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

Consolidated Financial Statements

March 31, 2017

(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 RD$)

| | At March 31, 2017 | At December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Available funds (notes 3, 4, 35, 36 and 37)** | 83,655,414 | 84,595,641 |
| **Investments (notes 3, 6, 15, 35, 36, 37 and 39)** | | |
| Other investments in debt instruments | 75,083,471 | 59,761,529 |
| Interests receivable | 862,062 | 1,199,556 |
| Allowance for investments | (242,104) | (245,176) |
| | 75,703,429 | 60,715,909 |
| **Loans portfolio (notes 3, 7, 15, 35, 36, 37 and 39)** | | |
| Current | 238,407,994 | 276,835,893 |
| Restructured | 3,311,823 | 2,888,530 |
| Past due | 2,949,054 | 2,708,098 |
| In legal collection | 1,529,258 | 1,267,408 |
| Interests receivable | 4,374,252 | 4,011,089 |
| Allowance for loans | (6,828,126) | (6,694,596) |
| | 243,744,255 | 281,016,422 |
| **Debtors by acceptances (notes 3, 8 and 35)** | 2,905,465 | 2,726,202 |
| **Accounts receivable (notes 3, 9, 10, 35, 37 and 39)** | | |
| Commissions receivable | 74,774 | 34,498 |
| Accounts receivable | 1,798,828 | 1,702,212 |
| Insurance premiums receivable | 2,577,712 | 1,920,121 |
| Receivables from insurance and guarantees | 6,724 | 8,387 |
| | 4,458,038 | 3,665,218 |
| **Assets received in loans settlements (notes 11, 15 and 39)** | | |
| Assets received in loans settlements | 8,219,921 | 8,237,324 |
| Allowance for assets received in loans settlements | (5,969,104) | (5,960,004) |
| | 2,250,817 | 2,277,320 |
| **Investments in shares (notes 3, 12, 15, 35, 36, 37 and 39)** | | |
| Investments in shares | 1,003,486 | 1,002,937 |
| Allowance for investments in shares | (23,431) | (22,723) |
| | 980,055 | 980,214 |
| **Property, furniture and equipment (note 13)** | | |
| Property, furniture and equipment | 16,721,921 | 16,498,375 |
| Accumulated depreciation | (3,458,659) | (3,257,052) |
| | 13,263,262 | 13,241,323 |
| **Properties under development intended for sale and leasing** | 1,021,901 | 1,030,318 |
| **Other assets (notes 3, 14 and 35)** | | |
| Deferred charges | 3,157,368 | 2,747,827 |
| Intangibles | 156,031 | 197,726 |
| Other assets | 3,509,465 | 3,261,313 |
| Accumulated amortization | (98,227) | (128,660) |
| | 6,724,637 | 6,078,206 |
| **TOTAL ASSETS** | **434,707,273** | **456,326,773** |
| Contingent accounts (notes 24 and 28) | **738,466,755** | **720,989,336** |
| Memorandum accounts (note 29) | **1,475,901,179** | **1,415,466,800** |

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**

Consolidated Balance Sheets

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

(Amounts in Thousands of RD$)

| | At March 31, 2017 | At December 31, 2016 |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| **Customers' deposits (notes 3, 16, 35, 36, 37 and 39)** | | |
| Checking | 50,873,644 | 50,264,738 |
| Savings | 112,849,217 | 102,638,847 |
| Time | 43,637,316 | 49,078,981 |
| Interests payable | 296,944 | - |
| | 207,657,121 | 201,982,566 |
| **Deposits from domestic and foreign financial institutions (notes 3, 17, 35 and 36)** | | |
| From domestic financial institutions | 6,738,988 | 20,113,683 |
| From foreign financial institutions | - | 15,665 |
| Interests payable | 6,214 | - |
| | 6,745,202 | 20,129,348 |
| **Borrowed funds (notes 3, 18, 35 and 36)** | | |
| From domestic financial institutions | 1,450,000 | 1,973,409 |
| From foreign financial institutions | 28,106,418 | 36,452,328 |
| Interests payable | 304,562 | 349,307 |
| | 29,860,980 | 38,775,044 |
| **Outstanding acceptances (notes 3, 8 and 35)** | 2,905,465 | 2,726,202 |
| **Outstanding securities (notes 19, 35, 36 and 37)** | | |
| Securities | 118,429,860 | 124,448,151 |
| **Creditors for insurance and bank guarantees (notes 3 and 25)** | 602,539 | 853,511 |
| **Insurance premium deposits** | 442,919 | 472,817 |
| **Other liabilities (notes 3, 15, 20, 28 and 35)** | 10,119,469 | 10,069,078 |
| **Technical reserves (note 22)** | | |
| Mathematical and technical life insurance reserves | 151,333 | 145,943 |
| Reserves for unearned insurance premiums | 2,893,070 | 2,801,067 |
| | 3,044,403 | 2,947,010 |
| **Subordinated debts (notes 3, 21, 35 and 36)** | | |
| Subordinate debts | 23,928,287 | 23,728,310 |
| Interest payable | 425,289 | 416,283 |
| | 24,353,576 | 24,144,593 |
| **TOTAL LIABILITIES** | 404,161,534 | 426,548,320 |
| **NET EQUITY OF THE OWNER IN THE PARENT COMPANY (notes 26 and 39)** | | |
| Paid-in capital | 10,000,000 | 10,000,000 |
| Other equity reserves | 14,872,807 | 14,872,807 |
| Revaluation surplus | 722,245 | 722,245 |
| Retained earnings from prior periods | 3,210,515 | 11,140 |
| Net income for the year | 1,558,421 | 3,999,581 |
| | 30,363,988 | 29,605,773 |
| **Minority interest** | 181,751 | 172,680 |
| **TOTAL EQUITY** | 30,545,739 | 29,778,453 |
| **TOTAL LIABILITIES AND EQUITY** | **434,707,273** | **456,326,773** |
| Contingent accounts (notes 24 and 28) | **738,466,755** | **720,989,336** |
| Memorandum accounts (note 29) | **1,475,901,179** | **1,415,466,800** |

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

| | |
|---|---|
| **Simón Lizardo Mézquita** | **Andrés Guerrero** |
| General Administrator | Comptroller |

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

Consolidated Income Statements

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

(Amounts in Thousands of RD$)

| | Three month periods ended At March 31, 2017 | 2016 |
|---|---|---|
| **Financial income (notes 6, 7, 30 and 37)** | | |
| Interest and commissions on loans | 8,550,715 | 8,345,708 |
| Interest on investments | 1,654,444 | 1,415,894 |
| Gains on sale of investments and securities | 684,034 | 420,793 |
| Insurance premiums net of returns and cancellations | 1,514,643 | 1,448,592 |
| | 12,403,836 | 11,630,987 |
| **Financial expenses (notes 16, 17, 18, 19, 21 and 30)** | | |
| Interest on deposits | 3,833,335 | 3,156,824 |
| Loss on sale of investments and securities | 64,087 | 49,426 |
| Interest and commissions on borrowed funds | 332,428 | 225,056 |
| Reinsurance expense | 537,090 | 550,745 |
| Insurance claims and contractual obligations | 578,120 | 467,410 |
| Expenses related to technical adjustment to reserves | 35,543 | 41,107 |
| Expenses related to acquisition, conservation and collection of insurance premiums | 155,961 | 143,929 |
| | 5,536,564 | 4,634,497 |
| **Gross financial margin** | 6,867,272 | 6,996,490 |
| Allowance for loan losses (note 15) | 342,798 | 352,132 |
| **Net financial margin** | 6,524,474 | 6,644,358 |
| **Foreign exchange gain (loss) (note 31)** | (29,552) | (36,001) |
| **Other operating income (notes 32 and 37)** | | |
| Credit card fees | 368,280 | 254,693 |
| Service fees | 1,148,868 | 879,413 |
| Foreign exchange commissions | 406,118 | 362,851 |
| Miscellaneous income | 471,166 | 420,391 |
| | 2,394,432 | 1,917,348 |
| **Other operating expenses (notes 32 and 37)** | | |
| Commissions for services | 86,599 | 72,467 |
| Miscellaneous expenses | 494,366 | 436,843 |
| | 580,965 | 509,310 |
| **Gross operating income** | 8,308,389 | 8,016,395 |
| **Operating expenses (notes 15, 28, 34 and 38)** | | |
| Salaries and personnel compensation | 3,801,782 | 3,597,645 |
| Professional fees | 542,665 | 578,187 |
| Depreciation and amortization | 259,337 | 228,506 |
| Other provisions | 227,915 | 323,200 |
| Other expenses | 1,413,924 | 1,730,856 |
| | 6,245,623 | 6,458,394 |
| **Net operating income** | 2,062,766 | 1,558,001 |

(Continues)

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

Consolidated Income Statements (Continued)

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

(Amounts in Thousands of RD$)

| | Three month periods ended At March 31, 2017 | 2016 |
|---|---|---|
| **Other income (expenses) (note 33)** | | |
| Other income | 161,654 | 423,400 |
| Other expenses | (527,710) | (238,999) |
| | (366,056) | 184,401 |
| **Income before income tax** | 1,696,710 | 1,742,402 |
| Income tax (note 23) | (129,218) | (197,095) |
| **Net income for the period** | **1,567,492** | **1,545,307** |
| **ATTRIBUTABLE TO:** | | |
| Owners of the controlling entity (Parent Company) | 1,558,421 | 1,537,200 |
| Minority interest | 9,071 | 8,107 |
| | **1,567,492** | **1,545,307** |

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**

Consolidated Statements of Net Equity

Three Month Periods Ended at March 31, 2017 and 2016

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

(Amounts in Thousands of RD$)

| | Paid-in capital | Other equity reserves | Revaluation surplus | Retained earning from prior periods | Net Income for the year | Total | Minority interest | Total net equity |
|---|---|---|---|---|---|---|---|---|
| Balances at January 1, 2016 | 8,300,000 | 12,719,187 | 733,385 | - | 3,976,274 | 25,728,846 | 149,136 | 25,877,982 |
| Transfer to retained earnings | - | - | - | 3,976,274 | (3,976,274) | - | - | - |
| Cash dividends paid to minority interest | - | - | - | - | - | - | (12,526) | (12,526) |
| Dividends paid to the Dominican Republic Government (note 26): | | | | | | | | |
| Common shares | 1,700,000 | - | - | (1,700,000) | - | - | - | - |
| Amortization of National Treasury Voucher Law 99-01 | - | - | - | (75,000) | - | (75,000) | - | (75,000) |
| Interest payment of National Treasury Voucher Law 99-01 | - | - | - | (3,000) | - | (3,000) | - | (3,000) |
| Amortization of debt of the Dominican Republic State | - | - | - | (468,981) | - | (468,981) | - | (468,981) |
| Net income for the period | - | - | - | - | 1,537,200 | 1,537,200 | 8,107 | 1,545,307 |
| **Balances at March 31, 2016** | **10,000,000** | **12,719,187** | **733,385** | **1,729,293** | **1,537,200** | **26,719,065** | **144,717** | **26,863,782** |
| **Balances at December 31, 2016** | **10,000,000** | **14,872,807** | **722,245** | **11,140** | **3,999,581** | **29,605,773** | **172,680** | **29,778,453** |
| Transfer to retained earnings | - | - | - | 3,999,581 | (3,999,581) | - | - | - |
| Dividends paid to the Dominican Republic Government (note 26): | | | | | | | | |
| Amortization of National Treasury Voucher Law 99-01 | - | - | - | (75,000) | - | (75,000) | - | (75,000) |
| Interest payment of National Treasury Voucher Law 99-01 | - | - | - | (2,250) | - | (2,250) | - | (2,250) |
| Debt amortization of the Dominican Republic State | - | - | - | (722,956) | - | (722,956) | - | (722,956) |
| Net income for the period | - | - | - | - | 1,558,421 | 1,558,421 | 9,071 | 1,567,492 |
| **Balances at March 31, 2017** | **10,000,000** | **14,872,807** | **722,245** | **3,210,515** | **1,558,421** | **30,363,988** | **181,751** | **30,545,739** |

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**

Consolidated Statements of Cash Flows

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

(Amounts in Thousands of RD$)

| | Three month periods ended At March 31, 2017 | 2016 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Interest and commissions collected on loans | 7,464,596 | 7,156,252 |
| Other financial income collected | 2,609,635 | 2,040,684 |
| Other operating income collected | 2,394,432 | 1,917,348 |
| Insurance premium collected | 827,154 | 902,946 |
| Increase in insurance and guarantees | (880,510) | (843,631) |
| Interest paid on deposits | (3,816,262) | (2,876,047) |
| Interest and commissions paid on borrowed funds | (377,173) | (204,670) |
| General and administrative expenses paid | (5,544,021) | (5,913,044) |
| Other operating expenses paid | (580,965) | (509,310) |
| Income taxes paid | (129,218) | (197,095) |
| Insurance claims and contractual obligation | (578,120) | (467,410) |
| Miscellaneous collected (payments) of operating activities | (1,132,366) | (1,251,846) |
| **Net cash provided by (used in) operating activities** | 257,182 | (245,823) |
| **CASH FROM INVESTMENT ACTIVITIES** | | |
| Decrease (increase) in investments | (15,396,942) | (21,022,589) |
| Loans granted | (54,865,677) | (80,116,387) |
| Loans collected | 91,917,693 | 111,132,166 |
| Interbank funds granted | (1,181,000) | (2,000,000) |
| Interbank funds collected | 1,181,000 | 1,975,000 |
| Increase in properties under development intended for sale and leasing | 8,417 | 16,647 |
| Acquisition of property, furniture and equipment | (309,380) | (585,229) |
| Proceeds from sale of property, furniture and equipment | 33,625 | 956 |
| Proceeds from sale of assets received in loan settlements | 12,056 | 14,181 |
| **Net cash provided by investment activities** | 21,399,792 | 9,414,745 |
| **CASH FROM FINANCING ACTIVITIES** | | |
| Deposits received | 1,010,558,080 | 835,220,975 |
| Returned deposits | (1,024,285,962) | (831,762,125) |
| Borrowed funds received | 50,411,302 | 16,548,511 |
| Borrowed funds paid | (59,280,621) | (17,814,247) |
| Dividends paid and other payments to shareholders | - | (12,526) |
| **Net cash provided by (used in) financing activities** | (22,597,201) | 2,180,588 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (940,227) | 11,349,510 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | 84,595,641 | 61,803,490 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **83,655,414** | **73,153,000** |

