruments:** This category includes investments acquired in debt instruments, that because of their characteristics do not qualify for inclusion in the above categories and for which there is no active market. They are recognized at amortized cost using the effective interest method.

For domestic investments in debt securities, the amount of expected losses for impairment is determined based on the criteria used for the evaluation of major commercial debtors, in accordance with the provisions of the Assets Evaluation Regulation. For investments in debt securities in the international market, the amount of expected losses for impairment is determined based on risk ratings assigned by the international rating firms recognized by the Superintendence of Securities of the Dominican Republic or any other internationally recognized rating firm, applying the corresponding provision percentages according to the risk categories established by the Assets Evaluation Regulation.

Investments in the Central Bank of the Dominican Republic, debt securities of the Ministry of Finance and instruments issued or guaranteed by the Dominican Republic State, are considered risk-free; therefore, are not subject to a provision.

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Notes to the Consolidated Financial Statements (continued)

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**2 Summary of significant accounting policies (continued)****2.8 Valuation of different types of investments (continued)****2.8.1 Investments in securities and allowances (continued)***Other considerations*

As of September 30, 2019 and December 31, 2018, the bank has a waiver from the Superintendence of Banks to classify with risk category “A” and 0 % of provision, investments held by the Bank in debt instruments of the Dominican electric sector.

The type of security or financial instrument and its amount, is presented in note 6.

**2.8.2 Investments in shares and allowances**

Investments in shares are carried out at the lower of cost and market value. If no market exists, they are recognized at cost less impairment, in which is evaluated the quality and solvency of the issuer by using the instructions of the Assets Evaluation Regulation and the Instructive for the Asset Evaluation Process in Permanent Regimes, except for investments in affiliates which are recognized using the equity method, following the authorization of the Superintendence of Banks.

Allowances for investments in shares are determined following the same criteria as for major commercial debtor’s loan (see note 2.5.1).

The characteristics, constraints, nominal value, market value and number of investments in shares are presented in note 11.

**2.9 Valuation of property, furniture and equipment and depreciation method used****2.9.1 Basis of recognition**

Property, furniture and equipment, except for land and buildings that existed as of December 31, 2004, are measured at cost less accumulated depreciation and impairment losses. Existing land and buildings as of December 31, 2004, are recognized at market value, determined by independent appraisers and those acquired after that date are carried out at their acquisition cost.

**2.9.2 Depreciation**

Is calculated using the straight-line method, which consists in the uniform distribution of the assets cost, over its estimated useful life.



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**2 Summary of significant accounting policies (continued)**

**2.9 Valuation of property, furniture and equipment and depreciation method used (continued)**

**2.9.2 Depreciation (continued)**

The estimated useful life of property, furniture and equipment and leasehold improvements, is as follows:

<u>Description</u>	<u>Useful life in years</u>
Buildings	40
Furniture and office equipment	8
Transportation equipment	4
Computer equipment	5
ATMs	10
Leasehold improvements	<u>5</u>

**2.10 Valuation of assets received in lieu of foreclosure of loans**

Assets received in lieu of foreclosure of loans are carried at the lower of cost or:

- a) The value agreed upon payment in kind or the awarded price in a public auction.
- b) The market value at the date the assets were received.
- c) The outstanding balance of the loan plus interest and/or accounts receivable that are being cancelled.

The valuation allowance for these assets is determined following the criteria established by the Superintendence of Banks, as described in note 2.5.4.

**2.11 Deferred charges**

Include prepaid income taxes, deferred income taxes and other prepaid expenses.

Other prepaid expenses are amortized when the Bank receives the prepaid services.

**2.12 Assets and liabilities in foreign currency**

The amounts in the consolidated financial statements are presented in Dominican pesos (RD\$). Assets and liabilities in foreign currencies are translated using the exchange rate set by the Central Bank of the Dominican Republic at the reporting date.

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.12 Assets and liabilities in foreign currency (continued)**

Transactions during the year and income and expenses are translated at the exchange rate at the date of the transaction. Resulting gains or losses of the translation of assets and liabilities in foreign currency are recognized as “Income (expense) from net foreign exchange rate” in the accompanying consolidated statements of profit or loss.

As of September 30, 2019 and December 31, 2018, the exchange rates used for the translation of the US dollar balances to Dominican pesos was RD\$52.2509 and RD\$50.2028, respectively, for each United States dollar (US\$).

**2.13 Revenue recognition and most significant expenditures****2.13.1 Banks’ revenue recognition and expenditures*****Financial income and expenses***

The Bank recognizes interest income on loans and investments under the accrual method. Loan interests are calculated using the simple interest method on outstanding capital amounts. Interests on loans are no longer recognized when a loan is 90 days past due, except for credit card balances, which are placed on non-accrual status after 60 days. From these dates forward, they are recorded in a memorandum account. Once placed in non-accrual status the interest are recognized as income only when collected.

As of September 30, 2019 and December 31, 2018, the provisions created for the receivables on interest from credit operations and cards be released and recognized as income without the prior authorization of the Superintendence of Banks.

Interest on investments is recognized based on the outstanding balance of the investment. Premium and discounts on the acquisition of these investments are amortized over the life of the investment as part of interest income.

Interest expenses are recognized in the consolidated statement of profit or loss, based on the accumulation of simple interest, except those corresponding to savings accounts and certificate of deposits with capitalized returns, which are accumulated using the compound interest method (applied to the minimum balance for savings accounts).

Costs directly related to the issuance of subordinated debts are deferred and amortized, and recognized as operational expense using the straight-line method over the term period.

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)**

**2.13 Revenue recognition and most significant expenditures (continued)**

**2.13.1 Banks' revenue recognition and expenditures (continued)**

*Income on sale of investments in debt instruments*

Income from disposal of other investments in debt instruments, are recognized in the consolidated statements of profit or loss, as the difference between the amounts received from the sale and the carrying amount of the instruments when the risks and rewards associated with the investment have been transferred to the buyer.

*Other income and other operating expenses*

Other operating income are recognized when earned and other operating expense when incurred. Commission income and other services resulting from managing accounts, money orders and transfers, guarantees and endorsements, purchase and sale of foreign currencies, credit cards, use of ATMs and POS, third party collections and others, are recognized on the accrual basis when the services have been provided to the clients.

*Other income and expenses*

Other income resulting from operations, property leases, sales of real estate and others are recognized when earned and other expenses when generated.

Other income from the recovery of written-off assets and decrease in provision for risky assets are recognized when collected.

**2.13.2 Revenue recognition of insurance companies**

The most important insurance contracts issued by the Bank's insurance subsidiary are as follows:

- (a) Short-term insurance contracts - These are annual, semi-annual or quarterly contracts with renewable options issued by the insurance company that cover personal risks, and are recognized as income when invoiced.
- (b) General insurance contracts - Premiums on these contracts are earned at the time of their underwriting which coincides with the commencement of the term of the contract. Premiums that have been underwritten before the commencement of the term of the contract, are unearned and not recognized in the consolidated financial statements.

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Notes to the Consolidated Financial Statements (continued)

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**2 Summary of significant accounting policies (continued)**

**2.13 Revenue recognition and most significant expenditures (continued)**

**2.13.2 Revenue recognition of insurance companies (continued)**

Premiums ceded in reinsurance are recognized when premium income is recognized too, based on the conditions established and agreed with the reinsurers. Premiums receivable that could be uncollectible, reduce the related income of the period, as a cancellation.

**2.13.3 Revenues from the Administrator of Pension Funds (AFP per its Spanish acronym)**

AFP receives management fees and a complementary commission from its affiliates and employer, as well as fees for optional services offered.

Income from monthly administrative commission is received from Pension Fund T-1 (Contributive) and Pension Fund T-4 (Distributive) and is recognized upon receipt of the resources in the Administrator's account base on 0.5 % of the monthly quotable salary.

Income from the complementary annual commission of the Pension Fund T-I (Contributive), T-4 (Distributive) corresponds to 25 % until May 31, 2015 and from June 1<sup>st</sup> to 15 % and for the Fund T-5 corresponds to 5 % of the excess of yield portfolio of the weighted average rate of the previous month for all terms of fixed-term certificates of deposits, indefinite certificates of deposit and time certificates issued by commercial and multiple services banks. The Superintendence of Pensions reports the rate to the AFPs according to the information provided by the Central Bank of the Dominican Republic.

Monthly charges from complementary annual commissions are made on the basis of 50 % of the previous month, with the exception of the first month of the year in which is charged 100 % of the previous month's balance, following the guidelines of Resolution No. 34 -03, No. 232-05 and No. 239-05.

**2.13.4 Revenues for services to the Health Insurance Administrator (ARS per its Spanish acronym)**

The Health Insurance Administrator (ARS) recognizes revenues for services, resulting from basic, complementary, prepaid medicine, voluntary and independent plans on a straight-line basis, i.e., the uniform distribution of the amount of income during the validity period of the coverage of the policy.

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**2 Summary of significant accounting policies (continued)**

**2.13 Revenue recognition and most significant expenditures (continued)**

**2.13.5 Revenues from real estate**

Revenues from sales of apartments, houses and land are recognized when payments are received, including the down payment and subsequent payments, provide sufficient evidence of commitment by the buyer to pay in full the outstanding balance, which usually occurs when the client has paid a substantial part of the agreed price and the risks and benefits associated with the properties sold have been transferred to the buyer. Cash received from sales of lots that do not meet the conditions of revenue recognition described above, are recognized as deposits received from customers under other liabilities in the accompanying consolidated balance sheet until such conditions are met.

Income from leasing of industrial buildings and electrical substations are recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total lease income over the lease period. All other income is recognized on the accrual basis when the service is rendered.

**2.13.6 Revenues from brokerage services**

Revenues from services are recognized in proportion to the level of progress of the service rendered, which is measured by the time invested in relation to the total time budgeted to provide the service.

**2.13.7 Management fees**

Revenue recognition from management fees on trust operations varies depending on the conditions agreed in each managed trust. In the case of fixed income commissions, revenue is recognized on the straight line basis during the period of time covering the payment of each installment. In cases of revenues from commissions earned on the basis of performance or sales of managed funds, revenue is recognized at the end of each month when their values can be measured reliably.

Revenue from trust structuring are recognized in proportion to the level of the service progress, which is measured under the time invested in relation to the total time budgeted to provide the service.

**2.14 Provisions**

Except as indicated in note 2.5, the Bank recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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Notes to the Consolidated Financial Statements (continued)

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**2 Summary of significant accounting policies (continued)****2.15 Income tax**

According to its Organic Law, Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples, is exempt from income tax payment; however, the Bank calculates and voluntarily pays income tax following some guidelines and special criteria of the Tax Code, considering that the final beneficiary is also the Dominican Republic Government. Furthermore, the Bank considers the tax effects in transactions during the year they are included in profit or loss for tax purposes.

In accordance with Law No. 8-90 and Resolution No. 19-02 A of the National Council of free zones, the subsidiary Operadora de Zonas Francas Villa Esperanza, S. A. is exempt from payment of import tax, customs duties, income tax, and other related taxes, for a period of 15 years until 2030. The remaining subsidiaries of the Bank are subject to payment of income tax, for which, the tax effects of the transactions are recognized in the year in which they occurred, regardless of when they are recognized for tax purposes.

Total expense resulting from income tax payment is recognized in the consolidated statement of profit or loss.

Deferred income tax is not recognized because the Bank's management cannot guarantee that items that originated them may be deductible in the future.

In the case of other companies included in consolidation, deferred taxes are recognized for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for tax purposes.

Deferred tax assets in respect of temporary differences are recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; this reduction shall be reversed to the extent it becomes probable that sufficient taxable profit will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences in the period when they reverse, based on the laws that have been enacted or substantively enacted at the balance sheet.

**2.16 Financial Instruments**

A financial instrument is defined as cash, evidence of ownership or interest in an entity, or a contract that creates a contractual obligation or right to pay or receive cash or another financial instrument from a second entity in terms potentially favorable to the first entity.

The estimated fair market values of the financial instruments of the Bank, carrying amounts and methodologies used to estimate them are described below:

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.16 Financial Instruments (continued)*****Short-term financial instruments***

The carrying amounts of short-term financial instruments, for both assets and liabilities, are similar to its book value as reflected in the Bank's consolidated balance sheet, because of the relatively short-term period of time between the origination of the instruments and their subsequent realization. This category includes: cash on hand and in banks, certificate of deposits in other banks, bank acceptances, customer's liability acceptances, accrued interest receivable, outstanding acceptances and accrued interest payable.

***Investment in securities and shares***

The fair values of investments in debt and equity securities are estimated based on the adjusted book value net of impairment, which are determined according to the guidelines issued by the Superintendence of Banks, since there is no active security market in the Dominican Republic that can provide market values.

***Outstanding securities***

It was not possible to estimate the market value of outstanding securities because there is no active market for these instruments in the Dominican Republic.

***Loan portfolio***

The loan portfolio is measured at book value, adjusted for loan loss allowance as established by the regulatory authorities. Loans are segregated by type such as commercial, residential mortgage, consumer and credit cards.

***Interest on financial assets and liabilities***

Interest earned on financial assets is recognized under the accrual method using the simple interest method, based on outstanding amounts of principal. Interest expense on financial liabilities is also recognized using the same method.

**2.17 Derecognition of financial assets**

Financial assets are derecognized when the Bank loses control and all contractual rights of the assets. This occurs when the rights are sold, expire or are transferred.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**2 Summary of significant accounting policies (continued)****2.18 Impairment of assets**

The Bank reviews all long-lived assets and identified intangibles to determine if events or changes in circumstances indicate that the carrying amounts of these assets will be recovered from operations.

The recoverable amount of an asset maintained and used in operations, is measured by comparing the carrying amount of the assets with the higher of the market value and the net discounted expected cash flows to be generated by that asset in the future. If, after making such comparison, it is determined that the assets values have been negatively affected, the amount to be recognized as a loss will be the excess of the carrying amount over the fair value of the asset and such loss is recognized in net profit of the year when determined.

**2.19 Contingencies**

The Bank considers as contingent obligations those operations in which it has assumed credit risks and which, depending on future events, may become direct obligations of the Bank with third parties.

**2.20 Accounts receivable**

Accounts receivable are measured at amortized cost, net of any impairment loss. The allowance for doubtful accounts is recognized through a charge to expense account for losses resulting from doubtful accounts. These receivables are charged to earnings when management determines that collectability is doubtful based on installments made, client's payment history and evaluation of collaterals, if they exist.

**2.21 Distribution of dividends**

The Bank pays dividends based on the results of their operations in accordance with the decisions of the Board of Directors' meeting. As established by Resolution No. 12-2001 dated December 5, 2001, issued by the Superintendence of Banks of the Dominican Republic, which provides the allowed maximum amount of dividends to be distributed among the shareholders, should not be greater than the amount of the retained earning calculated on cash basis and considering what is established by the Bank's Organic Law No. 6133 and its amendments. (See note 25).

**2.22 Revaluation surplus**

Is the difference between the value appraised by independent appraisers and the carrying amount of land and buildings at the time of revaluation, net of the corresponding depreciation.



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## **2 Summary of significant accounting policies (continued)**

### **2.23 Mathematical and technical reserves - life insurance and collective insurance**

The insurance subsidiary Seguros Reservas, S. A. (the Company) determines the mathematical and technical reserves on the basis of net premiums and considers mortality tables and interest used by the company, and consist of the amount equivalent to the difference between the present value of the company's obligation towards the insured and the present value of the insured obligations towards the company, which is determined based on actuarial calculations.

Resolutions 293-09 and 294-09, changed the basis for calculating these provisions, considering the indexed salary which should be determined in accordance with changes in the consumer price index reported by the Central Bank of the Dominican Republic, when the application of this basis results in a lower amount, the original basis of calculation should be maintained. Reserves for outstanding casualty claims regarding disability and survivorship should amount to 45 % of the estimated actuarial reserve.

As established in Article 141 of Law No. 146-02 on Insurance and Guarantees of the Dominican Republic, technical reserves for collective life, personal accident and health insurance are calculated on the basis of the following specific percentages:

Collective life, personal accidents and health insurances, provided premiums are collected on a monthly basis	5 %
Personal accidents when the premium is collected in monthly terms	40 %
Survivorship and disability	<u>5 %</u>

### **2.24 Reserves for unearned insurance premiums, commissions on unearned reinsurance premiums and unearned commissions on ceded reinsurance premiums**

The reserves of unearned premiums, commissions on unearned premiums and unearned commissions on ceded reinsurance premiums, are determined based on fixed percentages established by the Superintendence of Insurance in Law No. 146-02, which are detailed as follow:

Transportation and freight insurance	15 %
Bank guarantees	40 %
For other insurances	<u>40 %</u>

### **2.25 Specific reserves**

Claims for insurance contracts that are pending for settlement or payment at the date of the financial statements are recognized as specific reserves.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 2 Summary of significant accounting policies (continued)

### 2.26 Amortization of non-proportional contracts - catastrophic premiums

Non-proportional (catastrophic) contracts have a term from July 1<sup>st</sup> to June 30 of the following year. Premiums paid on these contracts are amortized on a straight line basis.