(Continues)

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

Consolidated Statements of Cash Flows (Continued)

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

(Amounts in Thousands of RD$)

| | Three month periods ended At March 31, | |
|---|---|---|
| **Reconciliation between the net income for the period and net cash provided by (used in) operating activities** | **2017** | **2016** |
| Net income for the period | 1,567,492 | 1,545,307 |
| Adjustments to reconcile net income for the period to net cash provided by operating activities: | | |
| Provisions for risky assets and contingencies | 570,713 | 675,332 |
| Release of provisions for risky assets and contingencies | - | (222,682) |
| Technical reserves increase | 35,543 | 41,107 |
| Depreciation and amortization | 473,687 | 222,150 |
| Gain (Loss) on sale of property, furniture and equipment | (2,152) | (956) |
| Share equity in other companies | - | (3,005) |
| Gain on sale of assets received in loan settlements | (2,626) | 1,681 |
| Currency exchange rate fluctuations, net | 216,796 | 93,765 |
| Amortization of debt issuance cost and discount on subordinated debts | 8,067 | 8,405 |
| Net change in assets and liabilities: | | |
| Interests receivable | (750,875) | (936,033) |
| Debtors by acceptances | (179,263) | 274,696 |
| Commissions receivable | (40,276) | (24,977) |
| Accounts receivable | (96,616) | 157,543 |
| Insurance premiums receivable | (657,591) | (785,003) |
| Receivables from reinsurance and guarantees | 1,663 | 2,606 |
| Deferred charges | (409,541) | (146,327) |
| Intangibles | 41,695 | (27,258) |
| Other assets | (496,304) | (664,093) |
| Interests payable | (35,739) | 292,758 |
| Outstanding acceptances | 179,263 | (274,696) |
| Creditors of insurance and bank guarantees | (250,972) | (280,965) |
| Insurance premium deposits | (29,898) | 239,357 |
| Other liabilities | 52,266 | (563,937) |
| Technical reserves | 61,850 | 129,402 |
| **Total adjustments** | (1,310,310) | (1,791,130) |
| **Net cash provided by (used in) operating activities** | **257,182** | **(245,823)** |

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

| | |
|---|---|
| **Simón Lizardo Mézquita** | **Andrés Guerrero** |
| General Administrator | Comptroller |

# 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 1st, 1976 and its modifications.

Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and subsidiaries (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 granting 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, management of pension funds, among others.

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

A detail of the principal officers is as follows:

| Name | Position |
|---|---|
| Donald Guerrero Ortiz | Minister of Finance - Ex-Officio Chairman |
| Simón Lizardo Mézquita | General Administrator |
| Aracelis Medina Sánchez | Deputy Administrator - Administration |
| José Manuel Guzmán Ibarra | Deputy Administrator - Government Business |
| William Read Ortiz | Deputy Administrator - Business |
| Marcial H. Mejía Guerrero | Deputy Administrator - Operation & Technology |
| Rienzi M. Pared Pérez | Deputy Administrator - Subsidiary Entities |
| Andrés Guerrero | Comptroller |
| Luis Eduardo Rojas de Peña | General Director - Treasury, Investment Banking and Capital Market |
| 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.

(Continues)

As of March 31, 2017 and December 31 2016, a detail of the Bank's offices, automatic teller machines (ATMs) and post offices is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| Location | Offices (*) | ATMs | Post Offices | Offices (*) | ATMs | Post Offices |
| Metropolitan area | 95 | 321 | - | 98 | 331 | - |
| Provinces | 166 | 348 | 10 | 193 | 317 | 10 |
| | **261** | **669** | **10** | **291** | **648** | **10** |

(*) 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 the population is facilitated with access to financial services. As of March 31, 2017 and December 31, 2016, the network of subagents was 1,253 (508 in the metropolitan area and 745 in the provinces) and 1,249 (912 in the metropolitan area and 337 in the provinces) businesses authorized, respectively.

The consolidated financial statements were approved for issuance by the Board of Directors on the 13 of June of 2017.

# 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 respects in the form and content of 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 the 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 at December 31, 2004.

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



Subsidiaries include: insurance companies, pension fund managers, administrator of health plans and a security exchange, which financial information have been prepared in accordance with the accounting practices established by the Superintendence of Insurance, the Superintendence of Pensions, the Superintendence of Health and Labor Risks and the Superintendence of Securities of the Dominican Republic, respectively. Furthermore, non-regulated subsidiaries whose accounting practices are in accordance with the International Financial Reporting Standards. The 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 is as follows:

i) The allowance for loan portfolios corresponds to the amount determined based on a risks assessment carried out by the Bank, the level of reserves required for the classification assigned to each loan (for commercial loans denominated as major debtors), the number of days past due (for consumer, mortgage and minor commercial loans) and some specific approvals issued by the Superintendence of Banks. This evaluation (for major commercial debtors) includes the ability to pay based on a review of credit records, payment history and collateral levels which are only considered to determine the provisions, following the guidelines of the Instruction for the Asset Evaluation (REA for its Spanish acronyms), the Instructions for the Asset Evaluation Process in Permanent Regimes and related circulars. Furthermore, there are some exemptions for certain types of credits issued, either by the Superintendence of Banks or the Monetary Board.

   In evaluation with IFRS, loan portfolios are assessed by separating individual and collective loans. Individual loan analysis are made on a loan-by-loan basis.

   In the case of loans that are collectively evaluated to determine whether impairment exist, the estimate of the contractual cash flows of the group of assets, analysis of historical losses and Management's opinions on whether the current economic situation and loans conditions may change the actual level of the inherent historical losses are considered. A provision is recognized, if objective evidence exist that there has been an impairment loss, which would result in the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate and not take into consideration any waiver.

ii) Banking regulations require financial institutions to establish allowances for assets received in loans settlements, 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 (at 1/18th monthly); 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 (at 1/24th monthly). IFRS require that these assets be reserved only in the event of impairment.

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



iii) Interest receivable past due for less than 90 days, is reserved according to the classification granted to the corresponding principal. Past due interest receivables with more than 90 days if 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 the IFRS, allowances on interest receivable are determined based on existent risks in the portfolio. In the event of impairment, the loans are adjusted and subsequent accrual of interest is based on the adjusted balance using the effective interest rate.

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 balance sheet date. IFRS require that all foreign currency balances be translated at the exchange rate at which the Bank had access at the balance sheet 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 the assets received in loan settlements. IFRS only require reserves when the fair value of the asset is lower than its book value or when impairment exists.

vi) There are differences between the presentation and certain disclosures of the financial statements according to IFRS and those required or authorized by the Superintendence of Bank.

vii) In accordance with banking regulations, income from renewal of credit cards, letters of credit, card operations and outstanding acceptances are immediately recognized. In accordance with IFRS, these are deferred and recognized as income over the term of the credit cards, letters of credit and outstanding acceptances.

viii) The Superintendence of Banks of the Dominican Republic require leasehold improvements and computer software must be previously authorized by the Superintendence of Banks in order to be recognized 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.

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.

(Continues)

x) The Superintendence of Banks of the Dominican Republic require that financial institutions classify investments into four categories, which are: trading, available-for-sale investments, held-to-maturity investments, 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 and the classification will depend on management's intentions.

   The investment portfolio is classified according to the risk categories determined by the Superintendence of Banks that require specific provisions, following the instructions of the Assets Evaluation Regulation, 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. IFRS require determining allowances based on the assessment of the existent risks on the basis of an incurred loss model instead of an expected loss model.

xi) 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.

xii) 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.

xiii) The Superintendence of Banks require that cash flows corresponding to 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.

xiv) The Superintendence of Banks of the Dominican Republic require banks to recognize a provision for contingent operations, which includes, among others, granted guarantees, 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 recognizing a provision when there is a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable amount can be estimated.

xv) The Superintendence of Banks allowed 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 establishes 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.

(Continues)

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

Notes to the Consolidated Financial Statements

xvi) 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 the 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 the 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.

xvii) The Superintendence of Banks does not allow the release of provision for assets received in loans settlements without its prior authorization. In the case of the sale of assets that are provisioned, if the sale occurs at a higher value than its book value, a gain cannot be recognized as required by the IFRS, but instead the provision released could be transferred to other regulatory provisions or request authorization from the Superintendence of Banks to recognize them as income.

xviii) The Superintendence of Banks authorized financial intermediation institutions to write off a loan with or without guaranties when it becomes a non-performing portfolio, 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. The IFRS require these write offs immediately when loans are determined to be unrecoverable.

xix) IFRS require that, if the Bank realizes operations related to other comprehensive income, a statement of comprehensive income or a separate statement of other comprehensive income must be presented showing the nature and amount of line items for other comprehensive income during the reporting period. The Superintendence of Banks of the Dominican Republic does not include this requirement in the preparation of financial statements.

xx) The Superintendence of Banks of the Dominican Republic authorized the inclusion in the consolidated financial statements, of 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.

xxi) The Superintendence of Banks granted its non-objection so the Bank recognizes immediately as income, discounts received from the acquisition of the loan portfolio from other financial institutions. IFRS require that these discounts be differed and recognized as an adjustment in the effective interest rate during the term of the acquired portfolio.

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

- 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.

In the case of long-term life insurance contracts without a fixed guaranteed term, such as death or survivorship insurance, premiums are recognized in a deferred income, which increases by the interest or changes in unit prices and lowers by management fee policy, fees, mortality and any other withdrawals.

ii) In accordance with IFRS, 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 at amortized cost.

iii) 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.

iv) The Superintendence of Insurance does not require the recognition of specific reserves for claims incurred but not reported at the statement of financial position 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.

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v) According to the accounting practices of the Superintendence of Insurance, the Bank accounts for salvage in accounts memorandum, and should not be recognized in the accounting records until disposal. IFRS sets out that at the balance sheet 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.

vi) In accordance with the accounting practices of the Superintendence of Insurance, savings components of life insurance contracts are not accounted separately in the balance sheet. IFRS require to account separately for the deposit components and recognize the premium paid by the life insurance policy as a financial liability.

vii) 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, as well as proceed to 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.

viii) 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.

ix) 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 intended 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.

x) 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 honor possible commitments arising from current insurance contracts. The accounting practices of the Superintendence of Insurance do not require this kind of provision.

xi) The Superintendence of Insurance and the Superintendence of Health and Labor Risk requires that short-term investments, highly liquid investments and investments easily convertible to cash be presented as investments. However, IFRS require that such investments be presented as cash equivalents.

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xii) The IFRS require that if an entity 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.

xiii) There are certain differences in presentation and disclosures of the 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.

xiv) The Superintendence of Insurance and the Superintendence of Health and Labor Risk allows that significant revenues and expenses that affect the consolidated financial statements of prior years, be recognized in retained earnings without restate the previous reported amounts of the consolidated financial statements. The IFRS require that these transactions be recognized retroactively, correcting the previously reported financial statements, including the presentation of the statements of financial position for the most recent three years

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.

## 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 Banreservas, S.A. and subsidiaries, which include Seguros Reservas, S. A. (previously Seguros Banreservas, S. A.), Reservas Asistencia, S.A.S., Reservas Inmobiliaria, 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) (previously Occidental Security Service, S.R.L.), Inversiones Finanprimas SB, S.A.S. and Sociedad Administradora de Fondos de Inversión Reservas, S.A. Additionally, Administradora de Riesgo de Salud Reservas, Inc., a non-profit entity whose net assets are included as other liabilities.

(Continues)

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

Notes to the Consolidated Financial Statements

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:

| Subsidiaries | Country of Operation | % of Ownership |
|---|---|---|
| *Directly subsidiaries*: | | |
| Tenedora Banreservas, S. A. and Subsidiaries | Dominican Republic | 97.74 |
| Administradora de Riesgo de Salud Reservas, Inc. | Dominican Republic | - |
| *Indirectly subsidiaries*: | | |
| Administradora de Fondos de de Pensiones Reservas, S .A. | Dominican Republic | 98.50 |
| Seguros Reservas, S. A. (previously Seguros Banreservas, S. A.) | Dominican Republic | 97.91 |
| Reservas Inmobiliaria, S. A. | Dominican Republic | 99.99 |
| 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), (previously Occidental Security Service, S.R.L.) | 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 |

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.

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

Notes to the Consolidated Financial Statements

*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 non-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.

*Tenedora Banreservas, S. A. and Subsidiaries*

Is the Parent Company of the following subsidiaries:

*(a)* Seguros Reservas, S. A. (previously Seguros Banreservas, S. A.) *and Subsidiaries - 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 field of general insurance and personal insurance in the country.

*(b) Administradora de Fondos de Pensiones Reservas, S. A. (AFP for 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 of 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) Reservas Inmobiliaria, 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 Reservas Inmobiliaria, S. A. corresponds to 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.

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(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.

(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) (*previously Occidental Security Services, S.R.L.)

Constituted under the laws of the Dominican Republic, its objective is to dedicate 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 Reservas, S. A. (previously 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.

## 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.

The Bank assigns to commercial loans that have been restructured an initial classification no lower than “C” independently of their capability and payment behavior and country risk; this can be changed subsequently to a lower risk category based on satisfactory payment behavior. The Bank is also required to create an allowance for consumer and mortgage loans that have been restructured and classified no lower than “D.” Such classification may be changed based on payment behavior, which must remain in that category depending on the evolution of payments, but in no event can be classified lower than “B”.

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 the allowance for loans portfolio is based on the criteria established in the Asset Assessment Regulation issued by the Monetary Board in its First Resolution dated December 29, 2004, supplementary circulars, instructional and observations made by the Superintendence of Banks (basis for determination of provisions), the First Resolution of the Monetary Board dated July 9, 2015 and the Instruction for the Process of Assessment of Assets in Permanent Regime issued by the Superintendence of Banks March 7, 2008.

According to such regulation, the estimate of loan loss reserves 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 to 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.

Major commercial debtors are classified considering the categorized analysis of each debtor according to their payment abilities as established in the Assets Evaluation Regulation, and evaluating other factors such as liquidity ratios, profitability, leverage, market analysis, historical payment behavior, country risk and alignment. Collaterals, as a safety factor in the recovery of credit operations, are considered as a secondary element and are not considered in the debtor’s classification, although they are included in the calculation coverage for the required allowances in the case of commercial debtors (major and minor commercial debtors).

(Continues)

Major commercial debtors are those whose total credit operations owed in the financial system are equal to or greater than RD$25 million, both at the individual and consolidated levels in the system. On August 12, 2016, the Superintendence of Banks of the Dominican Republic issued Circular SIB No. 005/16, according to which these parameters were changed so that instead of considering the total transactions of credits approved in the financial system only the totals of credits owed are considered.

The regulation requires creating a provision for the positive exchange differences on foreign currency loans with more than 90 days overdue, considering as a risk exposure 20 % of the amount past due on collateralized loans classified as D and E, for more than 90 days past due.

The Superintendence of Banks granted an extension to all financial institutions to require a provision for the positive difference in foreign exchange currency loans, only for those loans classified as D and E with more than 90 days past due, until the Assets Evaluation Regulation is amended.

For consumer, mortgage and minor commercial debtors loans, the allowance is determined based on the days in arrears. Loan collaterals are not taken into account when determining the allowance, except in the case of minor commercial debtors.

Write-offs on 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 show that the legal procedures for recovery have been exhausted and the officers or managers directly related have been released of their duties. Loans written-off remain in memorandum accounts until the reasons that led to the write-off are not overcome.

Excesses in provision for loan portfolio cannot be released without prior authorization from the Superintendence of Banks, excluding the provisions for interest receivable with more than 90 days.

Collaterals securing loan operations are classified according to the Assets Evaluation Regulation and its modifications through the first Resolution of the Monetary Board dated July 9, 2015, based on its multiple uses and ease of realization. Each type of collateral is considered as a secondary element in the calculation of provisions coverage, based on a permissible amount established. Acceptable collateral will be accepted based on the discount percentages established in this Regulation at its market value. Collaterals are classified as follows:

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

Multipurpose guarantees are considered to be real property that is 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 appraised value for purposes of covering the risks they support, depending on the guarantee.

***Specific use collateral ("Non-Multipurpose guarantees")***

They are the guarantees backed by goods that, due to their difficult realization, generally cannot be used for different activities. These guarantees will only apply between 30 % and 50% of the value of the valuation for purposes of calculating the coverage of the risk they support.

Each classification of collateral is taken into account in calculating the amount of loan coverage based on a schedule (Table 8) established in the Asset Evaluation Regulation and its modifications.

Collaterals are measured at fair value, that is, at their net realizable value through appraisals or certificates prepared by independent professionals, not older than 12 months for personal property, excluding securities, and a term not exceeding 18 months for real estate.

***Other considerations***

As of March 31, 2017 and December 31, 2016, the Bank has waived and no objections from the Central Bank of the Dominican Republic and the Superintendence of Banks to specifically account 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 sixth ($6^{th}$) resolution of the Monetary Board, dated December 20, 2016, 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 the private sector.

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

At March 31, 2017 and December 31, 2016, the Bank evaluated the portfolio of 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 that have the guarantee of the same or of actual cash flows forth in the Law on General Budget of the State are classified as "A", and have a provisional requirement of a 0%, according to the First Resolution of the Monetary Board dated July 9, 2015.

(Continues)

### 2.5.3 Allowance for interest receivable

The allowance for current interest receivable is determined using specific percentages according to the classification granted to the loan portfolio. The allowance for interest receivable on consumer loans and mortgages, is based on specific percentages of each type of loan, depending on the age of the balances set out in the based on days in arrears using parameters established in the Assets Evaluation Regulation.

Interests receivable 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, recorded as a memorandum accounts (*Cuentas de Orden*) and 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 loans settlements 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, recorded on a straight-line basis starting on the seventh month. |
| Real estate: | 100 % | Over three years, recorded on a straight-line basis starting on the thirteenth month. |

The corresponding allowance to the loan portfolio for debtors, which guarantees have been received in loans settlements, must be transferred to allowances for losses on assets received in loans settlement. The allowance on assets received in loans settlement that have been sold cannot be released without prior authorization of the Superintendence of Banks; however, they can be transferred to other risky assets without prior authorization.

The impairment on the value of assets received in loans settlements is computed as the difference between book value and fair market 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 28 to the consolidated financial statements.

(Continues)

## 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 5.40 % 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.Additionally, the Board of Directors approve 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 prior 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 compensation

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

(Continues)

## 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.

## 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 Instructive for Classification, Valuation and Measurement of Investments in Debt Instruments 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.

(Continues)

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.

***Other considerations***

At March 31, 2017 and December 31, 2016, 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 Assessment Process in Permanent Regimes, except for investments in affiliates which are recognized using the equity method, following the Superintendence of Bank’s authorization.

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 12.

## 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 at December 31, 2004, are measured at cost less accumulated depreciation and impairment losses. Existing land and buildings at December 31, 2004, are recognized at market value, determined by independent appraisers and those acquired after that date are carried at the acquisition cost.

### 2.9.2 Depreciation

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

Depreciation percentages are as follows:

| Description | Estimated years of useful life |
|---|---|
| Buildings | 40 |
| Furniture and office equipment | 8 |
| Transportation equipment | 4 |
| Computer equipment | 5 |
| ATMs | 10 |
| Leasehold improvements | 5 |

## 2.10 Valuation of assets received in loan settlements

Assets received in loans settlements are carried at the lower cost of:

a) The value agreed upon payment in kind or the awarded price in a public auction.

b) The market value at the date assets are 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

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 date of the consolidated financial statements. 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 under “Income (expense) from net foreign exchange rate” in the accompanying consolidated income statements.

(Continues)

At March 31, 2017 and December 31, 2016, the exchange rates used for the translation of the US dollar balances to Dominican pesos was RD$47.2568 and RD$46.6171, respectively.

## 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.

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 income statement, 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.

***Income on sale of investments in debt instruments***

Income from disposal of other investments in debt instruments, are recognized in the consolidated statements of income, 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.

(Continues)

***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 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.

In accordance with the terms and conditions agreed with the reinsurers, premiums ceded in reinsurance are recognized at the time of recording the premium income. Cancelled premiums are recognized as a deduction of the income for premiums issued.

### 2.13.3 Revenues from the Administrator of Pension Funds (AFP)

The Pension Fund Administrator (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$^{st}$ 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 AFP 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.

(Continues)

### 2.13.4 Revenues for services to the Health Insurance Administrator (ARS for its Spanish acronyms)

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.

### 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.

(Continues)

## 2.14 Provisions

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.

## 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 voluntarely 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 2017. 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 income.

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 there 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.

(Continues)

## 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:

***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***

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.

(Continues)

**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 income 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.

**2.22 Revaluation surplus**

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.

(Continues)

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

The insurance subsidiary Seguros Reservas, S. A. (previously Seguros Banreservas, 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 | 5 % |

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

As provided by Law No. 146-02 of the Superintendence of Insurance, unearned premium reserves, commissions on unearned premiums and unearned commissions on assigned reinsurance premiums are determined based on fixed percentages, as follows:

| | |
|---|---|
| Transportation and freight insurance | 15 % |
| Bank guarantees | 40 % |
| For other insurances | 40 % |

## 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.

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

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

(Continues)

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

This reserve represents the amount of claims that have occurred at the date of the financial statements, but have not been reported to the Bank.

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 the previous 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:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount in foreign currency US$ | Total in RD$ | Amount in foreign currency US$ | Total in RD$ |
| **Assets** | | | | |
| Available funds | 1,008,080 | 47,638,607 | 984,083 | 45,875,099 |
| Investments | 396,480 | 18,736,387 | 437,417 | 20,391,092 |
| Loan portfolio, net | 1,389,537 | 65,665,053 | 1,826,090 | 85,127,017 |
| Debtors by acceptances | 61,482 | 2,905,465 | 58,481 | 2,726,202 |
| Receivable insurance premiums | 16,030 | 757,528 | 16,197 | 755,080 |
| Accounts receivable | 3,567 | 168,542 | 3,382 | 157,656 |
| Investments in shares, net | 827 | 39,105 | 832 | 38,773 |
| Other assets | 675 | 31,921 | 736 | 34,328 |
| Contingencies (a) | 250,000 | 11,814,200 | 150,000 | 6,992,565 |
| Total assets | 3,126,678 | 147,756,808 | 3,477,218 | 162,097,812 |

(Continues)

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount in foreign currency US$ | Total in RD$ | Amount in foreign currency US$ | Total in RD$ |
| **Liabilities** | | | | |
| Customer deposits | 1,942,019 | 91,773,587 | 1,837,627 | 85,664,827 |
| Deposits from domestic and foreign financial institutions | 60,839 | 2,875,043 | 338,340 | 15,772,409 |
| Borrowed funds | 601,826 | 28,440,369 | 792,865 | 36,961,079 |
| Outstanding acceptances | 61,482 | 2,905,465 | 58,481 | 2,726,202 |
| Obligations derived from insurance and bonds | 4,223 | 199,551 | 3,272 | 152,534 |
| Other liabilities | 69,430 | 3,281,048 | 57,596 | 2,684,964 |
| Subordinated debts | 301,752 | 14,259,823 | 306,942 | 14,308,747 |
| Total liabilities | 3,041,571 | 143,734,886 | 3,395,123 | 158,270,762 |
| Long position in foreing currency | **85,107** | **4,021,922** | **82,095** | **3,827,050** |

(a) Corresponds to the nominal value of the transaction through an "Exchange Rate Coverage Agreement" with the Central Bank of the Dominican Republic (BCRD), whereby the Bank sold to the BCRD the amount of US$250 and US$150 million, respectively, to be exchanged for Dominican pesos the current rate to date for each US$, the BCRD offering exchange coverage on the amount of the exchange of the currencies agreed by the difference between the rate of the original transaction and the exchange rate of sale of the BCRD in effect at each hedging date.

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 March 31, 2017 and December 31, 2016, the exchange rates used by the Bank was RD$47.2568 and RD$46.6171, respectively, for each United States dollar (US$).

## 4 Available funds

Available funds are summarized as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Cash on hand (a) | RD$ | 6,245,381 | 5,799,089 |
| Central Bank of the Dominican Republic (b) | | 68,443,641 | 65,360,065 |
| Domestic banks (c) | | 478,060 | 859,473 |
| Foreign banks (d) | | 8,178,961 | 12,189,931 |
| Other funds - in transit (e) (f) | | 308,616 | 386,541 |
| Interest receivable (g) | | 755 | 542 |
| | **RD$** | **83,655,414** | **84,595,641** |

(Continues)

(a) Includes US$20,751 in 2017 and US$21,300 in 2016.

(b) Includes US$802,256 in 2017 and US$689,321 in 2016.

(c) Includes US$9,758 in 2017 and US$8,524 in 2016.

(d) Includes US$173,075 in 2017 and US$261,491 in 2016.

(e) Includes US$2,224 in 2017 and US$3,439 in 2016.

(f) Represents effects received from other banks pending collection in the Clearing House. As of December 31, 2016 includes US$8.

(g) Includes US$16 in 2017.

As of March 31, 2017 and December 31, 2016, the required legal reserve amounts to RD$34,196,006 and US$410,073 and RD$35,299,033 and US$382,903, respectively. For these purposes, the Bank maintains amounts of RD$34,508,076 and US$791,479 and RD$35,634,201 and US$688,836, respectively.