### 2.27 Incurred but not reported claims (IBNR)

This reserve represents the amount of claims that have occurred at the reporting date, but have not been reported to the ARS.

Resolution No. 163-2009 of the Superintendence of Health and Labor Risks, states that the Bank should calculate the IBNR reserve based on 10 % of the claims incurred during the current period less the claims incurred from prior year.

### 2.28 Segment reporting

A business segment is a group of assets and operations that are responsible for providing products or services which are subject to risks and returns that are different from those of other business segments. Geographic segments provide products or services within a particular economic environment that is subject to risk and rewards that are different to other segments in other economic environment.

## 3 Transactions in foreign currency and exposure to exchange risk

The consolidated balance sheets, include the rights and obligations in foreign currency, which balance includes the amount of conversion into local currency by the amount summarized below:

	2019		2018	
	Amount in foreign currency US\$	Total in RD\$	Amount in foreign currency US\$	Total in RD\$
<b>Assets</b>				
Available funds	711,512	37,177,163	1,007,046	50,556,520
Investments	732,787	38,288,795	469,523	23,571,370
Loan portfolio, net	1,430,161	74,727,179	1,724,750	86,587,300
Debtors by acceptances	30,767	1,607,588	18,513	929,408
Accounts receivable	16,150	843,830	25,034	1,256,757
Investments in shares, net	861	45,012	756	37,968
Other assets	651	34,019	1,386	69,552
Total assets	<u>2,922,889</u>	<u>152,723,586</u>	<u>3,247,008</u>	<u>163,008,875</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**3 Transactions in foreign currency and exposure to exchange risk  
(continued)**

	2019		2018	
	Amount in foreign currency <u>US\$</u>	Total in <u>RD\$</u>	Amount in foreign currency <u>US\$</u>	Total in <u>RD\$</u>
<b>Liabilities</b>				
Customers' deposits	2,096,912	109,565,561	2,050,365	102,934,058
Deposits from domestic and foreign financial institutions	91,036	4,756,733	406,567	20,410,809
Borrowed funds	378,188	19,760,653	429,247	21,549,394
Outstanding acceptances	30,767	1,607,588	18,513	929,408
Creditors for insurance and bonds	1,371	71,648	1,723	86,525
Other liabilities	10,631	555,477	10,326	518,396
Subordinated debts	302,412	15,801,275	307,451	15,434,908
Technical reserves	5,497	287,246	17,572	882,141
Contingencies (a)	-	-	<u>2,000</u>	<u>100,406</u>
Total liabilities	<u>2,916,814</u>	<u>152,406,181</u>	<u>3,243,764</u>	<u>162,846,045</u>
Long position in foreing currency	<u><u>6,075</u></u>	<u><u>317,405</u></u>	<u><u>3,244</u></u>	<u><u>162,830</u></u>

(a) Corresponds to the nominal operation value through a "Contract of future sale of foreign currency with HYTERA AMERICAN, INC., in which the Bank purchased from this company the sum of US\$2 million as of December 31, 2018, to be exchanged for Dominican pesos (RD\$) at the rate in force to date for each US dollar (US\$).

The accounting and presentation of these transactions were made in accordance with Circular Letter CC/07/10 issued by the Superintendence of Banks dated November 26, 2010.

As of September 30, 2019 and December 31, 2018, the exchange rates used by the Bank was RD\$52.2509 and RD\$50.2028, respectively.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**4 Available funds**

Available funds are summarized as follows:

	<u>2019</u>	<u>2018</u>
Cash on hand (a)	6,618,696	6,821,550
Central Bank of the Dominican Republic (b)	53,046,104	65,995,686
Local banks (c)	4,234,548	3,359,184
Foreign banks (d)	9,981,717	6,839,409
Other funds - in transit (e)	672,860	212,839
Interest receivable (f)	<u>6,032</u>	<u>5,675</u>
	<u><b>74,559,957</b></u>	<u><b>83,234,343</b></u>

(a) Includes US\$18,782 in 2019 and US\$19,922 in 2018.

(b) Includes US\$498,011 in 2019 and US\$849,477 in 2018.

(c) Includes US\$1,810 in 2019 and US\$477 in 2018.

(d) Includes US\$191,034 in 2019 and US\$136,236 in 2018.

(e) Represents effects received from other banks pending collection in the Clearing House. As of September 30, 2019 includes US\$1,805 and US\$867 in December 31, 2018.

(f) Corresponds to US\$70 in 2019 and US\$67 in 2018 pending to be collected.

The required legal reserve as of September 30, 2019 and December 31, 2018, amount to RD\$33,098,887 and US\$436,524 for 2019 and RD\$33,626,972 and US\$421,952 for 2018. For these purposes, the Bank maintains amounts of RD\$34,472,113 and US\$480,984 for 2019 and RD\$33,944,106 and US\$829,557 for 2018.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

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## 5 Interbank funds

The movements of interbank funds received and granted during the years ended September 30, 2019 and December 31, 2018, is as follows:

<u>Entity</u>	<u>Quantity</u>	<u>Interbank assets</u>		<u>Percentage of Weighted average rate (%)</u>
		<u>Amount in RD\$</u>	<u>No. of days</u>	
<b>September 30, 2019</b>				
Banco Múltiple BHD León, S. A.	13	10,650,000	4	5.39
Banco Múltiple Caribe Internacional, S. A.	6	1,560,000	3	6.24
Citibank, N. A.	16	7,650,000	4	6.10
Banesco, Banco Múltiple, S. A	11	<u>2,520,000</u>	4	<u>6.02</u>
		<b><u>22,380,000</u></b>		
<b>December 31, 2018</b>				
Banco Múltiple BHD León, S. A.	9	6,700,000	2	3.41
The Bank Of Nova Scotia	3	1,140,000	5	5.32
Banco Múltiple Caribe Internacional, S. A.	11	1,530,000	3	6.34
Citibank, N. A.	15	5,710,000	4	6.00
Banco Dominicano del Progreso, S. A., Banco Múltiple	1	250,000	6	6.45
Banesco, Banco Múltiple, S. A.	4	800,000	3	6.00
Asociación La Nacional de Ahorros y Préstamos	1	<u>50,000</u>	3	<u>6.50</u>
		<b><u>16,180,000</u></b>		

As of September 30, 2019 and December 31, 2018, the Bank negotiated interbank funds with different financial institutions; however, as of September 30, 2019 and December 31, 2018 there are no pending balances in interbank funds.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

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## 6 Investments

As of September 30, 2019 and December 31, 2018, the Bank's investments classified as other investments in debt instruments, are as follows:

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
<b>September 30, 2019</b>				
Other investments in debt instruments:				
Time deposits	Central Bank of the Dominican Republic	59,112,276	3.00 % until 15.00 %	2019 until 2025
Bonds Law 175-12, 331-15, 48-10, 260-15, 548-14, 131-11 152-14, 366-09, 361-11 294-11, 143-13, 687-16 693-16, 248-17, 64-18 and 494-06	Dominican Republic State (includes US\$14,160)	16,690,037	4.25 % until 18.50 %	2020 until 2044
Trust values (a)	Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana	3,573,964	10.50 %	2026 and 2028
Agreement with the Dominican Republic Electric Sector debt (a)	Edesur Dominicana, S. A. (corresponds to US\$182,869)	9,555,078	7.00 % until 10.00 %	2020 and 2024
	Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US\$300,816)	15,717,917	7.00 % until 10.00 %	2020 and 2024
	Edenorte Dominicana, S. A. (corresponds to US\$227,088)	11,865,533	7.00 % until 10.00 %	2020 and 2024
Corporate bonds	Empresa Generadora de Electricidad Haina, S. A. (includes to US\$307)	26,135	5.75 % until 11.25 %	2020 until 2027
Bonds	Consorcio Energético CEPM (corresponds to US\$372)	19,411	5.15 % until 5.50 %	2025 and 2027
Corporate bonds	Dominican Power Partners, (corresponds to US\$342)	17,871	5.90 % and 6.25 %	2027
Bonds	Asociación La Nacional de Ahorros y Préstamos	15,189	10.75 %	2024
Corporate bonds	United Capital Puesto de Bolsa	10,055	9.00 %	2020
Time deposits	Asociación Popular de Ahorros y Préstamos	39,328	7.50% and 7.75%	2019 and 2020
Time deposits	Asociación Peravia de Ahorros y Préstamos	74,020	7.00 % until 7.90 %	2019 and 2020
Time deposits	Asociación La Vega Real de Ahorros y Préstamos	103,500	7.00 % until 8.00%	2019

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
<b>September 30, 2019</b>				
Time deposits	Asociación La Nacional de Ahorros y Préstamos	3,963	7.75% and 8.00%	2019
Time deposits	Asociación Maguana de Ahorros y Préstamos	28,036	6.80 % until 8.30 %	2019
Time deposits	Asociación Romana de Ahorros y Préstamos	36,079	6.80 % and 7.80 %	2019
Time deposits	Asociación Bonao de Ahorros y Préstamos	27,500	7.00 %	2019
Time deposits	Banco Múltiple Caribe, S. A.	49,914	7.75% and 9.40%	2019
Time deposits	Banco Múltiple Promérica de la República Dominicana, S. A.	46,157	7.75 % and 8.00 %	2019 and 2020
Time deposits	Banco Popular Dominicano, S.A., Banco Multiple	371,213	6.75 % until 7.80%	2019 and 2020
Time deposits	Motor Crédito, S. A. Banco de Ahorro y Crédito	11,914	8.85 %	2019
Time deposits	Banco Múltiple de las Américas, S.A.	46,525	8.80 % until 9.25 %	2019
Time deposits	Banco Múltiple BHD Leon, S. A.	563,640	7.00 % until 7.70%	2019
Time deposits	Banco Múltiple Santa Cruz, S. A.	8,891	7.35 %	2019
Time deposits	The Bank Nova Scotia	269,299	5.05 %	2019
Time deposits	Banco Nacional de las Exportaciones	11,032	7.50 %	2019
Time deposits	Banco Múltiple Vimenca, S. A.	46,282	8.00 % and 8.80	2019 and 2020
Quote of participation	Fondo Abierto de Inversión Universal Liquidez	12,051	6.39 %	2019
Quote of participation	Fondo Abierto de Inversión Flexible Financial Deposit	68,012	7.95 %	2019
Quote of participation	Fondo Mutuo Renta Fija-BHD Funds Term 30 Days Dollars (corresponds to US\$1,578)	82,436	2.53 %	
Quote of participation	Fondo Mutuo Renta Fija-BHD Term 30 Days	749	7.68 %	
Quote of participation	Fondo Mutuo Reservas Quisqueya	25,575	variable	
Quote of participation	Fondo Mutuo Bohio	25,000	7.11 %	
Quote of participation	Fondo Mutuo Larimar	5,000	6.25 %	
Quote of participation	Fondo Mutuo Educacional Largo plazo Reservas Isabela	449		
Quote of participation	Fondo Mutuo Reservas Caoba (corresponds to US\$943)	49,255	3.67%	
Quote of participation	Fondo Mutuo Matrimonial	10,856	7.41 %	
Quote of participation	Fondo Inmobiliario Excel (corresponds to US\$513)	26,818	6.18 %	
Quote of participation	Fondo Abierto de Inversión Liquidez Excel	5,185	7.28 %	2019
Quote of participation	Fondo Cerrado de Desarrollo De Sociedades Avanced	29,543	10.06 %	2019

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
<b>September 30, 2019</b>				
<b>Restricted securities</b>				
Reports	Alpha Inversiones (corresponds US\$1,405)	385,555	2.50% until 7.50%	2019
Reports	United Capital Puesto De bolsa	100,624	7.35%	2019
Reports	Parallax Valores	134,304	7.50% and 7.55%	2019
Bond	Central Bank of the Dominican Republic	10,790	10.50 %	2025
Profitability guarantee	Profitability guarantee of La Administradora de Fondos de Pensiones, Invested in different Institutions	1,460,677		
Mortgage notes (b)	Banco Múltiple BHD León, S. A.	201	7.40 %	2019
Fideicomiso	Fideicomiso de Administracion y Fuente de Pago Sector Eléctrico	<u>415,388</u>	14.94 %	2019
		121,189,227		
	Interests receivable, (includes US\$2,444)	<u>1,461,896</u>		
		122,651,123		
	Allowance for investment, (includes US\$50)	<u>(347,675)</u>		
		<u><b>122,303,448</b></u>		
<b>December 31, 2018</b>				
Other investments in debt instruments:				
Time deposits	Central Bank of the Dominican Republic	18,404,219	9.05 % until 15.50 %	2019 until 2027
Bonds Law No. 99-01	Dominican Republic State	75,000	1.00 %	2021
Bonds Law 175-12, 331-15, 58-14, 48-10, 58-13, 260-15, 548-14, 131-11, 152-14, 366-09, 361-11, 193-11, 151-14, 294-11, 143-13 687-16 and 693-16	Dominican Republic State (includes US\$47,798)	31,607,457	4.34 % until 18.50 %	2019 until 2048
Trust values (a)	Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana	3,582,060	10.50 %	2028



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
<b>December 31, 2018</b>				
Agreement with the Dominican Republic Electric Sector debt (a)	Edesur Dominicana, S. A. (corresponds to US\$105,935)	5,318,235	7.75 % until 10.00 %	2020
	Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US\$149,233)	7,491,912	7.75 % until 10.00 %	2020
	Edenorte Dominicana, S. A. (corresponds to US\$154,208)	7,741,684	7.75 % until 10.00 %	2020
Corporate bonds	Empresa Generadora de Electricidad Haina, S. A. (includes US\$1,354)	78,013	5.75 % until 11.25 %	2020 until 2027
Bonds	Consorcio Energético CEPM (corresponds to US\$387)	19,405	5.15 % until 5.50 %	2025 until 2027
Corporate bonds	Dominican Power Partners, (corresponds to US\$353)	17,736	5.90 % until 6.25 %	2027
Bonds	Asociación La Nacional de Ahorros y Préstamos	14,670	10.75 %	2024
Corporate bonds	United Capital Puesto de Bolsa	10,134	9.00 %	2020
Time deposits	Asociación Popular de Ahorros y Préstamos	427,551	7.75 % and 10.75 %	2019
Time deposits	Asociación Peravia de Ahorros y Préstamos	81,805	6.50 % until 7.75 %	2019
Time deposits	Asociación La Vega Real de Ahorros y Préstamos	119,320	7.50 % and 9.00 %	2019
Time deposits	Asociación La Nacional de Ahorros y Préstamos	100,337	7.25 % and 9.60 %	2019
Time deposits	Asociación Maguana de Ahorros y Préstamos	28,036	7.50 % until 8.30 %	2019
Time deposits	Asociación Romana de Ahorros y Préstamos	36,079	6.75 % and 7.75 %	2019
Time deposits	Asociación Bonaio de Ahorros y Préstamos	27,500	6.00 %	2019
Time deposits	Banco Múltiple Caribe, S. A.	41,657	9.40 %	2019
Time deposits	Banco Múltiple Promérica de la República Dominicana, S. A.	43,227	8.10 % and 9.35 %	2019
Time deposits	Motor Crédito, S. A. Banco de Ahorro y Crédito	11,123	10.15 %	2019
Time deposits	Banco Múltiple de las Américas, S.A.	29,943	8.10 % until 9.35 %	2019
Time deposits	Banco Múltiple BHD Leon, S. A.	104,536	9.95 %	2019
Time deposits	Banco Múltiple BDI, S. A.	20,533	8.00 %	2019
Time deposits	Banco Múltiple Santa Cruz, S. A.	8,422	9.30 %	2019
Time deposits	The Bank Nova Scotia	191,594	6.14 %	2019
Time deposits	Banco Nacional de las Exportaciones	10,449	7.00 %	2019
Quote of participation	Fondo de Inversión Abierto Renta Valores	52,241	2.23 %	

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
<b>December 31, 2018</b>				
Quote of participation	Fondo Abierto de Inversión Flexible Financial Deposit	12,272	8.59 %	
Quote of participation	Fondo Mutuo Renta Fija-BHD Funds Term 30 Days Dollars (includes US\$7,332)	368,102	2.34 %	
Quote of participation	Fondo Mutuo Renta Fija-BHD Term 30 Days	691	5.36 %	
Quote of participation	Fondo Mutuo Reservas Caoba (corresponds to US\$50)	2,519	5.49 %	
Quote of participation	Fondo Mutuo Matrimonial	10,324	3.72 %	
Quote of participation	Fondo Inmobiliario Excel (corresponds to US\$508)	25,513	5.66 %	
<b>Restricted securities</b>				
Bonds Law No.548-14, 331-15, 260-15, 248-17 and 693-16	Dominican Republic State	2,282,077	10.38 % until 12.00 %	2023 until 2032
Time deposits	Central Bank of the Dominican Republic	769,006	10.50 %	2025
Profitability guarantee	Profitability guarantee of La Administradora de Fondos de Pensiones, Invested in different Institutions	1,281,410		
Mortgage notes (b)	Banco Múltiple BHD León, S. A.	1,676	6.00 %	2019
Other investments (a)	Fideicomiso Viviendas Bajo Costo	78,002	12.00 %	
Fideicomiso	Fideicomiso de Administracion y Fuente de Pago Sector Eléctrico	<u>257,438</u>	16.06 %	
		80,783,908		
	Interests receivable, (includes US\$2,519)	<u>1,810,025</u>		
		82,593,933		
	Allowance for investment, (includes US\$154)	<u>(317,005)</u>		
		<u><b>82,276,928</b></u>		

(a) For purposes of calculating the solvency ratio, the Bank received the no objection from the Superintendence of Banks to grant regulatory treatment to these investments, similar to the current facilities awarded to the Central Government, i.e., classify as risk category "A", 0 % provision requirement and 0 % weighted.