## 5 Interbank funds

The movements of interbank funds received and granted during the years ended March 31, 2017 and December 31, 2016, is as follows:

| | Interbank assets | | | |
|---|---|---|---|---|
| Entity | Quantity | Amount in RD$ | No. of days | Weighted average rate |
| **March 31, 2017** | | | | |
| Banco Múltiple BDI, S. A. | 1 | 21,000 | 1 | 6.25 % |
| Banco Múltiple Caribe Internacional, S. A. | 5 | 500,000 | 3 | 6.50 % |
| Citibank, N. A. | 1 | 550,000 | 1 | 5.56 % |
| Asociación La Nacional de Ahorros y Préstamos | 1 | 110,000 | 3 | 6.75 % |
| | | 1,181,000 | | |

(Continues)

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| | Interbank assets | | | |
|---|---|---|---|---|
| Entity | Quantity | Amount in RD$ | No. of days | Weighted average rate |
| **December 31, 2016** | | | | |
| Banco Múltiple BHD León, S. A. | 25 | 11,995,000 | 2 | 5.01 % |
| Banco Múltiple Vimenca, S. A. | 2 | 65,000 | 3 | 6.50 % |
| Banco Múltiple BDI, S. A. | 21 | 685,000 | 3 | 6.45 % |
| Banco Múltiple Caribe Internacional, S. A. | 17 | 1,665,000 | 3 | 6.48 % |
| Citibank, N. A. | 4 | 875,000 | 2 | 5.16 % |
| Banco Múltiple Promérica de la República Dominicana, S. A. | 15 | 1,420,000 | 4 | 7.11 % |
| Banco Dominicano del Progreso, S. A., Banco Múltiple | 3 | 400,000 | 2 | 7.00 % |
| Banesco, Banco Múltiple, S. A. | 4 | 300,000 | 2 | 6.42 % |
| Banco de Ahorro y Créditos Providencial, S.A. | 12 | 300,000 | 7 | 7.54 % |
| Asociación La Nacional de Ahorros y Préstamos | 4 | 410,000 | 3 | 6.66 % |
| | | **18,115,000** | | |

During the three month periods ended at March 31, 2017 and 2016, the Bank negotiated interbank funds with different financial institutions; however, at March 31, 2017 and December 31, 2016, there are no pending balances in interbank funds.

(Continues)

## 6 Investments

As of March 31, 2017 and December 31, 2016, the Bank's investments classified as other investments in debt instruments are as follows:

**March 31, 2017**

| Type of Investment | Issuer | Amount in RD$ | Interest rate | Maturity |
|---|---|---|---|---|
| Other investments in debt instruments: | | | | |
| Time deposits | Central Bank of the Dominican Republic | 23,283,409 | 4.00 % until 15.50 % | 2017 until 2024 |
| Bonds Law No. 99-01 | Dominican Republic State | 150,000 | 1.00 % | 2021 |
| Bonds Law 366-09 131-11, 361-11, 193-11, 58-13, 175-12, 48-10, 260-15, 297-10, 548-14, 155-13, 331-15, 152-14, 294-11, 143-13 and 687-16 (a) | Dominican Republic State (includes US$ US$67,663) | 27,129,660 | 2.50 % until 18.50 % | 2017 until 2044 |
| Trust values (b) | Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana | 2,498,580 | 10.50 % | 2026 |
| Agreement with the Dominican Republic Electric Sector debt (b) | Edesur Dominicana, S. A. (corresponds to US$118,372) | 5,593,904 | 10.00 % | 2020 |
| | Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US$67,433) | 3,186,659 | 10.00 % | 2020 |
| | Edenorte Dominicana, S. A. (corresponds to US$135,029) | 6,381,032 | 10.00 % | 2020 |
| Corporate bonds | Empresa Generadora de Electricidad Haina, S. A. (corresponds to US$1,942) | 91,771 | 5.75 % until 7.00% | 2020 until 2025 |
| Bonds | Consorcio Energético CEPM (corresponds to US$2,233) | 105,521 | 5.15 % | 2025 |
| Bonds | Compañía de Electricidad de Puerto Plata, S. A. (corresponds to US$652) | 30,826 | 6.00 % | 2019 |
| Corporate bonds | Parallax Valores, Puesto de Bolsa, S. A. | 50,000 | 10.90 % | 2018 |
| Time deposits | Banco Agrícola de la República Dominicana | 685,000 | 7.00 % | 2017 |
| Time deposits | Asociación Popular de Ahorros y Préstamos | 115,386 | 8.50 % | 2017 |

(Continues)

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

Notes to the Consolidated Financial Statements

| Type of Investment | Issuer | Amount in RD$ | Interest rate | Maturity |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Time deposits | Asociación Peravia de Ahorros y Préstamos | 84,562 | 8.50 % | 2017 |
| Time deposits | Asociación La Vega Real de Ahorros y Préstamos | 88,122 | 9.00 % | 2017 |
| Time deposits | Asociación La Nacional de Ahorros y Préstamos | 40,220 | 10.50 % | 2017 |
| Time deposits | Asociación Maguana de Ahorros y Préstamos | 23,036 | 7.50 % until 8.00 % | 2017 |
| Time deposits | Asociación Romana de Ahorros y Préstamos | 36,079 | 8.00 % and 8.50 % | 2017 |
| Time deposits | Asociación Duarte de Ahorros y Préstamos | 2,066 | 8.50 % | 2017 |
| Time deposits | Asociación Bonao de Ahorros y Préstamos | 25,105 | 7.50 % | 2017 |
| Time deposits | Banco Múltiple Caribe, S. A. | 107,027 | 9.75 % until 12.00 % | 2017 |
| Time deposits | Banco Múltiple Promérica de la República Dominicana, S. A. | 343,746 | 5.11 % and 11.50 % | 2017 |
| Time deposits | Banco Popular Dominicano, S. A. Banco Múltiple | 99,117 | 9.30 % | 2017 |
| Time deposits | Motor Crédito, S. A. Banco de Ahorro y Crédito | 23,416 | 9.50 % and 10.50 % | 2017 |
| Time deposits | Banco Múltiple de las Américas, S.A. | 26,458 | 10.00 % | 2017 |
| Time deposits | Banco Múltiple BHD León, S. A. | 424,852 | 4.00 % and 9.20 % | 2017 |
| Time deposits | Banco Múltiple BDI, S. A. | 10,000 | 11.50 % | 2017 |
| Time deposits | Banesco, Banco Múltiple, S. A. | 1,163,042 | 4.00 % and 11.15 % | 2017 |
| Time deposits | Banco Múltiple Santa Cruz, S. A. | 5,000 | 8.50 % and 10.80 % | 2017 |
| Time deposits | Banco de Ahorro y Crédito ADOPEM, S. A. | 10,916 | 10.00 % | 2017 |
| Quote of participation | Administradora de Fondos de Inversión Universal, S. A. | 10,814 | 7.63 % | 2017 |
| Quote of participation | Administradora de Fondos de Inversión BHD, S. A. | 85,003 | | |
| Quote of participation | JMMB Sociedad Administradora de Fondos de Inversión, S. A. | 30,000 | | |
| Invoice discounted | Escogido Baseball Club, S. A. | 22,489 | | |
| Invoice discounted | Micro y Mini Computadoras, S. A. (Corresponds to US$715) | 33,806 | | |
| **Restricted securities** | | | | |
| Bonds Law No.548-14, 131-11, 331-15, 297-10 and 260-15 | Dominican Republic State | 2,009,131 | 7.25 % until 15.95 % | 2018 until 2029 |
| Mortgage notes (c) | Banco Múltiple BHD León, S. A. | 201 | 8.55 % | 2017 |
| Time deposits (c) | Asociación Popular de Ahorros y Préstamos | 3,000 | 5.00 % | 2017 |
| Profitability guarantee | Asociaciones de Ahorros y Préstamos | 962,859 | - | - |

(Continues)

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

Notes to the Consolidated Financial Statements

| Type of investment | Issuer | Amount in RD$ | Interest Rate | Maturity |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Other investments (b) | Housing Trust, Low cost | 78,002 | - | - |
| Bonds | Treasury of the United States of America, (corresponds to US$712) | 33,654 | 13.16 % | 2024 |
| | | 75,083,471 | | |
| | Interest receivable, (includes US$1,942) | 862,062 | | |
| | | 75,945,533 | | |
| | Provision for investment, (includes US$213) | (242,104) | | |
| | | **75,703,429** | | |
| **December 31, 2016** | | | | |
| Other investments in debt instruments: | | | | |
| Time deposits | Central Bank of the Dominican Republic | 9,461,186 | 4.00 % until 15.50 % | 2017 until 2023 |
| Bonds Law No. 99-01 | Dominican Republic State | 225,000 | 1.00 % | 2021 |
| Bonds Law 366-09 131-11, 361-11, 193-11, 58-13, 175-12, 48-10, 260-15, 297-10, 548-14, 155-13, 331-15, 361-11 and 152-14 (a) | Dominican Republic State (includes US$ US$112,442) | 27,109,243 | 3.75 % until 18.50 % | 2017 until 2044 |
| Trust values (b) | Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana | 2,498,630 | 10.50 % | 2026 |
| Agreement with the Dominican Republic Electric Sector debt (b) | Edesur Dominicana, S. A. (corresponds to US$118,219) | 5,511,028 | 10.00 % | 2020 |
| | Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US$123,460) | 5,755,322 | 10.00 % | 2020 |
| | Edenorte Dominicana, S. A. (corresponds to US$70,497) | 3,286,379 | 10.00 % | 2020 |
| Corporate bonds | Empresa Generadora de Electricidad Haina, S. A. (corresponds to US$1,993) | 92,916 | 4.07 % until 11.25 % | 2017 until 2026 |
| Bonds | Consorcio Energético CEPM (corresponds to US$2,287) | 106,596 | 4.19 % and 5.15 % | 2025 |
| Bonds | Compañía de Electricidad de Puerto Plata, S. A. (corresponds to US$560) | 26,121 | 4.38 % and 6.00 % | 2019 |
| Corporate bonds | Parallax Valores, Puesto de Bolsa, S. A. | 50,000 | 10.90 % | 2018 |
| Time deposits | Banco Agrícola de la República Dominicana | 1,185,000 | 6.00 % and 7.00 % | 2017 |
| Time deposits | Asociación Popular de Ahorros y Préstamos | 112,992 | 8.50 % | 2017 |

(Continues)

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

Notes to the Consolidated Financial Statements

| Type of Investment | Issuer | Amount in RD$ | Interest rate | Maturity |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Time deposits | Asociación Peravia de Ahorros y Préstamos | 82,808 | 8.50 % | 2017 |
| Time deposits | Asociación Cibao de Ahorros y Préstamos | 19,874 | 6.50 % | 2017 |
| Time deposits | Asociación La Vega Real de Ahorros y Préstamos | 86,187 | 9.00 % | 2017 |
| Time deposits | Asociación La Nacional de Ahorros y Préstamos | 65,771 | 7.00 % and 10.25 % | 2017 |
| Time deposits | Asociación Maguana de Ahorros y Préstamos | 23,036 | 7.00 % until 8.00 % | 2017 |
| Time deposits | Asociación Romana de Ahorros y Préstamos | 36,079 | 8.00 % until 8.50 % | 2017 |
| Time deposits | Asociación Duarte de Ahorros y Préstamos | 2,025 | 8.00 % | 2017 |
| Time deposits | Asociación Bonao de Ahorros y Préstamos | 24,645 | 7.50 % | 2017 |
| Time deposits | Banco Múltiple Caribe, S. A. | 104,245 | 10.25 % until 12.00 % | 2017 |
| Time deposits | Banco Múltiple Promérica de la República Dominicana, S. A. | 55,773 | 9.75 % | 2017 |
| Time deposits | Banco Popular Dominicano, S. A. Banco Múltiple | 96,619 | 10.50 % | 2017 |
| Time deposits | Motor Crédito, S. A. Banco de Ahorro y Crédito | 22,848 | 9.50 % and 10.60 % | 2017 |
| Time deposits | Banco Múltiple de las Américas, S.A. | 21,013 | 8.50 % until 10.00 % | 2017 |
| Time deposits | Banco Múltiple BHD León, S. A. | 24,294 | 8.25 % | 2017 |
| Time deposits | Banco Múltiple BDI, S. A. | 25,539 | 12.00 % | 2017 |
| Time deposits | Banesco, Banco Múltiple, S. A. | 104,381 | 9.25 % and 10.00 % | 2017 |
| Time deposits | Banco Dominicano del Progreso, S. A. Banco Múltiple (corresponds to US$3,900) | 181,807 | 1.65 % | 2017 |
| Time deposits | Banco de Ahorro y Crédito ADOPEM, S. A. | 10,651 | 9.00 % | 2017 |
| Quote of participation | Administradora de Fondos de Inversión Universal, S. A. | 10,652 | 8.01 % | 2017 |
| **Restricted securities** | | | | |
| Bonds Law No.152-14, 548-14, 131-11, 331-15, 297-10 and 260-15 | Dominican Republic State | 1,925,719 | 10.38 % until 15.95 % | 2021 until 2029 |
| Time deposits | Central Bank of the Dominican Republic | 378,000 | 14.50 % | 2018 |
| Mortgage notes (c) | Banco Múltiple BHD León, S. A. | 201 | 5.20 % | 2017 |
| Time deposits (c) | Asociación Popular de Ahorros y Préstamos | 3,000 | 5.00 % | 2017 |
| Profitability guarantee | Asociaciones de Ahorros y Préstamos | 924,289 | - | - |

(Continues)

| Type of investment | Issuer | Amount in RD$ | Interest Rate | Maturity |
|---|---|---|---|---|
| Other investments (b) | Housing Trust, Low cost | 78,462 | - | - |
| Bonds | Treasury of the United States of America, (corresponds to US$712) | 33,198 | 13.16 % | 2024 |
| | | 59,761,529 | | |
| | Interest receivable, (includes US$3,531) | 1,199,556 | | |
| | | 60,961,085 | | |
| | Provision for investment, (includes US$184) | (245,176) | | |
| | | 60,715,909 | | |

(a) At December 31, 2016, includes securities for the amount of RD$2,893,476, which are considered for legal reserve (*encaje legal*) purposes, under the First Resolution of the Monetary Board of March 26, 2015.