(b) Investments affected by lawsuits against the Bank.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 7 Loans portfolios

a) The breakdown of the portfolio by type of loans is as follows:

	2019			2018		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Commercial loans</u>						
Advances on checking accounts	-	104,692	104,692	-	32,343	32,343
Loans (includes US\$1,418,471 in 2019 and US\$1,716,387 in 2018)	59,436,652	131,453,329	190,889,981	70,650,136	137,008,624	207,658,760
Discounted notes	-	-	-	-	-	-
Invoice discounting (include US\$4,447 in 2019 and US\$4,766 in 2018)	-	540,712	540,712	-	379,869	379,869
Financial leases	1,484,374	606	1,484,980	1,502,771	1,942	1,504,713
Advance on export notes (corresponds to US\$16 in 2019 and 2018)	-	825	825	-	793	793
Letters of credit	-	-	-	-	-	-
Other loans	-	2,548	2,548	-	3,169	3,169
	<u>60,921,026</u>	<u>132,102,712</u>	<u>193,023,738</u>	<u>72,152,907</u>	<u>137,426,740</u>	<u>209,579,647</u>
<u>Consumer loans</u>						
Credit cards (includes US\$25,197 in 2019 and US\$23,817 in 2018)	-	9,651,542	9,651,542	-	8,914,644	8,914,644
Consumer loans (includes US\$2,522 and US\$1,678 in 2019 and 2018)	-	62,873,995	62,873,995	-	54,562,919	54,562,919
	-	<u>72,525,537</u>	<u>72,525,537</u>	-	<u>63,477,563</u>	<u>63,477,563</u>
<u>Mortgage loans</u>						
Residential purchases (includes US\$1,515 and US\$1,859 in 2019 and 2018)	-	44,422,957	44,422,957	-	39,579,477	39,579,477
Construction, improvements, repairs, expansion and others	-	802,173	802,173	-	871,444	871,444
	-	<u>45,225,130</u>	<u>45,225,130</u>	-	<u>40,450,921</u>	<u>40,450,921</u>
	<u>60,921,026</u>	<u>249,853,379</u>	<u>310,774,405</u>	<u>72,152,907</u>	<u>241,355,224</u>	<u>313,508,131</u>
Interests receivable (includes US\$12,319 and US\$14,380 in 2019 and 2018)	292,030	4,324,141	4,616,171	93,808	5,168,021	5,261,829
Allowance for loan losses and interests receivable (includes US\$34,326 and US\$38,153 in 2019 and 2018)	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 7 Loans portfolios (continued)

b) The status of the loan portfolio is as follows:

	2019			2018		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Commercial loans</u>						
Current (i) (includes US\$1,394,952 and US\$1,680,142 in 2019 and 2018)	60,921,026	122,538,517	183,459,543	72,152,757	128,614,745	200,767,502
Restructured (ii) (includes US\$25,816 and US\$38,516 in 2019 and 2019)	-	3,048,928	3,048,928	-	2,910,662	2,910,662
Past due:						
31 to 90 days (iii) (includes US\$103 and US\$813 in 2019 and 2018)	-	108,108	108,108	-	173,470	173,470
More than 90 days (iv) (includes US\$1,605 and US\$843 in 2019 and 2018)	-	1,638,697	1,638,697	150	1,411,434	1,411,584
Legal collections (v), (includes US\$ 178 and US\$82 in 2019 and 2018)	-	959,953	959,953	-	941,993	941,993
	<u>60,921,026</u>	<u>128,294,203</u>	<u>189,215,229</u>	<u>72,152,907</u>	<u>134,052,304</u>	<u>206,205,211</u>
<u>Microcredits</u>						
Current (i)	-	82	82	-	1,221	1,221
Past due:						
31 to 90 days (iii)	-	35	35	-	25	25
More than 90 days (iv)	-	-	-	-	-	-
Legal collections (v)	-	104	104	-	104	104
	<u>-</u>	<u>221</u>	<u>221</u>	<u>-</u>	<u>1,350</u>	<u>1,350</u>
<u>Microenterprises loans</u>						
Current (i)	-	3,615,942	3,615,942	-	3,152,517	3,152,517
Restructured (ii) includes US\$8 in 2018)	-	20,042	20,042	-	30,056	30,056
Past due:						
31 to 90 days (iii) (includes US\$12 and US\$15 in 2019 and 2018)	-	12,864	12,864	-	15,841	15,841
More than 90 days (iv) (includes US\$229 and US\$711 in 2019 and 2018)	-	109,402	109,402	-	118,204	118,204
Legal collections (v) (includes US\$39 and US\$37 in 2019 and 2018)	-	50,038	50,038	-	56,468	56,468
	<u>-</u>	<u>3,808,288</u>	<u>3,808,288</u>	<u>-</u>	<u>3,373,086</u>	<u>3,373,086</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**7 Loans portfolios (continued)**

	2019			2018		
	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
<b>Consumer loans</b>						
Current (i) (includes US\$26,245 and US\$24,755 in 2019 and 2018)	-	70,448,685	70,448,685	-	61,826,879	61,826,879
Restructured (ii) (includes US\$500 in 2019)	-	117,940	117,940	-	144,153	144,153
Past due:						
31 to 90 days (iii)	-	289,093	289,093	-	202,738	202,738
More than 90 days (iv) (includes US\$974 and US\$741 in 2019 and 2018)	-	1,305,205	1,305,205	-	999,113	999,113
Legal collections (v)	-	364,614	364,614	-	304,680	304,680
	<u>-</u>	<u>72,525,537</u>	<u>72,525,537</u>	<u>-</u>	<u>63,477,563</u>	<u>63,477,563</u>
<b>Mortgage loans</b>						
Current (i) (includes US\$1,422 and US\$1,390 in 2019 and 2018)	-	44,414,609	44,414,609	-	39,579,856	39,579,856
Restructured (ii)	-	44,186	44,186	-	102,069	102,069
Past due:						
31 to 90 days (iii) (includes US\$2 in 2018)	-	11,875	11,875	-	9,762	9,762
More than 90 days (iv) (includes US\$25 in 2019)	-	436,221	436,221	-	347,333	347,333
Legal collections (v) (includes US\$68 and US\$468 in 2019 and 2018)	-	318,239	318,239	-	411,901	411,901
	<u>-</u>	<u>45,225,130</u>	<u>45,225,130</u>	<u>-</u>	<u>40,450,921</u>	<u>40,450,921</u>
<b>Interests receivable</b>						
Current (i) (includes US\$8,631 and US\$12,667 in 2019 and 2018)	292,030	3,280,706	3,572,736	93,132	4,563,689	4,656,821
Restructured (ii) (includes US\$3,486 and US\$1,297 in 2019 and 2018)	-	487,956	487,956	15	100,341	100,356
Past due:						
From 31 to 90 days (iii) (includes US\$29 and US\$258 in 2019 and 2018)	-	177,133	177,133	-	162,450	162,450
More than 90 days (iv) (includes US\$161 and US\$139 in 2019 and 2018)	-	263,106	263,106	136	233,531	233,667
Legal collections (v) (includes US\$12 and US\$19 in 2019 and 2018)	-	115,240	115,240	525	108,010	108,535
	<u>292,030</u>	<u>4,324,141</u>	<u>4,616,171</u>	<u>93,808</u>	<u>5,168,021</u>	<u>5,261,829</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**7 Loans portfolios (continued)**

	2019			2018		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Allowance for loans and interests receivable (includes US\$34,326 and US\$38,153 in 2019 and 2018)	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>

- (i) Corresponds to loans that are up to date in fulfilling the payment plan agreed or that do not show arrears over 30 days from the date on which they have become due and payable, except consumer loans relating to credit card, which will remain current until 60 days after the date on which payments have become due and payable.
- (ii) Corresponds to principal and interest receivable on loans that present an impairment in the payment capacity of the debtor or the payment behavior and their conditions and payment terms have changed, resulting in a change of the interest rate and maturity of the original loan contract, as well as loans resulting from capitalization of interest, default commissions and other charges of a previous loan.
- (iii) Corresponds to principal installments and interest past due 31 to 90 days from the day in which the principal should have been paid.
- (iv) Corresponds to the total principal and interest receivable that are past due in their principal payments for more than 90 days. Loans payable in installments are classified as overdue portfolio. Furthermore, includes overdrafts on demand with more than three days in arrears.
- (v) Corresponds to principal and interest receivable of loans that are in legal collection process.

*c) By type of collateral:*

	2019			2018		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Multi-use collateral (i)	1,400,670	86,579,024	87,979,694	1,532,415	89,448,828	90,981,243
Specific use collateral (ii)	-	17,997,180	17,997,180	-	14,026,766	14,026,766
Without collateral (iii)	<u>59,520,356</u>	<u>145,277,175</u>	<u>204,797,531</u>	<u>70,620,492</u>	<u>137,879,630</u>	<u>208,500,122</u>
	<u>60,921,026</u>	<u>249,853,379</u>	<u>310,774,405</u>	<u>72,152,907</u>	<u>241,355,224</u>	<u>313,508,131</u>
Interests receivable	292,030	4,324,141	4,616,171	93,808	5,168,021	5,261,829
Allowance for loan losses and interests receivable	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**7 Loans portfolios (continued)**

- (i) Multi-use collateral are considered to be goods that are not specific to an activity, but can be multipurpose, realizable, valuable, easy to execute, transferable without excessive costs and stable in value. These guarantees are considered between 50 % and 100 % of their value for the purposes of the coverage of the risks, depending on the guarantee. These collaterals are considered as follows:

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u>
Debt securities issued or guaranteed by the Dominican State (Central Bank, Ministry of Finance) (a)	100
Debt securities issued by the financial Intermediary entities (a)	95
Time deposits in domestic or foreign currency owned by the financial intermediary (a)	100
Time deposits in domestic or foreign currency of other financial intermediaries (a)	95
Sureties or guarantees, irrevocable letters of credit and letters of credit stand-by	95
Mutual guarantee certificates	80
Investment fund participation fees (b)	-
Plots or land	80
Plots or exclusive land for agricultural purposes	80
Residential buildings, property and apartments	80
Buildings and commercial space	80
Operating hotels (c)	80
Hotel projects under construction (c)	70
Industrial warehouses (c)	80
Aircraft	80
Motor vehicles with an aging of less than five years	50
Renewable energy equipment (c)	80
Multi-use machinery and equipment	70
Warrants of inventory	90
Trust accounts for payment sources	<u>50</u>

(a) For cash deposits and financial instruments whose denomination of currency (local or foreign) is different than the currency of the credit that is being guaranteed, the percentage of eligibility must be reduced by 10 %.

(b) The percentage of admissibility of the shares in investment funds, as well as their classification in multi-purpose or polyvalent or non-multipurpose, are established according to the assets that make up the equity.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**7 Loans portfolios (continued)**

- (c) The percentage of admissibility of fiduciary guarantees, as well as its classification on multi-use or specific use collateral are set according to the trust property.
- (ii) Specific-use collaterals are real guarantees that, due to their nature, are considered of unique use, and therefore present characteristics that are difficult to realize due to their specialized origin. These collaterals will apply according to the following percentages:

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u>
Heavy vehicles	50
Free trade zone	60
Specialized machines and equipment	<u>50</u>

- (iii) This category considers as unsecured loans those that are guaranteed by insurance policies and other guarantees.

*d) By source of funds:*

	<u>2019</u>			<u>2018</u>		
	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
Own funds	60,921,026	249,828,132	310,749,158	72,152,907	241,329,977	313,482,884
Other domestic institutions	-	25,247	25,247	-	25,247	25,247
	<u>60,921,026</u>	<u>249,853,379</u>	<u>310,774,405</u>	<u>72,152,907</u>	<u>241,355,224</u>	<u>313,508,131</u>
Interests receivable	292,030	4,324,141	4,616,171	93,808	5,168,021	5,261,829
Allowance for loan losses and interests receivable	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>

*e) By term:*

	<u>2019</u>			<u>2018</u>		
	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
Short-term (up to one year)	42,175,667	83,969,601	126,145,268	52,329,696	87,654,175	139,983,871
Medium-term (more than one year and up to three years)	9,730,388	122,878,678	132,609,066	10,638,817	115,565,337	126,204,154
Long-term (more than three years)	9,014,971	43,005,100	52,020,071	9,184,394	38,135,712	47,320,106
	<u>60,921,026</u>	<u>249,853,379</u>	<u>310,774,405</u>	<u>72,152,907</u>	<u>241,355,224</u>	<u>313,508,131</u>
Interests receivable	292,030	4,324,141	4,616,171	93,808	5,168,021	5,261,829
Allowance for loan losses and interests receivable	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 7 Loans portfolios (continued)

*f) By economic sector:*

	2019			2018		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Government	57,955,553	-	57,955,553	68,297,372	-	68,297,372
Financial sector	2,965,473	3,545,951	6,511,424	3,855,535	4,720,308	8,575,843
Non-financial sector						
Agriculture, livestock and forestry	-	4,675,856	4,675,856	-	4,419,688	4,419,688
Fishing	-	5,920	5,920	-	5,920	5,920
Mining and quarries	-	415,547	415,547	-	415,547	415,547
Manufacturing industry	-	17,716,996	17,716,996	-	21,545,266	21,545,266
Electricity, gas and water	-	7,266,606	7,266,606	-	6,641,994	6,641,994
Construction wholesale and retail business	-	27,580,960	27,580,960	-	29,425,778	29,425,778
Hotels and restaurants	-	36,543,404	36,543,404	-	38,214,853	38,214,853
Transportation, warehousing and communication	-	16,516,846	16,516,846	-	16,103,502	16,103,502
Real estate, and leasing activities	-	3,388,689	3,388,689	-	3,329,783	3,329,783
Education	-	8,265,530	8,265,530	-	7,137,878	7,137,878
Health and social services	-	281,649	281,649	-	281,649	281,649
Other social and personal services activities	-	131,112	131,112	-	131,112	131,112
Private household with local services	-	113,831,741	113,831,741	-	100,006,021	100,006,021
	-	9,686,572	9,686,572	-	8,975,925	8,975,925
	<u>60,921,026</u>	<u>249,853,379</u>	<u>310,774,405</u>	<u>72,152,907</u>	<u>241,355,224</u>	<u>313,508,131</u>
Interests receivable	292,030	4,324,141	4,616,171	93,808	5,168,021	5,261,829
Allowance for loan losses and interests receivable	-	(9,754,822)	(9,754,822)	-	(8,566,071)	(8,566,071)
	<u>61,213,056</u>	<u>244,422,698</u>	<u>305,635,754</u>	<u>72,246,715</u>	<u>237,957,174</u>	<u>310,203,889</u>

As of September 30, 2019 and December 31, 2018, loans to the private sector include RD\$21,502 and RD\$33,169 million, respectively, which correspond to credit line operations with contractors and suppliers who are carrying or have carried out works to the Dominican Republic State with the guarantee of the government. Until December 20, 2016, these loans had the non-objection of the Superintendence of Banks to be classified in risk category "A", provision requirement of 1 % and their recognition as private sector loans. Through the sixth resolution of the Monetary Board dated December 20, 2016, a no-objection was granted until April 30, 2017 for the Bank to classify these credits with risk category "A" and provision requirement of 0 %, as well as their presentation as current and classify as loans to the private sector. These terms were extended until December 31, 2018, through the Seventh Resolution of the Monetary Board dated December 20, 2017. This no objection was subsequently extended until December 31, 2019, through the Second Resolution of the Monetary Board dated December 20, 2018.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

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## 7 Loans portfolios (continued)

According to the First Resolution of the Monetary Board dated July 9, 2015, direct and indirect financing granted to the Dominican State that has the collateral of the same or with the funds for the repayment of the debt from real flows recorded in the law of the Dominican Republic's general budget, will be classified with risk category "A" and a provision requirement of 0 %. According to the sixth resolution of the Monetary Board dated December 20, 2016, a no-objection was granted until April 30, 2017 so that credits granted to the Dominican State that are in its loan portfolio as of December 31, 2016, will be classified in risk category "A", requirement of 0 % provision and presented as current. This no objection was extended until December 31, 2018, through the Seventh Resolution of the Monetary Board dated December 20, 2017. This no objection was subsequently extended until December 31, 2019, through the Second Resolution of the Monetary Board dated December 20, 2018.