(b) 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.

(c) Investments affected by lawsuits against the Bank.

## 7 Loans portfolios

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

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Commercial loans: | | | | | | | |
| Advances on checking accounts | RD$ | - | 84,421 | 84,421 | - | 14,399 | 14,399 |
| Loans (includes US$1,134,170 and US$1,572,059 in 2017 and 2016) | | 36,403,819 | 116,992,901 | 153,396,720 | 66,979,833 | 126,888,344 | 193,868,177 |
| Discounted notes | | - | 2,802 | 2,802 | - | 2,902 | 2,902 |
| Discounted on invoices (includes US$251,091 and US$250,531 in 2017 and 2016) | | - | 11,882,097 | 11,882,097 | - | 11,701,652 | 11,701,652 |
| Financial leases | | 1,500,198 | 2,919 | 1,503,117 | 31,862 | 3,157 | 35,019 |
| Advance on export notes (corresponds to US$739 and US$740 in 2017 and 2016) | | - | 34,897 | 34,897 | - | 34,496 | 34,496 |
| Letters of credit (corresponds to US$683 and US$1,867 in 2017 and 2016) | | - | 32,291 | 32,291 | - | 87,032 | 87,032 |
| Other loans | | - | 8,899 | 8,899 | - | 15,932 | 15,932 |
| | | 37,904,017 | 129,041,227 | 166,945,244 | 67,011,695 | 138,747,914 | 205,759,609 |

(Continues)

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

Notes to the Consolidated Financial Statements

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Consumer loans: | | | | | | |
| Credit cards (includes US$17,707 and US$17,220 in 2017 and 2016) | - | 6,853,850 | 6,853,850 | - | 6,629,865 | 6,629,865 |
| Consumer loans: (includes US$1,708 and US$1,732 in 2017 and 2016) | - | 38,826,275 | 38,826,275 | - | 37,844,445 | 37,844,445 |
| | - | 45,680,125 | 45,680,125 | - | 44,474,310 | 44,474,310 |
| Mortgage loans: | | | | | | |
| Residential purchases (includes US$1,507 and US$1,520 in 2017 and 2016) | - | 32,598,804 | 32,598,804 | - | 32,490,619 | 32,490,619 |
| Construction, improvements, repairs, expansion and others | - | 973,956 | 973,956 | - | 975,391 | 975,391 |
| | - | 33,572,760 | 33,572,760 | - | 33,466,010 | 33,466,010 |
| | 37,904,017 | 208,294,112 | 246,198,129 | 67,011,695 | 216,688,234 | 283,699,929 |
| Interest receivable (includes US$10,691 and US$8,697 in 2017 and 2016) | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loan losses and interest receivable (includes US$28,759 and US$28,276 in 2017 and 2016) | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| **RD$** | **38,330,843** | **205,413,412** | **243,744,255** | **67,184,301** | **213,832,121** | **281,016,422** |

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

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Commercial loans: | | | | | | | |
| Current (i) (includes US$1,332,729 and US$1,775,626 in 2017 and 2016) | RD$ | 37,903,408 | 118,982,152 | 156,885,560 | 67,011,089 | 128,911,756 | 195,922,845 |
| Restructured (ii) (includes US$42,466 US$37,912 in 2017 and 2016) | | - | 3,253,646 | 3,253,646 | - | 2,832,986 | 2,832,986 |
| Past due: | | | | | | | |
| 31 to 90 days (iii) (includes US$42 and US$34 in 2017 and 2016) | | - | 66,007 | 66,007 | - | 44,583 | 44,583 |
| More than 90 days (iv) (includes US$2,241 and US$2,069 in 2017 and 2016) | | 609 | 916,277 | 916,886 | 606 | 867,878 | 868,484 |

(Continues)

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

Notes to the Consolidated Financial Statements

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Public Sector | Private Sector | Total | Public Sector | Private Sector | Total |
| Legal collections (v), (includes (US$7,073 and US$7,259 in 2017 and 2016) | - | 990,371 | 990,371 | - | 833,820 | 833,820 |
| | 37,904,017 | 124,208,453 | 162,112,470 | 67,011,695 | 133,491,023 | 200,502,718 |
| Microcredits: | | | | | | |
| Current (i) | - | 13,721 | 13,721 | - | 14,888 | 14,888 |
| | - | 13,721 | 13,721 | - | 14,888 | 14,888 |
| Microenterprises loans: | | | | | | |
| Current (i) (includes US$1,971 and US$2,252 in 2017 and 2016) | - | 4,539,159 | 4,539,159 | - | 5,005,216 | 5,005,216 |
| Restructured (ii) (includes US$116 in 2017) | - | 8,043 | 8,043 | - | 3,251 | 3,251 |
| Past due: | | | | | | |
| 31 to 90 days (iii) (includes US$5 and US$4 in 2017 and 2016) | - | 20,713 | 20,713 | - | 12,512 | 12,512 |
| More than 90 days (iv) (includes US$24 and US$25 in 2017 and 2016) | - | 172,751 | 172,751 | - | 150,026 | 150,026 |
| Legal collections (v) (includes US$15 in 2017 and 2016) | - | 78,387 | 78,387 | - | 70,998 | 70,998 |
| | - | 4,819,053 | 4,819,053 | - | 5,242,003 | 5,242,003 |
| Consumer loans: | | | | | | |
| Current (i) (includes US$18,456 and US$18,040 in 2017 and 2016) | - | 44,187,750 | 44,187,750 | - | 43,148,086 | 43,148,086 |
| Restructured (ii) | - | 9,206 | 9,206 | - | 10,960 | 10,960 |
| Past due: | | | | | | |
| 31 to 90 days (iii) (includes US$1 in 2017) | - | 257,242 | 257,242 | - | 198,461 | 198,461 |
| More than 90 days (iv) (includes US$854 and US$808 in 2017 and 2016) | - | 1,052,686 | 1,052,686 | - | 992,134 | 992,134 |
| Legal collections (v), (includes US$104 in 2017 and 2016) | - | 173,241 | 173,241 | - | 124,669 | 124,669 |
| | - | 45,680,125 | 45,680,125 | - | 44,474,310 | 44,474,310 |
| Mortgage loans: | | | | | | |
| Current (i) (includes US$1,043 and US$1,058 in 2017 and 2016 | - | 32,781,804 | 32,781,804 | - | 32,744,858 | 32,744,858 |
| Restructured (ii) | - | 40,928 | 40,928 | - | 41,333 | 41,333 |
| Past due: | | | | | | |
| 31 to 90 days (iii) (includes US$1 in 2017 and 2016) | - | 7,296 | 7,296 | - | 3,728 | 3,728 |
| More than 90 days (iv) (includes US$463 and US$462 in 2017 and 2016) | - | 455,473 | 455,473 | | 438,170 | 438,170 |
| Legal collections (v) | - | 287,259 | 287,259 | - | 237,921 | 237,921 |
| | - | 33,572,760 | 33,572,760 | - | 33,466,010 | 33,466,010 |

(Continues)

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

Notes to the Consolidated Financial Statements

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Public Sector | Private Sector | Total | Public Sector | Private Sector | Total |
| Interest receivable: | | | | | | |
| Current (i) (includes US$7,931 and US$5,986 in 2017 and 2016) | 426,750 | 3,478,348 | 3,905,098 | 172,531 | 3,405,813 | 3,578,344 |
| Restructured (ii) (includes US$270 and US$231 in 2017 and 2016) | - | 13,062 | 13,062 | - | 11,589 | 11,589 |
| Past due: | | | | | | |
| From 31 to 90 days (iii) (includes US$31 and US$19 in 2017 and 2016) | - | 112,879 | 112,879 | - | 89,953 | 89,953 |
| More than 90 days (iv) (includes US$2,329 and US$2,326 in 2017 and 2016) | 76 | 286,189 | 286,189 | 75 | 284,958 | 285,033 |
| Legal collections (v) (includes US$131 and US$135 in 2017 and 2016) | - | 56,948 | 56,948 | - | 46,170 | 46,170 |
| | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loans and interest receivable (includes US$28,759 and US$28,276 in 2017 and 2016) | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| RD$ | 38,330,843 | 205,413,412 | 243,744,255 | 67,184,301 | 213,832,121 | 281,016,422 |

(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 being current or past due, 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.

(Continues)

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

Notes to the Consolidated Financial Statements

*c) By type of collateral:*

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public Sector | Private Sector | Total | Public Sector | Private Sector | Total |
| Multi use collateral (i) | RD$ | 1,498,420 | 79,941,210 | 81,439,630 | 31,862 | 62,933,533 | 62,965,395 |
| Specific use collateral (ii) | | - | 5,724,396 | 5,724,396 | - | 5,581,691 | 5,581,691 |
| Without collateral (iii) | | 36,405,597 | 122,628,506 | 159,034,103 | 66,979,833 | 148,173,010 | 215,152,843 |
| | | 37,904,017 | 208,294,112 | 246,198,129 | 67,011,695 | 216,688,234 | 283,699,929 |
| Interest receivable | | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loan losses and interest receivable | | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| | **RD$** | **38,330,843** | **205,413,412** | **243,744,255** | **67,184,301** | **213,832,121** | **281,016,422** |

The third resolution of the monetary board dated December 20, 2016, modified with immediate application the percentages of admissibility and the classifications of some guarantees, also included some new types of guarantee.

(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. As of March 31, 2017 and December 31, 2016, these collaterals are considered as follows:

| Type of collateral | Percentage of admittance (%) |
|---|---|
| Debt securities issued or guaranteed by the Dominican State (Central Bank, Ministry of Finance) | 100 |
| Debt securities issued by financial intermediaries | 95 |
| Time deposits in domestic or foreign currency owned by the financial intermediary | 100 |
| Time deposits in domestic or foreign currency of other financial intermediaries | 95 |
| Sureties or guarantees, irrevocable letters of credit and letters of credit stand-by | 95 |
| Plots or land | 80 |
| Plots or exclusive land for agricultural purposes | 80 |
| Residential buildings, property and apartments | 80 |
| Buildings and commercial space | 80 |
| Motor vehicles with less than five years of antiquity | 50 |
| Industries of multiple use | 70 |
| Warrants of inventory | 90 |
| Securities guaranteed by trusts of public offering trusts of securities of the Central Bank and Ministry of Finance (a) | - |
| Security trust certificates over guarantee trusts (a) | - |
| Trust accounts for payment sources | 50 |

(Continues)

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

Notes to the Consolidated Financial Statements

| | |
|---|---|
| Other multi-use collateral | 70 |

(a) 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 for that reason present characteristics that are difficult to sell due to their specialized origin. These collaterals will apply according to the following percentages:

| Type of collateral | Percentage of admittance (%) |
|---|---|
| Heavy vehicles | 50 |
| Hotels in operation | 70 |
| Hotel projects under construction | 80 |
| Industrial building | 80 |
| Free trade zone | 80 |
| Single-use industries | 50 |
| Other non multi-use collaterals | 50 |

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

*d) By source of funds:*

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public Sector | Private Sector | Total | Public Sector | Private Sector | Total |
| Own funds | RD$ | 37,904,017 | 208,268,058 | 246,172,075 | 67,011,695 | 216,658,101 | 283,669,796 |
| Other domestic institutions | | - | 26,054 | 26,054 | - | 30,133 | 30,133 |
| | | 37,904,017 | 208,294,112 | 246,198,129 | 67,011,695 | 216,688,234 | 283,699,929 |
| Interest receivable | | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loan losses and interest receivable | | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| | **RD$** | **38,330,843** | **205,413,412** | **243,744,255** | **67,184,301** | **213,832,121** | **281,016,422** |

(Continues)

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

Notes to the Consolidated Financial Statements

## e) By term:

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Short-term (up to one year) | RD$ | 24,204,740 | 90,689,278 | 114,894,018 | 49,507,875 | 100,457,153 | 149,965,028 |
| Medium-term (more than one year and up to three years) | | 10,925,686 | 86,233,027 | 97,158,713 | 14,630,229 | 84,449,881 | 99,080,110 |
| Long-term (more than three years) | | 2,773,591 | 31,371,807 | 34,145,398 | 2,873,591 | 31,781,200 | 34,654,791 |
| | | 37,904,017 | 208,294,112 | 246,198,129 | 67,011,695 | 216,688,234 | 283,699,929 |
| Interest receivable | | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loan losses and interest receivable | | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| | **RD$** | **38,330,843** | **205,413,412** | **243,744,255** | **67,184,301** | **213,832,121** | **281,016,422** |

## f) By economic sector:

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Government | RD$ | 36,702,739 | - | 36,702,739 | 67,010,556 | - | 67,010,556 |
| Financial sector | | 1,201,278 | 4,023,064 | 5,224,342 | 1,139 | 4,063,476 | 4,064,615 |
| Non-financial sector | | | | | | | |
| Agriculture, livestock and forestry | | - | 3,361,236 | 3,361,236 | - | 3,497,323 | 3,497,323 |
| Fishing | | - | 7,282 | 7,282 | - | 9,675 | 9,675 |
| Mining and quarries | | - | 487,250 | 487,250 | - | 463,561 | 463,561 |
| Manufacturing industry | | - | 8,243,768 | 8,243,768 | - | 10,625,370 | 10,625,370 |
| Electricity, gas and water | | - | 4,539,196 | 4,539,196 | - | 4,997,872 | 4,997,872 |
| Construction | | - | 39,345,011 | 39,345,011 | - | 47,331,261 | 47,331,261 |
| wholesale and retail business | | - | 40,077,222 | 40,077,222 | - | 39,228,519 | 39,228,519 |
| Hotels and restaurants | | - | 12,959,379 | 12,959,379 | - | 12,510,870 | 12,510,870 |
| Transportation, warehousing and communication | | - | 1,973,510 | 1,973,510 | - | 1,787,716 | 1,787,716 |
| Real estate, and leasing activities | | - | 7,346,216 | 7,346,216 | - | 7,002,710 | 7,002,710 |
| Education | | - | 316,431 | 316,431 | - | 319,307 | 319,307 |
| Health and social services | | - | 141,909 | 141,909 | - | 172,507 | 172,507 |
| Other social and personal services activities | | - | 78,543,770 | 78,543,770 | - | 77,969,614 | 77,969,614 |

(Continues)

| | | 2017 | | | 2016 | |
|---|---|---|---|---|---|---|
| | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Private household with local services | - | 6,928,868 | 6,928,868 | - | 6,708,453 | 6,708,453 |
| | 37,904,017 | 208,294,112 | 246,198,129 | 67,011,695 | 216,688,234 | 283,699,929 |
| Interest receivable | 426,826 | 3,947,426 | 4,374,252 | 172,606 | 3,838,483 | 4,011,089 |
| Allowance for loans losses and interest receivable | - | (6,828,126) | (6,828,126) | - | (6,694,596) | (6,694,596) |
| RD$ | 38,330,843 | 205,413,412 | 243,744,255 | 67,184,301 | 213,832,121 | 281,016,422 |

As of March 31, 2017 and December 31, 2016, loans to the private sector include RD$37,325 million and RD$43,800 million, respectively, which correspond to credit line operations with contractors and suppliers who are carrying 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", provisioning at 1 % and their accounting 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 to 0 %, as well as their accounting as current and classify as loans to the private sector.

According to the First Resolution of the Monetary Board dated July 9th, 2015, direct and indirect financing granted to the Dominican State that has the guarantee 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 reported as current.

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 sold the Bank a loan portfolio classified by the Superintendence of Banks in the risk categories A, B and C, with a face value of RD$1,420,009. This portfolio was acquired with a discount of RD$355,002, that on December 31, 2014, was recorded as other liabilities and recognized in net income during the term thereof. Through circular ADM/2068/15, the Superintendence of Banks granted a non-objection so that the Bank would recognize as income during 2016, the outstanding amount pending to amortize for the total of RD$318,636.

- According to communication 0379-14 dated June 17, 2014, the Superintendence of Banks awarded its non-objection to the Bank to classify into an “A” risk category with 0 % of provision requirement, the loans received from the domestic financial institution for a period of two years, counted from the effective date of the portfolio transfer was June 11, 2014.

(Continues)

Subsequently, through Circular ADM/1685/16, dated September 2, 2016, this period was extended until November 2016.

- 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. This portfolio is managed by the Bank, and commission is charged when the amounts are recovered.

The Bank sold to local and foreign financial institutions a portion of its loan portfolio with the Ministry of Finance and other debtors, whose amounts to US$62,134 and RD$9,621,081 in 2016. During the three month period ended March 31, 2016, these operations generated profits for the Bank for approximately RD$13,805, which are included in the line of other income in the accompanying financial statements.

## 8 Debtors by acceptances

A summary of debtors by acceptances is as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Correspondent Bank | Amount in RD$ | Maturity Date | Amount in RD$ | Maturity Date |
| Wells Fargo Bank (corresponds to US$9,778 in 2017 and US$9,818 in 2016) | 462,100 | 2017 | 457,670 | 2017 |
| Bank of America (corresponds to US$120 in 2016) | - | - | 5,594 | 2017 |
| Societe Generale (corresponds to US$6,861 in 2016) | - | - | 319,822 | 2017 |
| Deustche Bank (corresponds to US$2,025 in 2017 and US$7,888 in 2016) | 95,672 | 2017 | 367,710 | 2017 |
| The Bank of Tokyo-Mitsubishi (corresponds to US$1,103 in 2017 and 2016) | 52,149 | 2017 | 51,444 | 2017 |
| Commerzbank (corresponds to US$260 in 2017 and US$2,680 in 2016) | 12,286 | 2017 | 124,917 | 2017 |
| CoBank (corresponds to US$47,899 in 2017 and US$30,011 in 2016) | 2,263,565 | 2017 and 2018 | 1,399,045 | 2017 |
| Citibank Japan (corresponds to US$417 in 2017) | 19,693 | 2017 | - | - |
| | 2,905,465 | | 2,726,202 | |

(Continues)

## 9 Accounts receivable

A summary of accounts receivable is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Commission's receivable (includes US$671 and US$61 in 2017 and 2016) | RD$ | 74,774 | 34,498 |
| Other receivables: | | | |
| Foreign exchange contracts (includes US$968 in 2016) | | 971 | 45,106 |
| Advances to suppliers | | 2,240 | 9,017 |
| Accounts receivable from employees | | 571,461 | 505,797 |
| Recoverable expenses | | 11,634 | 5,962 |
| Security deposits | | 46,161 | 46,437 |
| Judicial and administrative deposites | | 2,014 | 2,014 |
| Credit card claims | | 60,335 | 47,869 |
| Accounts receivable for real estate and leasing operations (includes US$75 and US$73 in 2017 and 2016) | | 28,467 | 21,153 |
| Management funds | | 83,587 | 125,118 |
| Discounted documents receivable | | 131,387 | 128,679 |
| Returned checks (includes US$260 and US$2 in 2017 and 2016, respectively) | | 21,371 | 114 |
| Accounts receivable - other (includes US$2,561 and US$2,278 in 2017 and 2016, respectively) | | 839,200 | 764,946 |
| | | 1,798,828 | 1,702,212 |
| | **RD$** | **1,873,602** | **1,736,710** |

## 10 Premiums receivable

A summary of insurance premiums receivable is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| General insurances (includes US$15,731 and US$15,643 in 2017 and 2016) | RD$ | 2,444,758 | 1,828,833 |
| Life insurance includes US$299 and US$554 in 2017 and 2016) | | 132,954 | 91,288 |
| | **RD$** | **2,577,712** | **1,920,121** |

(Continues)

## 11 Assets received in loan settlements

A summary of assets received in loan settlements as of March 31, 2017 and December 31, 2016, is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Furniture and equipment | RD$ | 486,335 | 486,920 |
| Real estate | | 7,733,586 | 7,750,404 |
| | | 8,219,921 | 8,237,324 |
| Allowance for losses on assets received in loan settlements | | (5,969,104) | (5,960,004) |
| | **RD$** | **2,250,817** | **2,277,320** |

Following is a description of assets received in loan settlements (by aging) as of March 31, 2017 and December 31, 2016:

| | | Amount | Provision |
|---|---|---|---|
| **2017** | | | |
| Up to 40 months: | | | |
| Furniture and equipment | RD$ | 485,648 | (485,648) |
| Real estate | | 2,875,356 | (624,539) |
| More than 40 months: | | | |
| Furniture and equipment | | 687 | (687) |
| Real estate | | 4,858,230 | (4,858,230) |
| Total | **RD$** | **8,219,921** | **(5,969,104)** |
| **2016** | | | |
| Up to 40 months: | | | |
| Furniture and equipment | RD$ | 486,233 | (486,233) |
| Real estate | | 3,954,153 | (1,676,833) |
| More than 40 months: | | | |
| Furniture and equipment | | 687 | (687) |
| Real estate | | 3,796,251 | (3,796,251) |
| Total | **RD$** | **8,237,324** | **(5,960,004)** |

(Continues)

## 12 Investments in shares

A summary of investments in shares is as follows:

| | Amount of investment in RD$ | Percentage of shares | Type of shares | Face value RD$ | Market value RD$ | Number of outstanding shares |
|---|---|---|---|---|---|---|
| **March 31, 2017** | | | | | | |
| Investments in associates: | | | | | | |
| | 631,044 | 24.53 % | Common | 100 | (a) | 4,866,613 |
| | 218,800 | 27.08 % | Common | 1,000 | (a) | 161,888 |
| | 849,844 | | | | | |
| Investments in other companies: | | | | | | |
| | 40,570 (a) | 0 % | Common | 311 | 1,311 | 128,776 |
| | 15,605 (b) | 10 % | Common | 100 | (a) | 156,048 |
| | 97,467 (b) | | | | | |
| | 153,642 | | | | | |
| | 1,003,486 | | | | | |
| | (23,431) (c) | | | | | |
| Total | **980,055** | | | | | |
| **December 31, 2016** | | | | | | |
| Investments in associates: | | | | | | |
| | 647,508 | 24.53 % | Common | 100 | (a) | 4,866,613 |
| | 202,336 | 27.08 % | Common | 1,000 | (a) | 161,888 |
| | 849,844 | | | | | |
| Investments in other companies: | | | | | | |
| | 40,021 (a) | 0 % | Common | 311 | 1,372 | 128,776 |
| | 15,605 (b) | 10 % | Common | 100 | (a) | 156,048 |
| | 97,467 (b) | | | | | |
| | 153,093 | | | | | |
| | 1,002,937 | | | | | |
| | (22,723) (c) | | | | | |
| Total | **980,214** | | | | | |

(Continues)

(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 listed in active markets, which book value at March 31, 2017 and December 31, 2016 amounted to RD$41 million and RD$40 million, respectively, the market value was RD$169 and RD$177 million, respectively.

(b) Corresponds to minor investments in several entities.

(c) Represents an allowance for investments in shares.

As of March 31, 2017 and December 31, 2016, investments in shares include US$827 and US$832 net of allowance for US$31 and US$27, respectively.
A movement of the investment, dividends received and equity shares in net income of the associates at March 31, 2017 and December 31, 2016, is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Investment balances at January 1st | RD$ | 849,844 | 863,553 |
| Equity share recognized | | - | 41,870 |
| Dividends received in cash | | - | (55,579) |
| Investment balances at March 31, 2017 and December 31, 2016 | **RD$** | **849,844** | **849,844** |

## 13 Property, furniture and equipment

As of March 31, 2017 and December 31, 2016, a summary of property, furniture and equipment are as follows:

| 2017 | | Land and improvements | Buildings | Furniture and equipment | Leasehold improvements | Construction and acquisitions in process (a) | Total |
|---|---|---|---|---|---|---|---|
| Gross balance at January 1st, 2017 | RD$ | 1,502,291 | 5,065,251 | 4,874,138 | 208,393 | 4,848,302 | 16,498,375 |
| Acquisitions | | - | - | 6,535 | - | 302,845 | 309,380 |
| Retirements | | - | - | (85,834) | - | - | (85,834) |
| Transfers | | - | 41,340 | 48,843 | - | (90,183) | - |
| Balance at March 31, 2017 | | 1,502,291 | 5,106,591 | 4,843,682 | 208,393 | 5,060,964 | 16,721,921 |
| Accumulated depreciation at January 1st, 2017 | | - | (1,430,693) | (1,757,754) | (68,605) | - | (3,257,052) |

(Continues)

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| | | Land and improvements | Buildings | Furniture and equipment | Leasehold improvements | Construction and acquisitions in process (a) | Total |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Depreciation expenses | | - | (35,285) | (210,263) | (10,420) | - | (255,968) |
| Retirements | | - | - | 54,361 | - | - | 54,361 |
| Balance at March 31, 2017 | | - | (1,465,978) | (1,913,656) | (79,025) | - | (3,458,659) |
| Property, furniture and equipment at March 31, 2017 | **RD$** | **1,502,291** | **3,640,613** | **2,930,026** | **129,368** | **5,060,964** | **13,263,262** |
| **2016** | | | | | | | |
| Gross balance at January 1 st, 2016 | RD$ | 1,386,565 | 4,695,310 | 3,881,819 | 176,768 | 3,151,558 | 13,292,020 |
| Acquisitions | | - | 15,333 | 53,260 | - | 3,628,925 | 3,697,518 |
| Retirements | | - | - | (491,163) | - | - | (491,163) |
| Transfers | | 115,726 | 354,608 | 1,430,222 | 31,625 | (1,932,181) | - |
| Balance at December 31, 2016 | | 1,502,291 | 5,065,251 | 4,874,138 | 208,393 | 4,848,302 | 16,498,375 |
| Accumulated depreciation at January 1 st, 2016 | | - | (1,299,123) | (1,457,426) | (37,276) | - | (2,793,825) |
| Depreciation expenses | | - | (131,570) | (771,109) | (43,474) | - | (946,153) |
| Retirements | | - | - | 470,781 | 12,145 | - | 482,926 |
| Balance at December 31, 2016 | | - | (1,430,693) | (1,757,754) | (68,605) | - | (3,257,052) |
| Property, furniture and equipment at December 31, 2016 | **RD$** | **1,502,291** | **3,634,558** | **3,116,384** | **139,788** | **4,848,302** | **13,241,323** |

(a) Corresponds mainly to acquisition of hardware, renovations and building of branches.