On March 27, 2014, the Bank signed a transactional agreement with a domestic financial institution, in which the following was agreed:

- ◆ The domestic financial institution transferred to the Bank its loan portfolio, classified by the Superintendence of Banks in risk categories of D and E, with a face value of approximately RD\$800,000. For the administration of this portfolio, the Bank charges a commission on the recovered values.

## 8 Debtors by acceptances

A summary of debtors by acceptances, is as follows:

<u>Correspondent Bank</u>	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Maturity Date</u>
Commerzbank (corresponds to US\$1,519 in 2019 and to US\$ 82 in 2018)	79,348	2019	4,112	2019
Societe Generale (corresponds to US\$3,469 in 2018)	-	-	174,150	2019
CaixaBank, S.A. (corresponds to US\$27 in 2018)	-	-	1,358	2019
MUFG Bank,Ltd (corresponds to US\$210 in 2018)	-	-	10,553	2019
Rabobank Netherland (corresponds To US\$27,159 in 2019 and US\$13,685 in 2018)	1,419,094	2019	687,024	2019
Sumitomo Mitsui Banking Corporation (corresponds to US\$ 1,647 in 2019 to US\$678 in 2018)	86,046	2019	34,052	2019

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**8 Debtors by acceptances (continued)**

	2019		2018	
Correspondent Bank	Amount	Maturity Date	Amount	Maturity Date
The Bank of Tokyo-Mitsubishi (corresponds to US\$362 in 2018)	-	-	18,159	2019
Mizuho Bank Ltd. (corresponds to US\$442 and 2019)	<u>23,101</u>	2019	<u>-</u>	-
	<u><b>1,607,589</b></u>		<u><b>929,408</b></u>	

**9 Accounts receivable**

A summary of accounts receivable is as follows:

	2019	2018
Commissions receivable (includes US\$345 in 2019 and US\$509 in 2018)	<u>208,563</u>	<u>211,392</u>
Right for future contract with foreign currency (includes US\$38 and 34 in 2019 and 2018)	2,000	1,721
Other receivables:		
Advances to suppliers	901	511
Accounts receivable from employees	13,109	14,714
Recoverable expenses	1,434	28
Security deposits	57,064	48,811
Judicial and administrative deposits	8,339	-
Credit card claims	86,495	57,166
Accounts receivable for real estate and leasing operations (includes US\$22 in 2019 and US\$55 in 2018)	3,432	7,990
Management funds	321,048	35,534
Discounted notes receivable	57,321	28,646
Returned checks	-	782
Accounts receivable - other (includes US\$1,140 in 2019 and US\$1,152 in 2018)	<u>1,021,915</u>	<u>910,180</u>
	<u>1,573,058</u>	<u>1,106,083</u>
Interests receivable	<u>1,034</u>	<u>1,521</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**9 Accounts receivable (continued)**

	<u>2019</u>	<u>2018</u>
Insurance premiums receivable:		
General insurances (includes US\$14,342 and US\$22,913 in 2019 and 2018)	2,181,969	2,212,189
Life insurance (includes US\$263 and US\$371 in 2019 and 2018)	<u>248,836</u>	<u>175,350</u>
	<u>2,430,805</u>	<u>2,387,539</u>
Receivables from insurance and guarantees	<u>6,881</u>	<u>5,820</u>
	<u><b>4,220,341</b></u>	<u><b>3,712,355</b></u>

**10 Assets received in lieu of foreclosure of loans**

A summary of assets received in lieu of foreclosure of loans as of September 30, 2019 and December 31, 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Furniture and equipment (a)	1,086,672	1,070,265
Real estate	<u>8,452,549</u>	<u>8,437,083</u>
	9,539,221	9,507,348
Allowance for losses on assets received in lieu of foreclosure of loans	<u>(8,295,448)</u>	<u>(7,554,613)</u>
	<u><b>1,243,773</b></u>	<u><b>1,952,735</b></u>

(a) Basically corresponds to the allocation of machinery for approximately RD\$697,254, through an investment settlement agreement maintained by the Bank in the Agricultural Bank of the Dominican Republic. This was done because the investment was made so that the Agricultural Bank of the Dominican Republic could grant a loan to a private debtor of the national rice sector, with collateral of the awarded machinery.

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Notes to the Consolidated Financial Statements (continued)

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**10 Assets received in lieu of foreclosure of loans (continued)**

Following is a description of assets received in lieu of foreclosure of loans (by aging) as of September 30, 2019 and December 31, 2018:

	<u>Amount</u>	<u>Provision</u>
<b>September 30, 2019</b>		
Up to 40 months:		
Furniture and equipment	601,539	(250,267)
Real estate	2,413,581	(1,521,080)
More than 40 months:		
Furniture and equipment	485,133	(485,133)
Real estate	<u>6,038,968</u>	<u>(6,038,968)</u>
Total	<u><b>9,539,221</b></u>	<u><b>(8,295,448)</b></u>
<b>December 31, 2018</b>		
Up to 40 months:		
Furniture and equipment	585,132	(155,240)
Real estate	3,486,219	(1,963,376)
More than 40 months:		
Furniture and equipment	485,133	(485,133)
Real estate	<u>4,950,864</u>	<u>(4,950,864)</u>
Total	<u><b>9,507,348</b></u>	<u><b>(7,554,613)</b></u>

**11 Investments in shares**

A summary of investments in shares as of September 30, 2019 and December 31, 2018, is as follows:

<u>Amount of investment</u>	<u>Percentage of shares</u>	<u>Type of shares</u>	<u>Face value</u>	<u>Market value</u>	<u>Number of outstanding shares</u>
<b>September 30, 2019</b>					
<u>Investments in associates:</u>					
740,371	24.53 %	Common	100	(a)	2,097,100
328,595	30.00 %	Common	1,000	(a)	169,298
<u>88,730</u>	49.00 %	Common	100	(a)	339,618
<u>1,157,696</u>					

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## 11 Investments in shares (continued)

A summary of investments in shares as of September 30, 2019 and December 31, 2018, is as follows:

<u>Amount of investment</u>	<u>Percentage of shares</u>	<u>Type of shares</u>	<u>Face value</u>	<u>Market value</u>	<u>Number of outstanding shares</u>
<b>September 30, 2019</b>					
<u>Investments in other entities:</u>					
47,448 (a)	-	Common	311	1,041	128,776
15,605 (b)	10 %	Common	100	(a)	156,048
<u>135,349 (b)</u>					
<u>198,402</u>					
1,356,098					
<u>(28,905) (c)</u>					
Total					
<u><b>1,327,193</b></u>					
<b>December 31, 2018</b>					
<u>Investments in associates:</u>					
716,725	24.53 %	Common	100	(a)	2,097,100
348,347	30.00 %	Common	1,000	(a)	169,298
<u>88,730</u>	49.00 %	Common	100	(a)	339,618
<u>1,153,802</u>					
<u>Investments in other entities:</u>					
43,100 (a)	-	Common	311	869	128,776
15,605 (b)	10 %	Common	100	(a)	156,048
<u>57,347 (b)</u>					
<u>116,052</u>					
1,269,854					
<u>(31,247) (c)</u>					
Total					
<u><b>1,238,607</b></u>					

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 11 Investments in shares (continued)

- (a) In the Dominican Republic there is no active market where the Bank can obtain the market value of these local investments; however, for investments in shares of companies that are both listed in an active market, which book value as of September 30, 2019 and December 31, 2018 amounted to RD\$ 47 and RD\$43 million, respectively, the market value was RD\$134 and RD\$112 million, respectively.
- (b) Corresponds to minor investments in several entities.
- (c) Represents an allowance for investments in shares.

As of September 30, 2019 and December 31, 2018, investments in shares include US\$861 and US\$756 net of allowance, respectively.

A movement of the investment, dividends received and equity shares in net profit of the associates as of September 30, 2019 and December 31, 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Investment balances at January 1 <sup>st</sup>	1,153,802	934,527
Equity on earnings recognized	106,374	232,098
Share purchase	-	48,609
Transfers (i)	-	40,120
Dividends received in cash	<u>(102,480)</u>	<u>(101,552)</u>
Investment balances at September 30, 2019 and December 31, 2018	<u><u>1,157,696</u></u>	<u><u>1,153,802</u></u>

- (i) Corresponds to shares in other companies, which as of December 2018 became shares in associates for the shares purchase going from 15 % of participation to 49 % of participation as of December 31, 2018.

## 12 Property, furniture and equipment

As of September 30, 2019 and December 31, 2018, a summary of property, furniture and equipment is as follows:

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Construction and acquisitions in process (a)</u>	<u>Total</u>
<b>September 30, 2019</b>						
Balance at January 1 <sup>st</sup> , 2019	1,491,786	6,120,824	6,296,082	360,302	3,038,894	17,307,888
Acquisitions	376,370	130,413	37,437	-	1,071,301	1,615,521
Disposals	(172,160)	(79,988)	(361,733)	-	-	(613,881)
Reclassification	-		12,309			12,309
Transfers	<u>327,756</u>	<u>1,063,246</u>	<u>702,464</u>	<u>374,960</u>	<u>(2,468,426)</u>	<u>-</u>
Balance at September, 2019	<u>2,023,752</u>	<u>7,234,495</u>	<u>6,686,559</u>	<u>735,262</u>	<u>1,641,769</u>	<u>18,321,837</u>

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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**12 Property, furniture and equipment (continued)**

	Land and improvements	Buildings	Furniture and equipment	Leasehold improvements	Construction and acquisitions in process (a)	Total
<b>September 30, 2019</b>						
Accumulated depreciation at January 1 <sup>st</sup> , 2018	-	(1,807,038)	(2,509,610)	(218,823)	-	(4,535,471)
Depreciation expenses (b)	-	(153,707)	(783,611)	(78,426)	-	(1,015,744)
Reclassification	-	-	(1,179)	-	-	(1,179)
Disposals	-	8,284	353,525	-	-	361,809
Balance at September 30, 2019	-	(1,952,461)	(2,940,875)	(297,249)	-	(5,190,585)
Property, furniture and equipment at September 30, 2019	<u>2,023,752</u>	<u>5,282,034</u>	<u>3,745,684</u>	<u>438,013</u>	<u>1,641,769</u>	<u>13,131,252</u>
<b>December 31, 2018</b>						
Balance at January 1 <sup>st</sup> , 2018	1,509,541	5,658,837	5,158,352	331,892	4,082,907	16,741,529
Acquisitions	-	121,542	120,751	-	1,021,995	1,264,288
Disposals	(164)	(6,278)	(695,147)	-	-	(701,589)
Transfers	(17,591)	346,723	1,712,126	28,410	(2,066,008)	3,660
Balance at December 31, 2018	<u>1,491,786</u>	<u>6,120,824</u>	<u>6,296,082</u>	<u>360,302</u>	<u>3,038,894</u>	<u>17,307,888</u>
Accumulated depreciation at January 1 <sup>st</sup> , 2018	-	(1,612,555)	(2,221,191)	(142,688)	-	(3,976,434)
Depreciation expenses (b)	-	(196,088)	(973,448)	(76,135)	-	(1,245,671)
Disposals	-	1,605	685,029	-	-	686,634
Balance at December 31, 2018	-	(1,807,038)	(2,509,610)	(218,823)	-	(4,535,471)
Property, furniture and equipment at December 31, 2018	<u>1,491,786</u>	<u>4,313,786</u>	<u>3,786,472</u>	<u>141,479</u>	<u>3,038,894</u>	<u>12,772,417</u>

(a) As of December 31, 2018, it basically corresponds to remodeling and construction of offices.

(b) Expenses for this concept for the nine month periods ended September 30, 2019 and 2018, includes RD\$15,481 and RD\$15,502, respectively, correspond to depreciation of assets in use by officers and employees which are presented as part of salaries and compensation to personnel in the accompanying consolidated statements of profit or loss.

Land and buildings held by the Bank as of December 31, 2004, are recognized at fair value as determined by independent external appraisers at that date. The difference between the historical cost of land and buildings and their fair values at the valuation date, amounted to RD\$915,737 and is presented as revaluation surplus, net of cumulative depreciation in the accompanying consolidated balance sheets.



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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**13 Other assets**

A summary of other assets is as follows:

	<u>2019</u>	<u>2018</u>
Deferred charges:		
Commissions to insurance agents on unearned premiums	316,056	274,897
Prepaid insurances	162,971	244,249
Non-deferred proportional ceded reinsurance premium (a)	168,116	173,868
Prepaid income tax	1,923,740	1,496,225
Other prepaid payments (includes US\$25 in 2019 and 2018)	1,079,887	1,397,533
Other deferred charges	<u>93,658</u>	<u>117,372</u>
	<u>3,744,428</u>	<u>3,704,144</u>
Intangibles:		
Software	3,044,298	3,063,676
Others	<u>2,200</u>	<u>2,200</u>
	<u>3,046,498</u>	<u>3,065,876</u>
Accumulated amortization	<u>(487,943)</u>	<u>(143,611)</u>
	<u>2,558,555</u>	<u>2,922,265</u>
Other assets:		
Assets acquired for financial leases	-	736,821
Stationery and office supplies	178,584	188,587
Libraries and artwork	31,246	25,043
Other miscellaneous assets (b)	168,634	196,368
Items pending for allocation (c), (includes US\$621 in 2019 US\$1,356 in 2018)	261,791	285,795
Others (includes US\$5 in 2019 and 2018)	<u>108,188</u>	<u>103,139</u>
	<u>748,443</u>	<u>1,535,753</u>
	<u><b>7,051,426</b></u>	<u><b>8,162,162</b></u>

- (a) Corresponds to insurance premiums pending to be amortized from reinsurance contracts for excess of losses.
- (b) As of December 31, 2018, the Bank obtained authorization from the Superintendence of Banks to capitalize, as computer programs, an amount of RD\$2,851,604.
- (c) The Bank recognizes under this caption the debit balances of the items that due to operational reasons cannot be immediately recognized in the final accounts.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 14 Summary of allowances for risky assets

A summary of the changes in allowances for risky assets is shown below:

	Loan portfolio	Investments	Interests receivable	Other assets (a)	Contingent operations (b)	Total RD\$
<b>September 30, 2019</b>						
Balance at January 1 <sup>st</sup> , 2018	7,872,040	344,261	698,022	7,554,613	297,307	16,766,243
Constitution of allowances	2,452,493	15,051	573,704	609,235	44,250	3,694,733
Write-offs against allowances	(1,574,386)	-	(228,369)	-	-	(1,802,755)
Transfers of allowances	175,756	15,567	(273,923)	131,600	(49,000)	-
Effect of change in exchange rates and others	57,895	278	3,013	-	6,468	67,654
Balance at September 30, 2019	8,983,798	375,157	772,447	8,295,448	299,025	18,725,875
Minimum allowances required at September 30, 2019 (c)	8,965,651	372,921	753,366	8,285,544	287,582	18,665,064
Excess (deficit) in the minimum allowance required at September 30, 2019 (e)	<u>18,147</u>	<u>2,236</u>	<u>19,081</u>	<u>9,904</u>	<u>11,443</u>	<u>60,811</u>
<b>December 31, 2018</b>						
Balance at January 1 <sup>st</sup> , 2018	7,758,005	297,835	512,262	6,356,177	261,981	15,186,260
Constitution of allowances	3,167,157	47,199	511,723	812,648	57,371	4,596,098
Write-offs against allowances	(2,340,216)	-	(753,814)	-	-	(3,094,030)
Transfers of allowances	(783,424)	(1,170)	426,441	385,788	(27,635)	-
Effect of change in exchange rates and others	70,518	397	1,410	-	5,590	77,915
Balance at December 31, 2018	7,872,040	344,261	698,022	7,554,613	297,307	16,766,243
Minimum allowances required at December 31, 2018 (c)	7,840,924	327,068	602,321	7,550,767	241,847	16,562,927
Excess (deficit) in the minimum allowance required at December 31, 2018 (e)	<u>31,116</u>	<u>17,193</u>	<u>95,701</u>	<u>3,846</u>	<u>55,460</u>	<u>203,316</u>

- (a) Corresponds to the allowance for assets received in lieu of foreclosure of loans.
- (b) This allowance is included as part of other liabilities (see note 19) and the constitution expense is included as part of operating expenses in the consolidated statement of profit or loss.
- (c) Represents the amounts of allowance determined by a self-assessment as of September 30, 2019 and December 31, 2018 plus other adjustments made.

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## 14 Summary of allowances for risky assets (continued)

- (d) Includes amount of reversed provision of assets received in recovery of credits.
- (e) As of September 30, 2019 and December 31, 2018 in the case that the required provisions are lower than the recognized provisions, the Superintendence of Banks of the Dominican Republic allow the release of provisions without prior authorization from the regulatory authorities, except allowances for interests receivable over 90 days.

As of September 30, 2019 and December 31, 2018, loans to some power generator companies were classified as risk "A" and with a requirement for provision of 0 %, as set forth in communication ADM/1028/15 issued by the Superintendence of Banks of the Dominican Republic in September 10, 2015. Also, the loans awarded for the development of the Dominican road sector, were classified as risk "A" with a 0 % requirement provision, as stated in Circular ADM/0093/14 dated February 26, 2014.