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 financial statements.

(Continues)

## 14 Other assets

A summary of other assets is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Deferred charges: | | | |
| Commissions to insurance agents on unearned premiums | RD$ | 237,665 | 236,793 |
| Prepaid insurances | | 141,434 | 205,038 |
| Non-deferred proportional reinsurance premium ceded (a) | | 97,559 | 184,498 |
| Prepaid income tax | | 1,578,817 | 1,403,038 |
| Other prepaid payments (includes US$4 in 2017 and 2016) | | 822,673 | 565,789 |
| Other deferred charges | | 279,220 | 152,671 |
| | | 3,157,368 | 2,747,827 |
| Intangibles: | | | |
| Software | | 153,831 | 195,526 |
| Others | | 2,200 | 2,200 |
| | | 156,031 | 197,726 |
| Accumulated amortization | | (98,227) | (128,660) |
| | | 57,804 | 69,066 |
| Other assets: | | | |
| Assets acquired for financial leases | | 736,821 | 727,060 |
| Stationery and office supplies | | 176,054 | 122,672 |
| Plastic credit card inventory | | 12,798 | 15,138 |
| Libraries and artwork | | 31,992 | 24,365 |
| Other miscellaneous assets (b) | | 2,436,855 | 2,254,441 |
| Items pending for allocation (c), (includes US$671 and US$732 in 2017 and 2016) | | 110,657 | 111,649 |
| Others | | 4,288 | 5,988 |
| | | 3,509,465 | 3,261,313 |
| | **RD$** | **6,724,637** | **6,078,206** |

(a) Corresponds to the insurance premiums pending to be amortized of the reinsurance for excess of losses.

(b) Corresponds to cash advances to acquire software and other related disbursements.

(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.

(Continues)

## 15 Summary of allowances for risky assets

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

| | | Loan portfolio | Investments | Interest receivable | Other assets (a) | Contingent operations (b) | Total |
|---|---|---|---|---|---|---|---|
| **March 31, 2017** | | | | | | | |
| Balance at January 1st, 2017 | RD$ | 6,276,242 | 267,115 | 419,138 | 5,960,004 | 212,372 | 13,134,871 |
| Constitution of reserves | | 342,798 | - | 218,815 | 9,100 | - | 570,713 |
| Write-offs against reserves | | (418,691) | - | (39,066) | - | - | (457,757) |
| Transfers of reserves | | 187,239 | (2,831) | (180,908) | - | (3,500) | - |
| Effect of change in exchange rates and others | | 23,567 | 136 | 107 | - | 1,625 | 25,435 |
| Balance at March 31, 2017 | | 6,411,155 | 264,420 | 418,086 | 5,969,104 | 210,497 | 13,273,262 |
| Minimum allowances required at March 31, 2017 (c) | | 6,390,576 | 261,639 | 410,250 | 5,968,979 | 203,179 | 13,234,623 |
| Excess (deficit) in the minimum allowance required at March 31, 2017 (d) | **RD$** | **20,579** | **2,781** | **7,836** | **125** | **7,318** | **38,639** |
| **December 31, 2016** | | | | | | | |
| Balance at January 1st, 2016 | RD$ | 5,432,913 | 238,516 | 336,324 | 5,257,239 | 194,790 | 11,459,782 |
| Constitution of reserves | | 2,143,124 | 7,186 | 901,951 | 647,095 | 72,612 | 3,771,968 |
| Write-offs against reserves | | (1,132,269) | - | (172,276) | - | - | (1,304,545) |
| Transfers of reserves | | (180,050) | 21,174 | 160,909 | 55,670 | (57,703) | - |
| Release of reserves | | - | - | (807,985) | - | - | (807,985) |
| Effect of change in exchange rates and others | | 12,524 | 239 | 215 | - | 2,673 | 15,651 |
| Balance at December 31, 2016 | | 6,276,242 | 267,115 | 419,138 | 5,960,004 | 212,372 | 13,134,871 |
| Minimum allowances required at December 31, 2016 (c) | | 6,218,208 | 248,836 | 331,204 | 5,959,068 | 195,251 | 12,952,567 |

(Continues)

| | | Loan portfolio | Investments | Interest receivable | Other assets (a) | Contingent operations (b) | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2016** | | | | | | | |
| Excess (deficit) in the minimum allowance required at December 31, 2016 (d) | **RD$** | **58,034** | **18,279** | **87,934** | **936** | **17,121** | **182,304** |

(a) Corresponds to the allowance for assets received in loan settlements.

(b) This allowance is included in the line item of other liabilities in note 20.

(c) Represents the amounts of allowance determined by a self-assessment as of March 31, 2017 and December 31, 2016 plus other adjustments made.

(d) In the case that the required provisions are lower than the provisions recorded, the Superintendence of Banks of the Dominican Republic does not allow the release of provisions without prior authorization from the regulatory authorities, except allowances for interest receivable over 90 days.

According to the First Resolution of the Monetary Board dated December 23, 2016, the Bank must classify with risk "A" and 0 % of provision and weighting of 0 % for purposes of calculating the solvency ratio of the loans given to specific companies for the amount of US$295,800.

At March 31, 2017 and December 31, 2016, 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, that they 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. As of March 31, 2017 and December 31, 2016, the amount of the debt under this program amounts to approximately RD$37,324,778 and RD$43,800,000, respectively, and the decrease in the required provision originated by this exemption was approximately RD$373,248 and RD$438,000, respectively.

(Continues)

## 16 Customers' deposits

Customers' deposits are summarized as follows:

### a) By type

| | Local currency RD$ | Annual weighted average rate | Foreign currency RD$ | Annual weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Checking | 50,873,644 | 0.63 % | - | - | 50,873,644 |
| Savings | 64,812,410 | 1.37 % | 48,036,807 | 1.01 % | 112,849,217 |
| Time | 2,416 | 6.11 % | 43,634,900 | 2.32 % | 43,637,316 |
| Interest | 195,064 | - | 101,880 | - | 296,944 |
| | **115,883,534** | **1.04 %** | **91,773,587** | **1.63 %** | **207,657,121** |
| **December 31, 2016** | | | | | |
| Checking | 50,264,738 | 0.63 % | - | - | 50,264,738 |
| Savings | 66,050,531 | 1.38 % | 36,588,316 | 0.93 % | 102,638,847 |
| Time | 2,470 | 6.12 % | 49,076,511 | 2.49 % | 49,078,981 |
| | **116,317,739** | **1.05 %** | **85,664,827** | **1.82 %** | **201,982,566** |

### b) By sector

| | Local currency RD$ | Annual weighted average rate | Foreign currency RD$ | Annual weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Non-financial public sector | 24,108,544 | 0.64 % | 12,234,047 | 1.15 % | 36,342,591 |
| Non-financial private sector | 91,538,576 | 1.15 % | 79,428,240 | 1.71 % | 170,966,816 |
| Non-resident | 41,350 | 0.63 % | 9,420 | 1.52 % | 50,770 |
| Interest | 195,064 | - | 101,880 | - | 296,944 |
| | **115,883,534** | **1.04 %** | **91,773,587** | **1.63 %** | **207,657,121** |
| **December 31, 2016** | | | | | |
| Non-financial public sector | 23,184,305 | 0.65 % | 5,342,168 | 1.27 % | 28,526,473 |
| Non-financial private sector | 93,131,704 | 1.16 % | 80,313,477 | 1.86 % | 173,445,181 |
| Non-resident | 1,730 | 0.63 % | 9,182 | 1.50 % | 10,912 |
| | **116,317,739** | **1.05 %** | **85,664,827** | **1.82 %** | **201,982,566** |

(Continues)

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**c) By maturity date**

| | Local currency RD$ | Annual weighted average rate | Foreign currency RD$ | Annual weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| To 15 days | 115,686,137 | 1.04 % | 50,822,104 | 1.07 % | 166,508,241 |
| 16 to 30 days | 112 | 4.95 % | 7,549,180 | 2.49 % | 7,549,292 |
| 31 to 60 days | 600 | 6.66 % | 6,430,073 | 2.68 % | 6,430,673 |
| 61 to 90 days | 382 | 5.59 % | 5,454,994 | 2.22 % | 5,455,376 |
| 91 to 180 days | 225 | 6.27 % | 8,868,512 | 2.29 % | 8,868,737 |
| 181 to 360 days | - | - | 8,787,578 | 2.04 % | 8,787,578 |
| More than 1 year | 1,014 | 6.01 % | 3,759,266 | 2.30 % | 3,760,280 |
| Interest | 195,064 | - | 101,880 | - | 296,944 |
| | **115,883,534** | **1.04 %** | **91,773,587** | **1.63 %** | **207,657,121** |
| **December 31, 2016** | | | | | |
| To 15 days | 116,315,346 | 1.05 % | 40,142,892 | 1.05 % | 156,458,238 |
| 16 to 30 days | 464 | 6.93 % | 12,253,847 | 2.86 % | 12,254,311 |
| 31 to 60 days | 396 | 5.89 % | 5,757,510 | 2.53 % | 5,757,906 |
| 61 to 90 days | 186 | 0.01 % | 4,643,292 | 2.40 % | 4,643,478 |
| 91 to 180 days | 333 | 5.71 % | 11,292,798 | 2.58 % | 11,293,131 |
| 181 to 360 days | - | - | 7,810,662 | 1.94 % | 7,810,662 |
| More than 1 year | 1,014 | 6.01 % | 3,763,826 | 2.35 % | 3,764,840 |
| | **116,317,739** | **1.05 %** | **85,664,827** | **1.82 %** | **201,982,566** |

At March 31, 2017 and December 31, 2016, customers' deposits include restricted amounts for the following concepts:

| | Inactive accounts | Foreclosed funds | Deceased customers | Security deposits | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Customers' deposits: | | | | | |
| Checking | 87,571 | 562,568 | 32,042 | - | 682,181 |
| Savings | 755,778 | 514,375 | 793,856 | 173,895 | 2,237,904 |
| Time | - | 1,409 | 212,592 | 2,186,042 | 2,400,043 |
| | **843,349** | **1,078,352** | **1,038,490** | **2,359,937** | **5,320,128** |

(Continues)

| | Inactive accounts | Foreclosed funds | Deceased customers | Security deposits | Total RD$ |
|---|---|---|---|---|---|
| **December 31, 2016** | | | | | |
| Customers' deposits: | | | | | |
| Checking | 62,909 | 593,199 | 25,807 | - | 681,915 |
| Savings | 783,004 | 479,743 | 780,741 | 165,207 | 2,208,695 |
| Time | - | 1,409 | 74,647 | 2,166,070 | 2,242,126 |
| | **845,913** | **1,074,351** | **881,195** | **2,331,277** | **5,132,736** |

At March 31, 2017 and December 31, 2016 customer' deposits include amounts of inactive accounts, as follows:

| | | From 3 to 10 years | More than 10 years | Total |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Customer deposits: | | | | |
| Checking | RD$ | 86,201 | 1,370 | 87,571 |
| Savings | | 731,419 | 24,359 | 755,778 |
| | **RD$** | **817,620** | **25,729** | **843,349** |
| **December 31, 2016** | | | | |
| Customer deposits: | | | | |
| Checking | RD$ | 61,587 | 1,322 | 62,909 |
| Savings | | 764,464 | 18,540 | 783,004 |
| | **RD$** | **826,051** | **19,862** | **845,913** |

## 17 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

| | Local currency RD$ | Weighted average rate | Foreign currency RD$ | Weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Checking | 3,637,962 | 0.63 % | - | - | 3,637,962 |
| Savings | 231,403 | 1.37 % | 959,850 | 1.01 % | 1,191,253 |
| Time | 82 | 3.23 % | 1,909,691 | 1.90 % | 1,909,773 |
| Interest | 712 | - | 5,502 | - | 6,214 |
| | **3,870,159** | **0.67 %** | **2,875,043** | **1.60 %** | **6,745,202** |

(Continues)

| | Local currency RD$ | Weighted average rate | Foreign currency RD$ | Weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **December 31, 2016** | | | | | |
| Checking | 3,872,330 | 0.63 % | - | - | 3,872,330 |
| Savings | 484,505 | 1.38 % | 10,730,175 | 0.93 % | 11,214,680 |
| Time | 104 | 3.68 % | 5,042,234 | 1.69 % | 5,042,338 |
| | **4,356,939** | **0.71 %** | **15,772,409** | **1.17 %** | **20,129,348** |

**b) By maturity date**

| | Local currency RD$ | Weighted average rate | Foreign currency RD$ | Weighted average rate | Total RD$ |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| To 15 days | 3,869,365 | 0.67 % | 1,009,529 | 1.05 % | 4,878,894 |
| 16 to 30 days | 30 | 3.25 % | 1,255,726 | 1.80 % | 1,255,756 |
| 31 to 60 days | 50 | 3.10 % | 204,878 | 1.60 % | 204,928 |
| 61 to 90 days | - | - | 54,413 | 2.02 % | 54,413 |
| 91 to 180 days | - | - | 202,530 | 2.27 % | 202,530 |
| 181 to 360 days | - | - | 54,862 | 2.46 % | 54,862 |
| More than a year | 2 | 5.63 % | 87,603 | 2.90 % | 87,605 |
| Interest | 712 | - | 5,502 | - | 6,214 |
| | **3,870,159** | **0.67 %** | **2,875,043** | **1.60 %** | **6,745,202** |
| **December 31, 2016** | | | | | |
| To 15 days | 4,356,857 | 0.71 % | 14,816,773 | 1.11 % | 19,173,630 |
| 16 to 30 days | - | - | 575,803 | 2.05 % | 575,803 |
| 31 to 60 days | 50 | 3.10 % | 42,870 | 1.93 % | 42,920 |
| 61 to 90 days | - | - | 58,517 | 2.18 % | 58,517 |
| 91 to 180 days | 30 | 3.25 % | 152,280 | 2.04 % | 152,310 |
| 181 to 360 days | - | - | 26,665 | 2.69 % | 26,665 |
| More than a year | 2 | 5.63 % | 99,501 | 2.91 % | 99,503 |
| | **4,356,939** | **0.71 %** | **15,772,409** | **1.17%** | **20,129,348** |

At March 31, 2017 and December 31, 2016, 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$113,964 and RD$149,812, respectively.