The Superintendence of Banks of the Dominican Republic communicated to the Bank its non-objection to the development of a financing program in favor of contractors of priority works, both of the Central Government and decentralized and autonomous companies and nonfinancial public companies, to be classified in category of risk "A" and therefore constitute 1 % of provision. By means of the Sixth Resolution of the Monetary Board of December 20, 2016, a waiver was granted until April 20, 2017 to grant a rating of risk "A" and requirement to provide a 0 % on these credits. These terms were extended until December 31, 2019, through the Second Resolution of the Monetary Board of December 20, 2018. As of September 30, 2019 and December 31, 2018, the amount of the debt under this program amounts to approximately RD\$21,501,658 and RD\$33,169,000, respectively.

## 15 Customers' deposits

Customers' deposits are summarized as follows:

### a) By type

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
<b>September 30, 2019</b>					
Checking	72,916,382	0.64	-	-	72,916,382
Savings	94,480,256	0.52	62,911,415	0.30	157,391,671
Time	2,426	3.75	46,610,485	1.87	46,612,911
Interest	<u>88,667</u>	-	<u>43,661</u>	-	<u>132,328</u>
	<u><b>167,487,731</b></u>	<u><b>0.57</b></u>	<u><b>109,565,561</b></u>	<u><b>0.97</b></u>	<u><b>277,053,292</b></u>

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Notes to the Consolidated Financial Statements (continued)

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**15 Customers' deposits (continued)**

	Local currency	Annual weighted average rate (%)	Foreign currency	Annual weighted average rate (%)	Total RD\$
<b>December 31, 2018</b>					
Checking	59,490,014	0.72	-	-	59,490,014
Savings	89,787,946	0.78	64,190,537	0.85	153,978,483
Time	2,412	4.35	38,743,521	2.25	38,745,933
	<u><b>149,280,372</b></u>	<u><b>0.76</b></u>	<u><b>102,934,058</b></u>	<u><b>1.38</b></u>	<u><b>252,214,430</b></u>
<b>b) By sector</b>					
<b>September 30, 2019</b>					
Non-financial public sector	36,540,450	0.64	15,469,941	0.90	52,010,391
Non-financial private sector	130,808,794	0.55	93,848,389	0.98	224,657,183
Non-resident	49,820	0.63	203,570	0.36	253,390
Interest	88,667	-	43,661	-	132,328
	<u><b>167,487,731</b></u>	<u><b>0.57</b></u>	<u><b>109,565,561</b></u>	<u><b>0.97</b></u>	<u><b>277,053,292</b></u>
<b>December 31, 2018</b>					
Non-financial public sector	28,263,089	0.72	22,037,243	1.08	50,300,332
Non-financial private sector	120,980,254	0.76	80,787,250	1.46	201,767,504
Non-resident	37,029	0.75	109,565	0.91	146,594
	<u><b>149,280,372</b></u>	<u><b>0.76</b></u>	<u><b>102,934,058</b></u>	<u><b>1.38</b></u>	<u><b>252,214,430</b></u>
<b>c) By maturity date</b>					
<b>September 30, 2019</b>					
0 to 15 days	167,396,642	0.57	63,020,554	0.31	230,417,196
16 to 30 days	-	-	80,531	1.63	80,531
31 to 60 days	139	1.97	8,301,087	1.85	8,301,226
61 to 90 days	205	1.88	3,980,433	1.96	3,980,638
91 to 180 days	719	2.19	9,805,437	1.55	9,806,156
181 to 360 days	341	2.15	10,974,335	2.15	10,974,676
More than 1 year	1,018	6.01	13,359,523	1.88	13,360,541
Interest	88,667	-	43,661	-	132,328
	<u><b>167,487,731</b></u>	<u><b>0.57</b></u>	<u><b>109,565,561</b></u>	<u><b>0.97</b></u>	<u><b>277,053,292</b></u>

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**15 Customers' deposits (continued)**

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
<b>December 31, 2018</b>					
To 15 days	149,277,961	0.76	64,052,438	0.85	213,330,399
16 to 30 days	-	-	103,116	1.76	103,116
31 to 60 days	272	3.37	3,055,116	1.69	3,055,388
61 to 90 days	109	3.37	2,994,461	2.24	2,994,570
91 to 180 days	852	2.98	10,892,504	2.16	10,893,356
181 to 360 days	165	3.55	10,346,374	2.55	10,346,539
More than 1 year	<u>1,013</u>	<u>6.01</u>	<u>11,490,049</u>	<u>2.24</u>	<u>11,491,062</u>
	<b><u>149,280,372</u></b>	<b><u>0.76</u></b>	<b><u>102,934,058</u></b>	<b><u>1.38</u></b>	<b><u>252,214,430</u></b>

As of September 30, 2019 and December 31, 2018, customers' deposits include restricted amounts for the following concepts:

	<u>Inactive accounts</u>	<u>Foreclosed funds</u>	<u>Deceased customers</u>	<u>Security deposits</u>	<u>Total RD\$</u>
<b>September 30, 2019</b>					
Customers' deposits:					
Checking	95,574	747,853	48,927	-	892,354
Savings	325,754	639,877	1,537,639	-	2,503,270
Time	<u>-</u>	<u>491,722</u>	<u>139,428</u>	<u>2,499,881</u>	<u>3,131,031</u>
	<b><u>421,328</u></b>	<b><u>1,879,452</u></b>	<b><u>1,725,994</u></b>	<b><u>2,499,881</u></b>	<b><u>6,526,655</u></b>
<b>December 31, 2018</b>					
Customers' deposits:					
Checking	91,673	596,401	44,844	-	732,918
Savings	366,191	581,139	1,320,068	-	2,267,398
Time	<u>-</u>	<u>281,832</u>	<u>184,059</u>	<u>2,095,404</u>	<u>2,561,295</u>
	<b><u>457,864</u></b>	<b><u>1,459,372</u></b>	<b><u>1,548,971</u></b>	<b><u>2,095,404</u></b>	<b><u>5,561,611</u></b>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 15 Customers' deposits (continued)

As of September 30, 2019 and December 31, 2018 customer' deposits include amounts of inactive accounts, as follows:

	<u>From 3 to 10 years</u>	<u>More than 10 years</u>	<u>Total</u>
<b>September 30, 2019</b>			
Customer deposits:			
Checking	92,918	2,656	95,574
Savings	<u>271,780</u>	<u>53,974</u>	<u>325,754</u>
	<b><u>364,698</u></b>	<b><u>56,630</u></b>	<b><u>421,328</u></b>
<b>December 31, 2018</b>			
Customer deposits:			
Checking	87,688	3,985	91,673
Savings	<u>303,298</u>	<u>62,893</u>	<u>366,191</u>
	<b><u>390,986</u></b>	<b><u>66,878</u></b>	<b><u>457,864</u></b>

## 16 Deposits from domestic and foreign financial institutions

A summary of deposits from domestic and foreign financial institutions is as follows:

### a) By type and currency

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
<b>September 30, 2019</b>					
Checking	6,808,138	0.64	-	-	6,808,138
Savings	379,036	0.52	627,970	0.30	1,007,006
Time	118	1.98	4,128,263	2.32	4,128,381
Interest	<u>544</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>1,044</u>
	<b><u>7,187,836</u></b>	<b><u>0.63</u></b>	<b><u>4,756,733</u></b>	<b><u>2.06</u></b>	<b><u>11,944,569</u></b>
<b>December 31, 2018</b>					
Checking	4,393,765	0.72	-	-	4,393,765
Savings	239,736	0.78	14,539,018	0.85	14,778,754
Time	<u>109</u>	<u>3.19</u>	<u>5,871,791</u>	<u>2.03</u>	<u>5,871,900</u>
	<b><u>4,633,610</u></b>	<b><u>0.72</u></b>	<b><u>20,410,809</u></b>	<b><u>1.19</u></b>	<b><u>25,044,419</u></b>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**16 Deposits from domestic and foreign financial institutions (continued)**

**b) By maturity date**

	<u>Local currency</u>	Annual weighted average rate (%)	<u>Foreign currency</u>	Annual weighted average rate (%)	<u>Total RD\$</u>
<b>September 30, 2019</b>					
0 to 15 days	7,187,174	0.63	627,970	0.36	7,815,144
31 to 60 days	84	1.90	2,469,948	1.97	2,470,032
61 to 90 days	32	1.90	316,642	2.15	316,674
91 to 180 days	-	-	621,851	2.43	621,851
181 to 360 days	-	-	431,799	3.57	431,799
More than a year	2	5.63	288,023	3.47	288,025
Interest	544	-	500	-	1,044
	<u><b>7,187,836</b></u>	<u><b>0.63</b></u>	<u><b>4,756,733</b></u>	<u><b>2.06</b></u>	<u><b>11,944,569</b></u>
<b>December 31, 2018</b>					
To 15 days	4,633,502	0.72	14,539,018	0.85	19,172,520
31 to 60 days	75	3.00	5,207,944	1.90	5,208,019
61 to 90 days	-	-	25,480	3.00	25,480
91 to 180 days	31	3.45	248,494	2.60	248,525
181 to 360 days	-	-	317,949	3.42	317,949
More than a year	2	5.63	71,924	2.94	71,926
	<u><b>4,633,610</b></u>	<u><b>0.72</b></u>	<u><b>20,410,809</b></u>	<u><b>1.19</b></u>	<u><b>25,044,419</b></u>

As of September 30, 2019 and December 31, 2018, the Bank held funds in escrow due to third parties' foreclosures, inactive accounts, inoperative accounts and accounts from deceased customers in domestic financial institutions for RD\$207,100 and RD\$319,032, respectively.

As of September 30, 2019 and December 31, 2018, the estatus of the inactive and/or dormant accounts of the deposits in domestic financial institutions with three to ten year term is RD\$927 and RD\$922, respectively.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**17 Borrowed funds**

A summary of borrowed funds is as follows:

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
<b>September 30, 2019</b>					
Central Bank of the Dominican Republic	Loan	Secured	2.25%	2019 until 2022	<u>68,448</u>
Foreign financial institutions:					
Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US\$130,000)	Line of credit	Unsecured	1.08 % until 4.14 %	2019 until 2020	6,792,617
Citibank, N. A. (corresponds to US\$105,000)	Line of credit	Unsecured	3.34 %	2019 until 2020	5,486,344
Eximbank, Republic of China - Taiwán (corresponds to US\$81)	Loan	Unsecured	3.26 % until 3.61	2019	4,223
Wells Fargo Bank (corresponds to US\$233)	Loan	Unsecured	3.26 % until 3.61 %	2019 until 2020	12,154
Bank of America (corresponds to US\$50,000)	Loan	Unsecured	3.65 %	2019	2,612,545
Banco Centroamericano de Integración Económica (corresponds to US\$80,000)	Loan	Unsecured	3.42 % until 4.27 %	2019 until 2020	4,180,072
Cargill Financial Service (corresponds to US\$10,000)	Loan	Unsecured	4.91 %	2019	522,509
Debt insurance costs (a)					<u>(753)</u>
					<u>19,609,711</u>
Other:					
Various (includes US\$174)	Sale of investments with re-purchase agreement	Secured	1.94 % until 8.00 %	2019 until 2020	<u>1,757,404</u>
Interests payable (includes US\$2,700)					<u>157,583</u>
					<u><b>21,593,146</b></u>



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**17 Borrowed funds (continued)**

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
<b>December 31, 2018</b>					
Central Bank of the Dominican Republic	Loan	Secured	2.25%	2019 until 2022	<u>20,196</u>
Domestic financial institutions:					
Banco Popular Dominicano, S. A.	Line of credit	Secured	9.25 %	2019	700,000
Banco Múltiple Lafise, S.A (corresponds to US\$489)	Line of credit	Secured	5.00 %	2019	24,563
The Bank of Nova Scotia	Line of credit	Secured	7.50 %	2019	298,000
Asociación Popular de Ahorros y Préstamos	Line of credit	Secured	8.50 %	2019	<u>1,000,000</u>
					<u>2,022,563</u>
Foreign financial institutions:					
Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US\$104,000)	Line of credit	Unsecured	1.08 % until 4.14 %	2019	5,221,091
Citibank, N. A. (corresponds to US\$20,000)	Line of credit	Unsecured	3.34 %	2019	1,004,056
Eximbank, Republic of China - Taiwán (corresponds to US\$427)	Loan	Unsecured	3.26 % until 3.61 %	2019	21,450
Sumitomo Mithsui Banking Corp. (corresponds to US\$59,000)	Loan	Unsecured	3.68 % until 4.09 %	2019	2,961,965
Wells Fargo Bank (corresponds to US\$48,573)	Loan	Unsecured	3.57 % until 3.70 %	2019	2,438,492
Bac Florida Bank (corresponds to US\$12,000)	Loan	Unsecured	3.99 %	2019	602,434
Bank of America (corresponds to US\$20,000)	Loan	Unsecured	3.65 %	2019	1,004,056
U. S. Century Bank (corresponds to US\$10,000)	Loan	Unsecured	3.62 % until 3.99 %	2019	502,028
Deutsche Bank (corresponds to US\$10,000)	Loan	Unsecured	2.88 %	2019	502,028
Banco Centroamericano de Integración Económica (corresponds to US\$99,000)	Loan	Unsecured	3.42 % until	2019	4,970,077

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**17 Borrowed funds (continued)**

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
<b>December 31, 2018</b>					
			4.27 %		
Banco de Crédito e Inversiones, S. A. (corresponds to US\$15,000)	Loan	Unsecured	3.54 %	2019	753,042
Cargill Financial Service (corresponds to US\$10,000)	Loan	Unsecured	2.02 %	2019	502,028
Banco Santander (corresponds to US\$10,000)	Loan	Unsecured	2.88 %	2019	502,028
Debt insurance costs (a)					<u>(7,533)</u>
					<u>20,977,242</u>
Other:					
Various (includes US\$6,413)	Sale of	Secured	2.50 % until 7.63 %	2019	<u>5,554,541</u>
Interests payable (includes US\$4,345)					<u>257,152</u>
					<u><b>28,831,694</b></u>

(a) Corresponds to the costs incurred in the issuance of debt, which are deferred and amortized using the straight-line method during the term of the debt.

**18 Outstanding securities**

A summary of outstanding securities, is as follows:

**a) By type**

	Local currency RD\$	Annual weighted average rate (%)
<b>September 30, 2019</b>		
Time certificates	<u><b>137,000,924</b></u>	<u><b>5.68</b></u>
<b>December 31, 2018</b>		
Time certificates	<u><b>122,209,317</b></u>	<u><b>6.91</b></u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**18 Outstanding securities (continued)**

	Annual Local currency RD\$	weighted average rate (%)
<b>b) By sector</b>		
<b>September 30, 2019</b>		
Non-financial public sector	44,140,478	4.94
Non-financial private sector	85,659,364	5.91
Financial sector	<u>7,201,082</u>	<u>7.39</u>
	<b><u>137,000,924</u></b>	<b><u>5.68</u></b>
<b>December 31, 2018</b>		
Non-financial public sector	23,775,626	7.01
Non-financial private sector	78,784,757	6.10
Financial sector	<u>19,648,934</u>	<u>9.95</u>
	<b><u>122,209,317</u></b>	<b><u>6.91</u></b>
<b>c) By maturity date</b>		
<b>September 30, 2019</b>		
0 to 15 days	873,884	6.81
16 to 30 days	925,376	6.65
31 to 60 days	14,198,546	4.75
61 to 90 days	17,643,378	4.28
91 to 180 days	40,062,931	5.60
181 to 360 days	32,010,351	6.34
More than a year	<u>31,286,458</u>	<u>6.27</u>
	<b><u>137,000,924</u></b>	<b><u>5.68</u></b>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**18 Outstanding securities (continued)**

	Annual Local currency RD\$	weighted average rate (%)
<b>December 31, 2018</b>		
0 to 15 days	2,122,608	8.93
16 to 30 days	2,239,425	8.28
31 to 60 days	21,773,927	7.61
61 to 90 days	16,865,565	7.77
91 to 180 days	27,647,223	7.19
181 to 360 days	25,175,875	6.36
More than a year	<u>26,384,694</u>	<u>5.75</u>
	<b><u>122,209,317</u></b>	<b><u>6.91</u></b>

As of September 30, 2019 and December 31, 2018, outstanding securities include restricted amounts, as follows:

	<u>Deceased clients</u>	<u>Received in collateral</u>	<u>Total</u>
<b>September 30, 2019</b>			
Outstanding securities - time certificates	<u>459,479</u>	<u>10,075,863</u>	<u>10,535,342</u>
<b>December 31, 2018</b>			
Outstanding securities - time certificates	<u>395,451</u>	<u>9,350,556</u>	<u>9,746,007</u>

**19 Other liabilities**

A summary of other liabilities is as follows:

	<u>2019</u>	<u>2018</u>
Demand obligations (includes US\$2,795 in 2019 and US\$1,603 in 2018) (a)	1,368,083	1,313,739
Term obligations (includes US\$1,943 in 2019 and US\$1,719 in 2018) (b)	261,311	259,960
Unclaimed third party balances (includes US\$1,426 in 2019 and US\$597 in 2018)	112,267	30,134
Sundry creditors:		
Commissions payable	92,095	48,130

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**19 Other liabilities (continued)**

	<u>2019</u>	<u>2018</u>
Accounts payable to suppliers (includes (US\$28 in 2019 and US\$506 in 2018)	183,566	277,451
Withheld tax payable	241,024	181,444
Retained payable insurance premium (includes US\$3 in 2019)	40,423	-
Other sundry creditors (c) (includes (US\$4 in 2019 US\$361 in 2018) (c)	1,536,334	1,365,521
Reserves for contingent operations (includes US\$2,582 in 2019 And US\$2,832 in 2018) (d)	299,025	297,307
Other provisions:		
Income tax	824,181	19,348
Provision for litigation (note 27)	69,551	78,232
Bonus and other employee's benefits	2,554,125	2,893,729
Systemic risk prevention program	181,388	170,576
Contingency fund	98,519	82,202
Credit card and electronic transactions	202,927	175,357
Extraordinary contributions to pension plans	20,194	20,194
Other reserves (includes US\$563 in 2019 and US\$88 in 2018)	903,474	445,952
Items pending for allocation (includes US\$1,238 in 2018) (e)	212,340	211,475
Administration fund of the public sector	80,517	194,860
Commissions to agents on premiums pending collection (includes US\$1,186 in 2019 and US\$1,288 in 2018)	188,721	178,829
Tax on outstanding premium	266,138	260,028
Withholding tax to reinsurers	16,433	12,611
Payments received in advance (includes US\$101 in 2019 and US\$94 in 2018)	104,867	86,532
Others	<u>2,000,315</u>	<u>1,064,492</u>
	<b><u>11,857,818</u></b>	<b><u>9,668,103</u></b>

(a) Corresponds to financial obligations assumed by the Bank, which are payable on demand and certified checks, among others.

(b) In this category, the Bank recognizes special cash deposits in United States dollars received from the Dominican Republic Government.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**19 Other liabilities (continued)**

- (c) As of September 30, 2019 and December 31, 2018, includes RD\$36,333 and RD\$492,227, respectively, which relates to liabilities with dealers of vehicles as a result of financings awarded by the Bank in vehicle fairs.
- (d) Corresponds to reserves to cover contingent operations as required by the Superintendence of Banks of the Dominican Republic (see note 14).
- (e) Corresponds to creditors' balances that, due to internal operating reasons or characteristics of the operation, it was not possible to immediately allocate the balances in the final accounts.

**20 Subordinated debts**

A summary of the subordinated debts, is as follows:

<u>Type</u>	<u>Amount in RD\$</u>	<u>Effective interest rate</u>	<u>Type of currency</u>	<u>Term</u>
<b>September 30, 2018</b>				
Subordinated debts (corresponds to US\$300,000 nominal value (a))	15,675,270	7.12 %	Dollar	10 years
Subordinated debts nominal value (b)	9,999,000	10.37 %	Peso	10 years
Debt issuance costs (c)	(101,125)	-	-	-
Discount on the issuance of debt (corresponds to (US\$1,088) (d))	<u>(56,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	25,516,272			
Interests payable (corresponds to US\$3,500)	<u>412,856</u>			
	<b><u>25,929,128</u></b>			

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**20 Subordinated debts (continued)**

<u>Type</u>	<u>Amount in RD\$</u>	<u>Effective interest rate</u>	<u>Type of currency</u>	<u>Term</u>
<b>December 31, 2018</b>				
Subordinated debts (corresponds to US\$300,000 nominal value (a))	15,060,840	7.12 %	Dollar	10 years
Subordinated debts nominal value (b)	9,999,000	10.37 %	Peso	10 years
Debt issuance costs (c)	(120,329)	-	-	-
Discount on the issuance of debt (corresponds to (US\$1,299) (d))	<u>(65,206)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	24,874,305			
Interests payable (corresponds to US\$8,750)	<u>447,798</u>			
	<b><u>25,322,103</u></b>			

- a) Corresponds to bonds issued by the Bank on February 1<sup>st</sup>, 2013, for a nominal value of US\$300,000. This debt generates a nominal annual interest rate of 7 % and has an original maturity of 10 years until February 1<sup>st</sup>, 2023. This debt issuance was carried out in the United States of America to qualified institutional buyers as defined in Rule 144A under the *U.S. Securities Act of 1933* and other countries outside the United States of America according to *Regulation S*.

Additionally, the bonds have the following characteristics:

- ◆ Interests are payable semi-annually in February and August 1<sup>st</sup>, of each year.
  - ◆ The bonds will not be redeemed prior to their maturity date.
  - ◆ The bonds are unsecured.
  - ◆ In the event of bankruptcy, liquidation or dissolution of the Bank under Dominican laws, the payment of the bonds shall be subject to all existing and future obligations denominated as "Senior Obligations," which include all other liabilities of the Bank.
- b) Corresponds to bonds issued in the market of the Dominican Republic by the Bank on December 29, 2014, for a nominal value of RD\$10,000,000. The amount placed corresponds to two issuances offered simultaneously for RD\$5,000 million each, with a maturity of 10 years until December 29, 2024, and a floating interest rate equivalent to the weighted interest average rate (TIPPP for its Spanish acronyms) of multiple banks, published by the Central Bank of the Dominican Republic plus a fixed margin of 2.75 %. The effective rate at the time of placement was 9.66 %, reviewable every six months. These bonds have no collateral and in the case of dissolution or liquidation of the Bank, the payment of the bonds is subject to all the Bank's obligations.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**20 Subordinated debts (continued)**

Subordinated debts may be used to compute part of the secondary capital (tier 2 capital) for the purposes of determining the Bank's technical capital.

- c) Relates to costs incurred when issuing bonds, which are deferred and amortized over the straight-line method during the term of the bonds.
- d) Relates to discounts awarded for the issuance of bonds, which are amortized over the straight-line method during the term of the bonds.

**21 Technical reserves**

The subsidiaries Seguros Reservas, S. A. and Administradora de Riesgos de Salud Reservas, Inc. maintain ongoing specific mathematical risk reserves to meet commitments arising from the current insurance policies, which amounted to RD\$4,994,407 and RD\$4,183,322 as of September 30, 2019 and December 31, 2018, respectively.

The movement during the period of the referred technical reserves, is as follows:

	<u>Mathematical reserves</u>	<u>Specific reserves and ongoing risk</u>	<u>Total</u>
<b>September 30, 2019</b>			
Balance at January 1 <sup>st</sup> , 2019	149,769	4,033,553	4,183,322
Plus: reserve increase	235,563	5,492,565	5,728,128
Less: reserve decrease	<u>(143,585)</u>	<u>(4,773,458)</u>	<u>(4,917,043)</u>
Balance at September 30, 2019	<u><b>241,747</b></u>	<u><b>4,752,660</b></u>	<u><b>4,994,407</b></u>
<b>December 31, 2018</b>			
Balance at January 1 <sup>st</sup> , 2018	164,903	3,269,642	3,434,545
Plus: reserve increase	194,866	4,595,483	4,790,349
Less: reserve decrease	<u>(210,000)</u>	<u>(3,831,572)</u>	<u>(4,041,572)</u>
Balance at December 31, 2018	<u><b>149,769</b></u>	<u><b>4,033,553</b></u>	<u><b>4,183,322</b></u>



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 22 Income tax

In accordance with the Organic Law, the Bank is exempt from income tax. However, the Bank performs the computation and voluntarily pays income tax by following some guidelines of the Tax Code and special criteria after considering that the final beneficiary is the Dominican Republic State. The consolidated companies declare and pay their income tax individually and separately. Consolidated companies determine their net taxable income based on accounting practices to comply with existing legislation. Income tax expense for the nine month periods ended as of September 30, 2019 and 2018, is composed of the following:

		<u>2019</u>	<u>2018</u>
Current income tax	RD\$	820,280	462,016
Tax withheld on payment of dividends		11,848	-
Deferred		<u>73,484</u>	<u>31,050</u>
		<u><b>905,612</b></u>	<u><b>493,066</b></u>

## 23 Responsibilities

In addition to the obligation balances of insured risks retained, as of September 30, 2019 and December 31, 2018 for RD\$1,577,482,215 and RD\$847,803,772, respectively, the subsidiaries Seguros Reservas, S. A. and Administradora de Riesgo de Salud Reservas, Inc. recognize memorandum accounts for salvages warehouse amounting to RD\$12,849 and RD\$17,133 in September 30, 2019 and December 31, 2018.

The responsibilities assumed by the insurance company and the amounts withheld by them, are as follows:

		<u>2019</u>	<u>2018</u>
Responsibilities for insurance businesses and bonds taken directly		1,577,482,215	847,803,772
Surrendered and retracted insurance responsibilities		<u>(620,798,565)</u>	<u>(493,894,556)</u>
		<u><b>956,683,650</b></u>	<u><b>353,909,216</b></u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 24 Reinsurance

Reinsurance is the transfer in part or in whole of risk accepted by an insurer to another insurer or reinsurer. The original or primary insurer is called the ceding insurer and the second the reinsurer.

The reinsurers that support the insurance business as of September 30, 2019 and December 31, 2018, are the following:

September 30, 2019			December 31, 2018		
<u>Reinsurer</u>	<u>Class of contract</u>	<u>Participation (%)</u>	<u>Reinsurer</u>	<u>Class of contract</u>	<u>Participation (%)</u>
Suiza	Surplus	12.5	Suiza	Surplus	12.5
	Quota share	65 until 100		Quota share	65 until 100
-	-	-	Korean GC	Surplus	5 until 10
		-	Cuota parte		10.00
Trans. RE Mallen	Surplus	32	Trans. RE Mallen	Surplus	15 until 25
		-		Quota share	10
Hannover XL	Surplus	3	Hannover XL	Surplus	5.00
	Quota share	5 until 70		Quota share	5 until 70
Thompson Health	Surplus	2 until 25	Thompson Health	Surplus	2 until 22
	Quota share	5.00		Quota share	5.00
-	-	-	Nacional Borg	Quota share	5.00
Everest-BMS	Surplus	25	Everest-BMS	Surplus	30 until 35
	Quota share	25 until 40		Quota share	25 until 40
General Re,	Surplus	10 until 35	General Re,	Surplus	10 until 35
Axis	Quota share	3.00	Axis	Quota share	3.00
Navigators -BMS	Surplus	1.5	Navigators -BMS	Surplus	3.00
	Quota share	8.00		Quota share	8.00
Arch Re.	Surplus	25	Arch Re.	Quota share	15 until 80
-	-	-	Awac-BMS	Surplus	2 until 3
Siruis-BMS	Quota share	2 until 5	Siruis-BMS	Surplus	3.5 until 5

## 25 Equity

A summary of the Bank's equity, owned 100 % by the Dominican Republic State, is as follows:

	Common shares			
	Authorized		Issued	
	<u>Quantity</u>	<u>Amount in RD\$</u>	<u>Quantity</u>	<u>Amount in RD\$</u>
Balance at September 30, 2019	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>
Balance at December 31, 2018	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**25 Equity (continued)**

As of September 30, 2019, the capital contributions of the Bank have been originated as follow:

- a) RD\$50,000 corresponding to the initial capital in accordance with the Law No. 6133 of December 17, 1962, which amended Article 4 of the Organic Law of the Bank.
- b) RD\$200,000 by delivering state-certified vouchers issued by the National Treasury in 1998.
- c) RD\$1,750,000 by issuing certified bonds on behalf of the Bank in accordance with Law No. 99-01 of April 5, 2001, which amended Article 4 of Organic Law of the Bank, the Dominican Republic Government.
- d) RD\$1,500,000 by issuing bonds on behalf of the Bank in accordance with Law No. 121-05 of April 7, 2005, the Dominican Republic Government.
- e) RD\$2,000,000 by reinvesting dividends charged to earnings of 2013 in accordance with Law No. 543-14 of December 5, 2014.
- f) RD\$2,800,000, by reinvesting dividends charged to earnings of 2015, in accordance with the Law No. 543-14 of December 5, 2014.
- g) RD\$1,700,000 through the reinvestment of dividends charged to earnings of 2015, pursuant to Law No. 543-14 of December 5, 2014.

The Bank's net profit should be used or distributed as follows:

- 50 % - For amortization of not less than 5 % of certified vouchers of the National Treasurer on behalf of the Dominican Republic Government, plus interest. The resulting surplus will cover the debts of the Dominican Republic Government and its agencies, as well as other needs, as approved by the Board of Directors, upon previous notice to the Executive Power.
- 35 % - To be transferred to the account of other equity reserves of the Bank.
- 15% - To cover debts of the Dominican Republic Government and its agencies with the Bank.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**25 Equity (continued)**

By the second Resolution of the Ordinary Session dated July 09, 2019, the Board of Directors approved the distribution of dividends, taking into account the guidelines for the distribution of dividends to shareholders set forth in Resolution 7-2002, issued by the Superintendence of Banks on March 8, 2002, and in accordance with the provisions of Law No. 99-01 on the distribution of dividends from the Bank. The total amount of dividends to be distributed was RD\$7,156,460, as detailed below:

- i) RD\$2,504,761 transferred to equity reserve. This transfer was done effectively as of December 31, 2018.
- ii) RD\$3,502,480 dividends in cash to be paid to the Dominican Republic State.
- iii) RD\$75,000 to amortize the National Treasury vouchers, Law 99-01.
- iv) RD\$750 to offset interest of the National Treasury vouchers, Law 99-01.
- v) RD\$1,073,469 to offset debts of the Dominican Republic State with the Bank.

By the 12<sup>th</sup> Resolution of the Ordinary Session dated January 31, 2018, the Board of Directors approved the distribution of dividends, taking into account the guidelines for the distribution of dividends to shareholders set forth in Resolution 7-2002, issued by the Superintendence of Banks on March 8, 2002, and in accordance with the provisions of Law No. 99-01 on the distribution of dividends from the Bank. The total amount of dividends to be distributed was RD\$6,313,917, as detailed below:

- i) RD\$2,264,425 transferred to equity reserve. This transfer was done effectively as of December 31, 2017.
- ii) RD\$3,000,000 dividends in cash to be paid to the Dominican Republic State.
- iii) RD\$75,000 to amortize the National Treasury vouchers, Law 99-01.
- iv) RD\$1,500 to offset interest of the National Treasury vouchers, Law 99-01.
- v) RD\$972,992 to offset debts of the Dominican Republic State with the Bank.

According to the application instructions of Resolution No. 12-2001 dated December 5, 2001, issued by the Superintendence of Banks of the Dominican Republic, the dividend limit to be paid in cash by the Bank amounts to RD\$3,157,132. During the year 2018, RD\$3,000,000 were paid in cash, while RD\$1,049,493 were used to compensate the State's debts and its dependencies with the Bank, the redemption of National Treasury vouchers and the interest of National Treasury vouchers; on the basis of what is established by Law No. 99-01 dated April 5, 2001.

***Other equity reserves***

In accordance with the Bank's organic law, the Bank must segregate 35 % of its annual net profit to equity reserves. As of December 31, 2018, the Bank segregated equity reserves for the amount of RD\$2,504,761.

Through Circular SB/0682 dated December 31, 2010, the Superintendence of Banks issued its non-objection for the application within the fiscal year of the segregation of 35 % of total net profit as other equity reserves, provided the Bank is in compliance with the guidelines for distribution of profits as set forth by the supervisory body.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 25 Equity (continued)

### *Revaluation surplus*

The Bank revalued its land and buildings required for the development of its operations to its estimated fair market value determined by independent appraisers, as allowed by the Prudential Rules of Capital Adequacy. The effect of the revaluation was RD\$915,737. The Bank, in accordance with the rules established, considered this amount as tier 2 capital, prior authorization of the Superintendence of Banks of the Dominican Republic. As of December 31, 2018, the amortized amount corresponding to these revalued assets, amounted to RD\$11,140.

## 26 Information segments

The Bank's businesses are mainly organized into the following segments:

<u>Segment</u>	<u>Company</u>	<u>Jurisdiction</u>	<u>Functional currency</u>	<u>Equity shares</u>	<u>Percentage of voting rights direct and indirect</u>
<b>September 30, 2019</b>					
Financial	Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	Dominican Republic	RDS	10,000,000	100 %
Related services	Tenedora Reservas, S. A. and Subsidiaries	Dominican Republic	RDS	<u>1,551,434</u>	97.74 %
				11,551,434	
	Elimination adjustments in consolidation			<u>(1,551,434)</u>	
				<b><u>10,000,000</u></b>	
<b>December 31, 2018</b>					
Financial	Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	Dominican Republic	RDS	10,000,000	100 %
Related services	Tenedora Reservas, S. A. and Subsidiaries	Dominican Republic	RDS	<u>1,551,434</u>	97.74 %
				11,551,434	
	Elimination adjustments in consolidation			<u>(1,551,434)</u>	
				<b><u>10,000,000</u></b>	

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**26 Information segments (continued)**

Assets, liabilities, revenues, expenses and net profit after eliminations that comprise the consolidated figures of the Bank, are as follows:

<u>Company</u>	<u>At September 30, 2019</u>		<u>Nine month period ended at September 30, 2019</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	520,436,699	481,947,689	47,009,145	40,131,269	6,877,876
Tenedora Reservas, S. A. and Subsidiaries	22,296,899	10,640,030	10,683,881	8,569,005	2,114,876
Administradora de Riesgos de Salud Reservas, Inc.	<u>678,266</u>	<u>159,622</u>	<u>713,664</u>	<u>681,680</u>	<u>31,984</u>
	543,411,864	492,747,341	58,406,690	49,381,954	9,024,736
Elimination adjustments in consolidation	<u>(11,449,236)</u>	<u>404,377</u>	<u>(3,163,324)</u>	<u>(1,082,156)</u>	<u>(2,081,168)</u>
	<b><u>531,962,628</u></b>	<b><u>493,151,718</u></b>	<b><u>55,243,366</u></b>	<b><u>48,299,798</u></b>	<b><u>6,943,568</u></b>

<u>Company</u>	<u>At September 30, 2018</u>		<u>Nine month period ended at September 30, 2018</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	491,008,873	455,821,989	41,215,054	35,631,443	5,583,611
Tenedora Reservas, S. A. and Subsidiaries	25,506,863	16,155,482	8,639,735	7,696,815	942,920
Administradora de Riesgos de Salud Reservas, Inc.	<u>613,086</u>	<u>126,427</u>	<u>651,601</u>	<u>583,193</u>	<u>68,408</u>
	517,128,822	472,103,898	50,506,390	43,911,451	6,594,939
Elimination adjustments in consolidation	<u>(11,740,297)</u>	<u>(2,158,465)</u>	<u>(2,422,598)</u>	<u>(1,438,530)</u>	<u>(984,068)</u>
	<b><u>505,388,525</u></b>	<b><u>469,945,433</u></b>	<b><u>48,083,792</u></b>	<b><u>42,472,921</u></b>	<b><u>5,610,871</u></b>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 27 Commitments and contingencies

### (a) Contingent operations

In the normal course of businesses, the Bank enters into different commitments and incurs in certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. The most important balances of these commitments and contingent liabilities, include:

	<u>2019</u>	<u>2018</u>
Collaterals granted:		
Endorsements	3,150,554	3,156,658
Other collaterals granted	68,614	40,132
Non-negotiable letters of credit issued	1,589,734	964,350
Credit lines of automatic use	<u>32,308,871</u>	<u>29,506,088</u>
	<u><b>37,117,773</b></u>	<u><b>33,667,228</b></u>

As of September 30, 2018 and December 31, 2018, the Bank has reserves to cover possible losses from these operations for the amounts of RD\$299,025 and RD\$297,307, respectively, which are included in other liabilities in the consolidated balance sheets at those dates.

As of September 30, 2019 and December 31, 2018, the Insurance subsidiary and the Administradora de Riesgos de Salud Reservas, Inc. had contingent liabilities for retained risk, estimated as follows:

	<u>2019</u>	<u>2018</u>
General risks	1,262,072,562	721,408,541
Individual life insurance	25,285,622	19,809,625
Collective life insurance	<u>290,124,031</u>	<u>106,585,606</u>
	<u><b>1,577,482,215</b></u>	<u><b>847,803,772</b></u>

According to the practice of the insurance industry, most risks retained are reinsured under the catastrophic coverage and excess loss.

### (b) Leasing of offices, buildings and automatic teller machines (ATM)

The Bank has leasing contracts for the premises where some of its administrative offices, branches, business centers and ATM are located. For the nine month periods ended September 30, 2019 and 2018, expenses for this concept amounted to RD\$650,029 and RD\$573,645, respectively, which are recognized in other operating expenses in the accompanying consolidated statements of profit or loss.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**27 Commitments and contingencies (continued)****(c) Superintendence of Bank fees**

The Monetary Board of the Dominican Republic requires that financial entities make contributions in order to cover inspection services provided by the Superintendence of Banks of the Dominican Republic. The expense for this concept for the nine month periods ended September 30, 2019 and 2018 was RD\$683,055 and RD\$675,821, respectively, and has been recognized in other operating expenses in the accompanying consolidated statements of profit or loss.

**(d) Contingent fund**

Article 64 of the Monetary and Financial Law No. 183-02 from November 21, 2002 and Regulations for the Contingency Fund adopted by the First Resolution issued by the Monetary Board on November 06, 2003, authorizes the Central Bank of the Dominican Republic to collect quarterly contributions from the financial entities for this contingency fund.

The quarterly contribution shall be 0.25 % from the total assets less the quarterly supervision fee charged by the Superintendence of Banks of the Dominican Republic. This contribution shall not exceed 1 % of the total deposits from the public.

Expenses for this concept for the nine month periods ended September 30, 2019 and 2018, were RD\$290,088 and RD\$166,818, respectively, and are recognized in other operating expenses in the accompanying consolidated statements of profit or loss.

**(e) Banking consolidation fund**

For the implementation of the Exceptional Program for Risk Prevention of the Entities of Financial Intermediation of Law 92-04, the Central Bank of the Dominican Republic created the Banking Consolidation Fund (FBC) with the main purpose to protect the depositors and avoiding systematic risk. The FBC was created with mandatory contributions from the financial entities and other sources as established by the above-mentioned law. Such contributions are calculated considering the total customer deposits with a minimum annual rate of 0.17 % to be paid quarterly.

Expenses for this concept for the nine month periods ended September 30, 2019 and 2018, were RD\$534,199 and RD\$467,859, respectively, and are recognized as part of other operating expenses in the accompanying consolidated statements of profit or loss.



**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**27 Commitments and contingencies (continued)****(f) Credit card licenses***MasterCard credit cards*

The Banks maintains a contract with a foreign company for the non-exclusive use of Master Card Brand for charge services, credit or debit card. The Bank does not pay fees for the right of use of MasterCard. The Bank has the commitment to open a line of credit for no less than US\$5 for each MasterCard Gold credit card issued. The duration of the license is indefinite; subject to the termination provisions as set forth in the contract.

*Visa credit cards*

The Bank has a contract with a foreign company for a non-exclusive license to use the Visa and Electron brand in charge services, credit or debit card. The Bank does not pay fees for the rights of use of Visa. The duration of the license is indefinite, subject to the termination provisions set forth in the contract.

**(g) Lawsuits**

As of September 30, 2019 and December 31, 2018, there are several lawsuits and claims originated in the normal course of the Bank's operations. The Bank believes together with its legal advisors that the resolution of these claims will not result in an adverse material effect. As of September 30, 2019 and December 31, 2018, the amount reserved to meet these claims is RD\$69,551 and RD\$78,232, respectively, and is recognized in other liabilities in the accompanying consolidated balance sheet.

In the normal course of operations, the subsidiary Seguros Reservas, S. A. has several commitments and contingent liabilities from claims, lawsuits and other legal proceedings seeking coverage for damages from insurance policies. The Company has established reserves that it considers necessary to cover these claims and demands based on its experience in the insurance business.

**(h) Insurance claims**

The subsidiary Seguros Reservas, S. A. has received insurance claims for catastrophes that arose in the normal course of business, which have occurred as of December 31, 2018. The Bank initiated the operating processing of claims which to date has not been completed. The Bank's management expects that the ultimate effect of this process will not be significant in relation to the financial position of the Bank, and that the main risk be assumed by the reinsurers.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**27 Commitments and contingencies (continued)**

**(i) Guaranteed minimum return**

As of September 30, 2019 and December 31, 2018, the subsidiary Administradora de Fondos de Pensiones Reservas, S. A., has a minimum annual return commitment, guaranteed by law, which shall be equal to the weighted average return of the pension funds of individually capitalization less than 2.0 and 1.9 percentage points, respectively, as required by Article 103 of Law 87-01. If the return is below the weighted average calculated by the Superintendence of Pensions, the *Administradora* would have a payment commitment with the fund.

**28 Memorandum accounts**

Memorandum accounts presented in the Bank's consolidated balance sheet consist of:

	<u>2019</u>	<u>2018</u>
Funds under management by the Bank:		
PROMIPYME Resources	3,733,943	3,421,194
PROMIPYME - PROCREA	28	230
PROMICENTRAL	85,195	92,303
PROMIPYME - Fonper funds	35,608	44,881
PROMIPYME - PRESAAAC loans	465	893
MI PRIMER PROGRESO loans	10,137	12,550
MI PRODEMICO loans	219,258	345,356
Solidarity Bank	<u>2,330,740</u>	<u>2,328,540</u>
	<u>6,415,374</u>	<u>6,245,947</u>
Funds managed by the subsidiary - Pension Fund Management:		
Mandatory individual capitalization pension plan (Pension Fund T-1)	94,409,720	82,450,961
Pension fund of officers and employees of Banco de Reservas of the Dominican Republic (Pension Fund T-4)	15,178,014	13,836,585
Social solidary fund (Pension Fund T-5)	<u>37,744,209</u>	<u>32,935,936</u>
	<u>147,331,943</u>	<u>129,223,482</u>
	<u><b>153,747,317</b></u>	<u><b>135,469,429</b></u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

## 29 Financial income and expenses

A summary of financial income and expenses is as follows:

	Nine month periods ended at September 30,	
	<u>2019</u>	<u>2018</u>
Financial income:		
Loans portfolio:		
Commercial	14,067,993	13,880,873
Consumers	10,642,118	8,611,862
Mortgage	<u>3,080,773</u>	<u>2,844,825</u>
	<u>27,790,884</u>	<u>25,337,560</u>
Investments:		
Other debt securities	7,881,623	6,159,533
Gain on sale of investments	1,605,908	1,483,301
Insurance premiums net of returns and cancelations	<u>5,826,084</u>	<u>5,210,585</u>
<b>Total</b>	<b><u>43,104,499</u></b>	<b><u>38,190,979</u></b>
Financial expenses-on deposits:		
Customer deposits	(1,593,346)	(1,861,564)
Securities	(6,264,459)	(4,927,223)
Subordinated debts	<u>(1,647,678)</u>	<u>(1,470,385)</u>
	<u>(9,505,483)</u>	<u>(8,259,172)</u>
Investments:		
Amortization of premiums from investments in debt securities	(515,772)	(368,598)
Loss on sale of investments	<u>(5)</u>	<u>(6,875)</u>
	<u>(515,777)</u>	<u>(375,473)</u>
Financing-borrowed funds	<u>(1,056,348)</u>	<u>(657,560)</u>
Reinsurance:		
Reinsurance costs	(1,708,007)	(1,496,927)
Contratual losses and obligations	<u>(2,212,197)</u>	<u>(2,263,374)</u>
	<u>(3,920,204)</u>	<u>(3,760,301)</u>
Expenses for technical adjustment to reserves	<u>(127,632)</u>	<u>(112,850)</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**29 Financial income and expenses (continued)**

Acquisition expense, conservation and premium collection - commission and other acquisition costs of the insurance company	<u>(600,023)</u>	<u>(535,470)</u>
Total	<u><b>(15,725,467)</b></u>	<u><b>(13,700,826)</b></u>

**30 Income (expense) for exchange differences**

A summary of the main income and expenses due to exchange differences were recognized during the years ended as of September 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Income due to foreign exchange:		
Loan portfolio	3,409,393	3,143,520
Investments	1,566,747	1,116,629
Available funds	7,721,155	5,335,972
Accounts receivable	4,719	9,196
Forward contracts	-	
Non-financial investments	1,936	1,693
Other assets	74,457	36,533
Adjustments for exchange rate differences	<u>1,474,968</u>	<u>2,277,655</u>
Subtotal	<u>14,253,375</u>	<u>11,921,198</u>
Expenses due to foreign exchange:		
Customer deposits	(5,183,179)	(4,566,678)
Borrowed funds	(1,439,404)	(1,464,465)
Financial obligations	(54,829)	(154,558)
Subordinated debts	(667,131)	(587,747)
Creditors and various provisions	(15,186)	(17,447)
Other liabilities	(13,313)	(52,579)
Adjustments for exchange rate differences	<u>(7,240,364)</u>	<u>(5,519,985)</u>
Subtotal	<u>(14,613,406)</u>	<u>(12,363,459)</u>
	<u><b>(360,031)</b></u>	<u><b>(442,261)</b></u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,  
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Notes to the Consolidated Financial Statements (continued)

Amounts in Thousands of Dominican Pesos (RD\$)

**31 Other operating income (expense)**

A summary of other operating income (expenses), is as follows:

	<u>2019</u>	<u>2018</u>
Other operating income:		
Credit Cards	<u>1,885,188</u>	<u>1,568,021</u>
Service fees:		
Drafts and wire transfers	183,561	163,680
Certification and sales of bank's checks	35,325	34,391
Collections	50,594	37,062
Other commissions collected	4,741,546	4,397,444
Letters of credit	40,735	32,560
Collaterals granted	<u>38,313</u>	<u>36,482</u>
	<u>5,090,074</u>	<u>4,701,619</u>
Exchange commissions:		
Gains on foreign exchange	1,097,826	832,820
Premium for future foreign exchange contracts	<u>5,561</u>	<u>312,547</u>
	<u>1,103,387</u>	<u>1,145,367</u>
Income on available funds	316,000	196,236
Other miscellaneous operating expenses:		
Claims for medical services	288,129	271,845
Other services and contingencies	<u>2,419,215</u>	<u>1,107,377</u>
	<u>3,023,344</u>	<u>1,575,458</u>
Total of other operating income	<u><b>11,101,993</b></u>	<u><b>8,990,465</b></u>
Other operating expenses:		
Services fees:		
Correspondents	(75,924)	(53,475)
Other services	<u>(884,949)</u>	<u>(629,543)</u>
	<u>(960,873)</u>	<u>(683,018)</u>
Miscellaneous expenses:		
Exchange commission	(80,171)	(236,361)
Other operating expenses	(1,104,533)	(937,146)
Commissions and sales of property	(9,392)	(2,674)
Claims for medical services	<u>(649,103)</u>	<u>(545,472)</u>
	<u>(1,843,199)</u>	<u>(1,721,653)</u>
Total of other operating expenses	<u><b>(2,804,072)</b></u>	<u><b>(2,404,671)</b></u>

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Notes to the Consolidated Financial Statements (continued)

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**32 Other income (expenses)**

A summary of other income (expenses), is as follows:

	<u>2019</u>	<u>2018</u>
Other income:		
Recovery of written off assets	662,255	551,300
Non-financial investments	106,374	119,314
Gain on sale of property, furniture and equipment	10,336	8,283
Gain on sales of assets received in liue of foreclosure of loans	43,277	33,775
Leases of property	16,686	17,352
Others	<u>168,067</u>	<u>200,825</u>
	<u>1,006,995</u>	<u>930,849</u>
Other expenses:		
Assets received in liue of foreclosure of loans	(88,700)	(51,393)
Loss on sale of property, furniture and equipment	(1,814)	(1,842)
Loss on sales of assets received in liue of foreclosure of loans	(12,983)	(24,075)
Other expenses:		
Accounts receivable	(380,579)	(493,976)
Penalty for breach	(812)	(570)
Donations	(112,981)	(59,461)
Losses from thefts, assaults and frauds	(37,449)	(33,689)
Acquisition of parts for ATM - others	<u>(1,074,450)</u>	<u>(909,723)</u>
	<u>(1,709,768)</u>	<u>(1,574,729)</u>
Other income, net	<u><b>(702,773)</b></u>	<u><b>(643,880)</b></u>

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Notes to the Consolidated Financial Statements (continued)

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### 33 Salaries and compensations to personnel

A summary of the main income and expenses due to exchange differences were recognized during the years ended as of September 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Wages, salaries and benefits to employees	8,073,503	7,425,820
Social security	763,901	700,218
Contributions to the pension plan	1,018,565	936,763
Other personnel expenses	<u>3,834,418</u>	<u>3,427,502</u>
	<u><b>13,690,387</b></u>	<u><b>12,490,303</b></u>

As of September 30, 2019 and 2018, compensations to personnel include approximately RD\$1,734,796 and RD\$1,194,824, respectively, that corresponds to the executive management of the Bank which are defined as directors and above.

As of September 30, 2019 and 2018, the Bank has 12,828 and 12,259 employees, respectively.

### 34 Risk assessment

A summary of assets and liabilities subject to the interest rates risks as of September 30, 2019 and December 31, 2018, is as follows:

#### *Interest rate risk*

	<u>At September 30, 2019</u>		<u>December 31, 2018.</u>	
	<u>Local currency</u>	<u>Foreign currency</u>	<u>Local currency</u>	<u>Foreign currency</u>
Assets sensitive to interest rate	293,372,674	84,221,515	245,819,692	92,761,967
Liabilities sensitive to interest rate	<u>(319,624,663)</u>	<u>(147,831,680)</u>	<u>(285,294,124)</u>	<u>(156,975,410)</u>
Net position	<u><b>(26,251,989)</b></u>	<u><b>(63,610,165)</b></u>	<u><b>(39,474,432)</b></u>	<u><b>(64,213,443)</b></u>
Interest rate exposure	<u><b>1,502,622</b></u>	<u><b>254,901</b></u>	<u><b>819,321</b></u>	<u><b>389,687</b></u>

The Bank's interest rates may be reviewed periodically pursuant to contracts between the parties, except in some loans disbursed with specialized resources, which rates are set by the sponsors and specific agreements.

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### 34 Risk assessment (continued)

#### *Liquidity risk*

A summary of the most significant assets and liabilities according to their maturity date as of September 30, 2019 December 31, 2018, is as follows:

	Up to 30 days	31 to 90 days	91 Days to one year	One year to 5 years	More than 5 years	Total
<b>Assets:</b>						
Available funds	74,778,113	-	-	-	-	74,778,113
Investments	20,085,575	7,598,928	31,972,106	53,227,850	9,766,664	122,651,123
Loans portfolio	31,326,678	39,465,381	70,767,655	91,088,544	82,524,162	315,172,420
Debtors by acceptances	23,317	1,033,115	551,157	-	-	1,607,589
Accounts receivable	3,954,714	-	-	-	265,627	4,220,341
Investments in shares	-	-	-	-	1,356,098	1,356,098
Other assets (i)	<u>261,791</u>	<u>333,371</u>	<u>-</u>	<u>-</u>	<u>153,281</u>	<u>748,443</u>
<b>Total assets</b>	<b><u>130,430,188</u></b>	<b><u>26,691,545</u></b>	<b><u>103,290,918</u></b>	<b><u>144,316,394</u></b>	<b><u>94,065,832</u></b>	<b><u>520,534,127</u></b>
<b>Liabilities:</b>						
Customers' deposits	237,880,096	12,907,265	18,590,001	4,383,627	3,292,303	277,053,292
Deposits from domestic and foreign financial institutions	10,202,646	461,273	1,067,169	110,158	103,323	11,944,569
Borrowed funds	1,077,080	18,604	18,684,400	1,799,154	13,908	21,593,146
Outstanding acceptances	23,317	1,033,115	551,157	-	-	1,607,589
Outstanding securities	33,094,867	32,182,323	62,706,183	8,984,369	33,182	137,000,924
Other liabilities (ii)	3,590,404	-	4,311,120	205,121	3,751,173	11,857,818
Subordinated debt	<u>-</u>	<u>229,978</u>	<u>182,878</u>	<u>15,618,397</u>	<u>9,897,875</u>	<u>25,929,128</u>
<b>Total liabilities</b>	<b><u>285,868,410</u></b>	<b><u>46,832,558</u></b>	<b><u>106,092,908</u></b>	<b><u>31,100,826</u></b>	<b><u>17,091,764</u></b>	<b><u>486,986,466</u></b>

#### **December 31, 2018**

	Up to 30 days	31 to 90 days	91 Days to one year	One year to 5 years	More than 5 years	Total
<b>Assets:</b>						
Available funds	83,234,343	-	-	-	-	83,234,343
Investments	2,171,440	2,696,307	30,403,258	22,602,820	24,720,108	82,593,933
Loans portfolio	50,846,860	41,238,678	77,405,880	82,489,515	66,789,027	318,769,960
Debtors by acceptances	186,061	201,438	541,909	-	-	929,408
Accounts receivable	3,452,152	-	-	-	260,203	3,712,355
Investments in shares	-	-	-	-	1,269,854	1,269,854
Other assets (i)	<u>285,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,411</u>	<u>396,206</u>
<b>Total assets</b>	<b><u>140,176,651</u></b>	<b><u>44,136,423</u></b>	<b><u>108,351,047</u></b>	<b><u>105,092,335</u></b>	<b><u>93,149,603</u></b>	<b><u>490,906,059</u></b>



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### 34 Risk assessment (continued)

#### *Liquidity risk (continued)*

December 31, 2018	Up to 30 days	31 to 90 days	91 Days to one year	One year to 5 years	More than 5 years	Total
Liabilities:						
Customers' deposits	213,707,534	6,049,958	20,965,876	11,406,901	84,161	252,214,430
Deposits from domestic and foreign financial institutions	19,172,520	5,233,500	566,473	52,274	19,652	25,044,419
Borrowed funds	13,341,610	4,250,857	5,664,993	5,574,234	-	28,831,694
Outstanding acceptances	186,061	201,438	541,909	-	-	929,408
Outstanding securities	4,535,335	38,747,646	52,541,642	25,774,115	610,579	122,209,317
Other liabilities (ii)	3,176,363	-	2,518,394	236,848	3,345,692	9,277,297
Subordinated debt	-	439,275	8,523	14,995,634	9,878,671	25,322,103
Total liabilities	<u>254,119,423</u>	<u>54,922,674</u>	<u>82,807,810</u>	<u>58,040,006</u>	<u>13,938,755</u>	<u>463,828,668</u>

(i) Consists of transactions that represent a right of collection for the Bank.

(ii) Consists of transactions that represent an obligation to the Bank.

The liquidity ratios of the Bank as of September 30, 2019 and December 31, 2018, is as follows:

	<u>As of September 30, 2019</u>		<u>As of December 31, 2018</u>	
	<u>In local currency</u>	<u>In foreign currency</u>	<u>In local currency</u>	<u>In foreign currency</u>
Liquidity ratio:				
15 days adjusted	151.72 %	112.04 %	124.07 %	211.25 %
30 days adjusted	200.92 %	108.13 %	194.07 %	149.60 %
60 days adjusted	183.22 %	118.23 %	177.01 %	181.98 %
90 days adjusted	<u>215.20 %</u>	<u>180.93 %</u>	<u>196.09 %</u>	<u>192.91 %</u>
Position:				
15 days adjusted	13,581,686	36,193	4,238,002	546,908
30 days adjusted	26,118,873	32,162	13,831,244	381,409
60 days adjusted	27,379,131	77,719	15,887,895	668,565
90 days adjusted	42,702,271	297,768	22,045,802	752,196
Global (months)	<u>(15.49)</u>	<u>(18.49)</u>	<u>(22.75)</u>	<u>(23.06)</u>

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### 34 Risk assessment (continued)

#### *Liquidity risk (continued)*

Liquidity Risk Regulations requires that financial institutions must provide adjusted liquidity ratios in local and foreign currencies at 15 and 30 days no lower than 80 %, and at 60 and 90 days no lower than 70 %. As of September 30, 2019 and December 31, 2018, the liquidity ratios maintained by the Bank are higher than required.

### 35 Fair value of financial instruments

A summary of the fair value of financial instruments as of September 30, 2019 and December 31, 2018, is as follows:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets				
Available funds	74,559,957	74,559,957	83,234,343	83,234,343
Investments, net (a)	122,303,448	N/A	82,276,928	N/A
Loans portfolio, net (a)	305,635,754	N/A	310,203,889	N/A
Investments in shares, net (b)	<u>1,327,193</u>	<u>N/A</u>	<u>1,238,607</u>	<u>N/A</u>
	<b><u>503,826,352</u></b>	<b><u>74,559,957</u></b>	<b><u>476,953,767</u></b>	<b><u>83,234,343</u></b>
Liabilities				
Customer deposits	277,053,292	N/A	252,214,430	N/A
Deposits from domestic and foreign financial institutions	11,944,569	N/A	25,044,419	N/A
Borrowed funds (a)	21,593,146	N/A	28,831,694	N/A
Outstanding securities (a)	137,000,924	N/A	122,209,317	N/A
Subordinated debt	<u>25,929,128</u>	<u>25,929,128</u>	<u>25,322,103</u>	<u>24,948,033</u>
	<b><u>473,521,059</u></b>	<b><u>25,929,128</u></b>	<b><u>453,621,963</u></b>	<b><u>24,948,033</u></b>

N/A: Not available.

(a) The Bank has not performed an analysis of the fair values of its loan portfolio, customer deposits, outstanding securities and borrowed funds, which market values might be affected by changes in the interest rates.

(b) There is not an active stock market in the Dominican Republic where the fair values of these investments can be obtained.

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### 36 Operations with related parties

The First Resolution of the Monetary Board dated March 18, 2004 approved the Regulation regarding Credit Limits to Related Parties, which established the criteria to determine the related parties of the financial institutions.

The most important operations and balances with related parties in accordance with the criteria established by the Regulation on Credit Limits to Related Parties as of September 30, 2019 and December 31, 2018, are as follows:

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>	<u>Collaterals</u>
<b>September 30, 2019</b>				
Related to ownership	61,213,056	-	61,213,056	1,400,670
Related to management	<u>14,486,476</u>	<u>184,311</u>	<u>14,670,787</u>	<u>9,614,399</u>
<b>December 31, 2018</b>				
Related to ownership	72,246,715	-	72,246,715	1,532,415
Related to management	<u>14,238,885</u>	<u>41,202</u>	<u>14,280,087</u>	<u>8,500,147</u>

The loans related to ownership correspond to loans to the Dominican Republic Government and its agencies, which are excluded for the determination of technical relations related to credit concentration.

As of September 30, 2019 and December 31, 2018, there are credits granted to contractors and suppliers of the Dominican State for approximately RD\$21,502 and RD\$33,169, respectively, which are guaranteed by the Dominican State and are classified as loans provided to the private sector.

As of September 30, 2019 and December 31, 2018, loans related to the management of the Bank includes RD\$14,671 and RD\$13,278 million, respectively, which were provided to employees and relatives by consanguinity at an interest rate on more favorable terms than with non-related parties in accordance with the policy for personnel incentives. Similarly, deposits with related parties maintain interest rates at different conditions from those with unrelated parties.

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**36 Operations with related parties (continued)**

The main balances and transactions with related parties through ownership for the years ended September 30, 2019 and December 31, 2018, include:

	<u>Balance</u>		<u>Effects on Revenues (Expenses)</u>	
	September 30, <u>2019</u>	December 31, <u>2018</u>	Nine month periods ended at September 30,	
			<u>2019</u>	<u>2018</u>
Available funds	53,046,104	65,995,686	-	-
Other investments in debt securities	103,309,817	62,810,374	6,148,555	4,653,478
Loans portfolio	60,921,026	72,152,907	3,839,379	3,682,311
Interests receivable	1,494,942	1,741,144	-	-
Customers' deposits - checking	36,369,673	26,953,826	200,504	191,179
Customers' deposits - saving	9,933,145	19,249,714	-	-
Outstanding securities	50,639,483	28,249,666	(1,768,667)	(1,349,468)
Other liabilities	<u>276,737</u>	<u>275,613</u>	<u>-</u>	<u>-</u>

Other transactions with identifiable related parties performed during the periods ended September 30, 2019 and December 31, 2018 include:

	<u>Balance</u>		<u>Effects on Revenues (Expenses)</u>	
	September 30, <u>2019</u>	December 31, <u>2018</u>	Nine month periods ended at September 30,	
			<u>2019</u>	<u>2018</u>
Loans portfolio	14,486,476	13,273,600	404,940	393,930
Accounts receivable to officers and employees	6,917	13,927	-	-
Other Assets	-	787,991	-	-
Officers and employees deposits	<u>4,575,386</u>	<u>4,038,293</u>	<u>(111,597)</u>	<u>(231,915)</u>

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### 37 Pension fund

The Bank makes contributions to the following pension plans:

- a) A pension plan with defined benefits and other pension for employees not covered by the Social Security Law No. 87-01 of May 9, 2001, which established the Social Security System of the Dominican Republic. Until June 30, 2014, contributions to this plan were 12.5 % of the monthly salaries of officials and employees paid. From July 1<sup>st</sup>, 2014, this contribution was increased to 17.5 %, plus 2.5 % of the gross profits of the Bank, as provided by the statute of the Pension Plan approved by the Board of Directors. Additionally, the Bank may also make extraordinary contributions based on the results of actuarial studies. A summary of the financial information of the (unaudited) plan, is as follows:

	<u>2019</u>	<u>2018</u>
Present value of obligations for past services	(13,811,042)	(13,811,042)
Net assets of the plan	<u>13,840,371</u>	<u>13,840,371</u>
Net position of the plan	<u><u>29,329</u></u>	<u><u>29,329</u></u>

The expense recognized during the periods of nine month ended at September 30, 2019 and 2018 amounted to RD\$898,708 and RD\$838,297, respectively, including extraordinary contributions of RD\$181,745 for both years, with the purpose to cover the deficit until 2019, as authorized by the Superintendence of Banks.

By Circular SB ADM/0681/10 of December 31, 2010, the Superintendence of Banks (SB) did not object that the Bank recognize, since 2011, an extraordinary payment of RD\$242.3 million for a period of nine years, to cover the actuarial deficit determined in accordance to the actuarial study conducted in 2007. For such purpose, the Bank was required to submit to the SB, the Board of Directors' Minutes that approved the transactions, a study with its recommendations on the financial position and viability over the next nine years and the balance of the actuarial deficit of the plan as of December 31, 2010. This information was provided to the Superintendence of Banks through Communication ADM-1384-11 dated March 14, 2011.

#### *Actuarial assumptions*

As of September 30, 2019 and December 31, 2018, the principal actuarial assumptions and other basic information of the plan used in determining the actuarial liabilities, are as follows:

	<u>2019</u>	<u>2018</u>
Mortality table	SIPEN 2011 (M-F)	SIPEN 2011 (M-F)
Rate of return on assets	9.40 %	9.40 %
Long- term annual discount rate	9.00 %	9.00 %
Annual salary increase scale	6.00 %	6.00 %
Long-term annual inflation rate	<u>4.50 %</u>	<u>4.50 %</u>

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**37 Pension fund (continued)**

A summary of the number and amount of current pensions as of September 30, 2019 and December 31, 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Number of members	1,709	1,709
Average retirement age	49	49
Average monthly salary	<u>97,590</u>	<u>97,590</u>

- b) Employees who are affiliated to the Social Security System of the Dominican Republic, created by Law No. 87-01 issued on May 9, 2001, consisting of a Contributive Regimen covering public and private employees and employers, funded by the latter, including the Dominican Republic Government as an employer. According to the Social Security System of the Dominican Republic, all employee and employers must be affiliated to the pension regimen through the Administradora de Fondos de Pensiones (AFP) and Administradora de Riesgos de Salud (ARS). The officers and employees of the Bank are affiliated in various pension plans, mainly in the Administradora de Fondos de Pensiones Reservas, S. A.

**38 Non-monetary transactions**

Non-monetary transactions are as follows:

	<u>2019</u>	<u>2018</u>
Write-off of loan portfolio and interests receivable	1,802,755	3,094,030
Assets received in lieu of foreclosure of loans	275,754	1,181,872
Transfer between allowance for risky assets:		
Loan portfolio	175,756	(783,424)
Investments	15,567	(1,170)
Interests receivable	(273,923)	426,441
Assets received in lieu of foreclosure of loans	131,600	385,788
Contingencies	(49,000)	(27,635)
Sales of assets received in lieu of foreclosure of loans by new credit facilities	36,889	68,647
Transfer of accounts receivable of Torre Atiemar to assets received in lieu of foreclosure of loans	-	20,164

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**38 Non-monetary transactions (continued)**

	<u>2019</u>	<u>2018</u>
Equity on earnings in associated companies	106,374	232,098
Acquisition of credit portfolio of a local financial institution:		
Amortization of National Treasury bonds		
Law 99-01	75,000	75,000
Interest on National Treasurer bonds		
Law 99-01	750	1,500
Transfers of net profit of the period to other equity reservesn	-	2,504,761
Dividends paid by offsetting the debt of the Dominican Republic State's institutions:		
Equity-retained earnings from previous periods	<u>-</u>	<u>972,992</u>

**39 Other disclosures**

**39.1 Future application of accounting standards**

Through Circular Nos. 014/18 and 015/18 dated August 15, 2018, issued by the Superintendence of Banks of the Dominican Republic, were approved and put into force the Instructions for the Use of Fair Value of Financial Instruments and the Valuation and Accounting of Operations of Derivatives, respectively, in the Financial Intermediation Entities. The Superintendence of Banks, through Circular No. 018/18, granted an extension until the January 1<sup>st</sup>, 2020 for the entry into force of these instructions.

**40 Notes required from the Superintendence of Banks of the Dominican Republic**

Resolution No. 13-94 of the Superintendence of Banks of the Dominican Republic and its amendments sets the minimum disclosure requirements that the consolidated financial statements of financial institutions should include. As of September 30, 2019, the following notes are not included because they are not applicable:

- ◆ Changes in accounting policies.
- ◆ Earnings per shares.
- ◆ Significant discontinued operations.
- ◆ Changes in share ownership.
- ◆ Regular reclassification of significant liabilities.

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**40 Notes required from the Superintendence of Banks of the Dominican Republic (continued)**

- ◆ Gains or loss on disposal of fixed assets or other assets in subsidiaries, branches or offices abroad.
- ◆ Losses caused by disasters.
- ◆ Effect of changes in the fair value over the carrying amount of investments in securities.
- ◆ Subsequent events.