The estatus of the inactive and/or dormant accounts of the deposits in domestic financial institutions, is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Three to ten year term | **RD$** | **315** | **297** |

(Continues)

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## 18 Borrowed funds

A summary of borrowed funds is as follows:

| Borrower | Type | Collateral | Rate | Maturity | Balance |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Domestic financial institutions: | | | | | |
| Banco Popular Dominicano, S. A. Banco Múltiple | Line of credit | Secured | 10.00 % | 2019 | RD$ 700,000 |
| Banco Múltiple BHD León, S. A. | Line of credit | Secured | 10.00 % | 2017 | 500,000 |
| Asociación Popular de Ahorros y Préstamos | Line of credit | Secured | 11.50 % | 2017 | 250,000 |
| | | | | | 1,450,000 |
| Foreign financial institutions: | | | | | |
| Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US$85,000) | Line of credit | Unsecured | 2.31 % until 2.95 % | 2016 until 2017 | 4,016,828 |
| Citibank, N. A. (corresponds to US$69,000) | Line of credit | Unsecured | 1.57 % until 2.52 % | 2017 | 3,260,719 |
| Banco Interamericano de Desarrollo, BID, (corresponds to US$130,000) | Loan | Unsecured | 2.90 % until 3.84 % | 2016 until 2018 | 6,143,384 |
| Eximbank, Republic of China Taiwán (corresponds to US$382) | Loan | Unsecured | 1.95 % until 2.17 % | 2016 until 2018 | 18,013 |
| Sumitomo Mitsui Banking Corp. (corresponds to US$30,000) | Loan | Unsecured | 2.75 % until 3.21 % | 2016 until 2018 | 1,417,704 |
| Wells Fargo Bank (corresponds to US$78,000) | Loan | Unsecured | 2.51 % until 2.61 % | 2016 until 2017 | 3,686,030 |
| Mercantil Commerce Bank (corresponds to US$48,000) | Loan | Unsecured | 2.64 % until 3.26 % | 2016 until 2017 | 2,268,327 |
| Bank of America (corresponds to US$40,000) | Loan | Unsecured | 2.90 % | 2016 until 2017 | 1,890,272 |
| U. S. Century (corresponds to US$5,000) | Loan | Unsecured | 2.50 % | 2017 | 236,284 |
| Deutsche Bank (corresponds to US$105,000) | Loan | Unsecured | 2.67 % until 2.73 % | 2017 | 4,961,964 |
| Bac Florida Bank (corresponds to US$5,000) | Loan | Unsecured | 2.71 % | 2017 | 236,284 |
| Cost of debt commissions (a) | | | | | (29,391) |
| | | | | | 28,106,418 |
| Interest payable (includes US$6,444) | | | | | 304,562 |
| | | | | | **RD$ 29,860,980** |

(Continues)

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| Borrower | Type | Collateral | Rate | Maturity | Balance |
|---|---|---|---|---|---|
| **December 31, 2016** | | | | | |
| Domestic financial institutions: | | | | | |
| Banco Popular Dominicano, S. A. Banco Múltiple (includes US$2,507) | Line of credit | Secured | 3.50 % until 10.00 % | 2019 | RD$ 1,223,409 |
| Banco Múltiple BHD León, S. A. | Line of credit | Secured | 10.00 % | 2017 | 500,000 |
| Asociación Popular de Ahorros y Préstamos | Line of credit | Secured | 11.50 % | 2017 | 250,000 |
| | | | | | 1,973,409 |
| Foreign financial institutions: | | | | | |
| Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US$146,000) | Line of credit | Unsecured | 2.30 % until 2.95 % | 2017 | 6,806,097 |
| Citibank, N. A. (corresponds to US$139,000) | Line of credit | Unsecured | 1.57 % until 2.52 % | 2017 | 6,479,777 |
| Banco Interamericano de Desarrollo, BID, (corresponds to US$180,000) | Loan | Unsecured | 2.70 % until 3.40 % | 2017 | 8,391,078 |
| Eximbank, Republic of China Taiwán (corresponds to US$438) | Loan | Unsecured | 1.61 % until 2.04 % | 2017 | 20,427 |
| Sumitomo Mitsui Banking Corp. (corresponds to US$19,000) | Loan | Unsecured | 2.75 % until 3.06 % | 2017 | 885,725 |
| Wells Fargo Bank (corresponds to US$98,000) | Loan | Unsecured | 2.17 % until 2.61 % | 2017 | 4,568,476 |
| Mercantil Commerce Bank (corresponds to US$48,000) | Loan | Unsecured | 2.65 % | 2017 | 2,237,621 |
| Bank of America (corresponds to US$40,000) | Loan | Unsecured | 2.92 % | 2017 | 1,864,684 |
| U. S. Century (corresponds to US$7,500) | Loan | Unsecured | 2.50 % | 2017 | 349,628 |
| Deutsche Bank (corresponds to US$105,000) | Loan | Unsecured | 2.67 % until 2.73 % | 2017 | 4,894,795 |
| Cost of debt commissions (a) | | | | | (45,980) |
| | | | | | 36,452,328 |
| Interest payable (includes US$7,420) | | | | | 349,307 |
| | | | | | **RD$** 38,775,044 |

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

(Continues)

## 19 Outstanding securities

A summary of outstanding securities, is as follows:

a) By type

| | Local currency RD$ | Annual weighted average rate |
|---|---|---|
| **March 31, 2017** | | |
| Time certificates | **118,429,860** | **7.98 %** |
| **December 31, 2016** | | |
| Time certificates | **124,448,151** | **8.08 %** |

b) By sector

| | | |
|---|---|---|
| **March 31, 2017** | | |
| Non-financial public sector | 21,241,440 | 8.21 % |
| Non-financial private sector | 79,413,823 | 7.47 % |
| Financial Sector | 17,774,587 | 9.95 % |
| Non-resident | 10 | 5.00 % |
| | **118,429,860** | **7.98 %** |
| **December 31, 2016** | | |
| Non-financial public sector | 18,575,574 | 7.71 % |
| Non-financial private sector | 77,378,887 | 7.52 % |
| Financial Sector | 28,493,680 | 9.72 % |
| Non-resident | 10 | 5.00 % |
| | **124,448,151** | **8.08 %** |

(Continues)

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c) By maturity date

| | Local currency RD$ | Annual weighted average rate |
|---|---|---|
| **March 31, 2017** | | |
| 0 to 15 days | 6,997,356 | 8.19 % |
| 16 to 30 days | 16,195,428 | 8.86 % |
| 31 to 60 days | 21,849,717 | 8.80 % |
| 61 to 90 days | 15,134,594 | 7.43 % |
| 91 to 180 days | 25,400,572 | 7.72 % |
| 181 to 360 days | 23,587,652 | 7.38 % |
| More than a year | 9,264,541 | 7.52 % |
| | **118,429,860** | **7.98 %** |
| **December 31, 2016** | | |
| 0 to 15 days | 12,498,962 | 8.21 % |
| 16 to 30 days | 20,370,802 | 8.35 % |
| 31 to 60 days | 23,194,676 | 8.75 % |
| 61 to 90 days | 20,918,082 | 8.87 % |
| 91 to 180 days | 22,239,336 | 7.51 % |
| 181 to 360 days | 16,464,729 | 6.83 % |
| More than a year | 8,761,564 | 7.35 % |
| | **124,448,151** | **8.08 %** |

At March 31, 2017 and December 31, 2016, outstanding securities include restricted amounts, as follows:

| | | Deceased clients | Received in collateral | Total |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Outstanding securities - time certificates | RD$ | 376,317 | 7,795,806 | 8,172,123 |
| **December 31, 2016** | | | | |
| Outstanding securities - time certificates | RD$ | 358,139 | 7,415,885 | 7,774,024 |

(Continues)

## 20 Other liabilities

A summary of other liabilities is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Demand obligations (includes US$135 in 2017 and US$359 in 2016) (a) | RD$ | 670,699 | 671,811 |
| Term obligations (includes US$63,633 in 2017 and US$52,396 in 2016) (b) | | 3,600,275 | 3,043,694 |
| Differential by position of future contracts | | 13 | 13 |
| Unclaimed third party balances (includes US$546 in 2017 and US$218 in 2016) | | 126,802 | 105,675 |
| Sundry creditors: | | | |
| Commissions payable | | 63,559 | 57,186 |
| Accounts payables to suppliers (includes (US$924 in 2017 and US$146 in 2016) | | 569,831 | 179,949 |
| Withheld tax payable | | 78,717 | 89,216 |
| Retained payable insurance premium (includes US$11 in 2017) | | 235,553 | 108,922 |
| Other sundry creditors (includes US$102 in 2017 and US$103 in 2016) (c) | | 491,017 | 848,971 |
| Reserves for contingent operations (includes US$2,440 in 2017 and US$2,657 in 2016) (d) | | 210,497 | 212,372 |
| Other provisions: | | | |
| Income tax | | 343,655 | 19,029 |
| Provision for litigation | | 93,693 | 105,673 |
| Bonus and other employee's benefits | | 881,721 | 2,550,766 |
| Systemic risk prevention program | | 141,904 | 148,512 |
| contingency fund | | 69,475 | 99,511 |
| Accrued expenses payable | | 5,611 | 124,304 |
| Credit card and electronic transactions | | 156,820 | 137,816 |
| Extraordinary contributions to pension plan | | 20,194 | 60,582 |
| Other reserves (includes US$56 in 2017 and US$66 in 2016) | | 728,361 | 121,797 |
| Items pending for allocation (includes US$398 in 2016 and US$395 in 2016) (e) | | 69,793 | 241,567 |
| Administration fund of the public sector | | 149,707 | 24,453 |
| Commissions to agents on premiums pending payment (includes US$1,185 in 2017 and US$1,256 in 2016) | | 216,649 | 168,156 |
| Tax on outstanding premium | | 273,377 | 197,710 |
| Withholding tax to reinsurers | | 14,720 | 9,813 |
| Payments received in advance | | 91,240 | 89,560 |
| Others | | 815,586 | 652,020 |
| | **RD$** | **10,119,469** | **10,069,078** |

(Continues)

(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.

(c) At March31, 2017 and December 31, 2016, includes RD$47,628 and RD$484,039, 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 15).

(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.

## 21 Subordinated debts

A summary of the subordinated debts, is as follows:

| Type | Amount in RD$ | Effective interest rate | Type of currency | Term |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Subordinated debts (corresponds to US$300,000 nominal value (a) | 14,177,040 | 7.12 % | US$ | 10 years |
| Subordinated debts nominal value (b) | 9,999,000 | 10.20 % | RD$ | 10 years |
| Debt issuance costs (c) | (165,137) | - | - | - |
| Discount on the issuance of the debt corresponds to (US$1,748) (d) | (82,616) | - | - | - |
| | 23,928,287 | | | |
| Interest payable (corresponds to US$3,500) | 425,289 | | | |
| | **24,353,576** | | | |

(Continues)

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| Type | Amount in RD$ | Effective interest rate | Type of currency | Term |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Subordinated debts (corresponds to US$300,000 nominal value (a) | 13,985,130 | 7.12 % | US$ | 10 years |
| Subordinated debts nominal value (b) | 9,999,000 | 10.20 % | RD$ | 10 years |
| Debt issuance costs (c) | (171,538) | - | - | - |
| Discount on the issuance of the debt corresponds to (US$1,808) (d) | (84,282) | - | - | - |
| | 23,728,310 | | | |
| Interest payable (corresponds to US$8,750) | 416,283 | | | |
| | **24,144,593** | | | |

a) Corresponds to bonds issued by the Bank on February 1st, 2013, for a nominal value of US$300,000. This debt generates a nominal interest of 7 % annually and has an original maturity of 10 years until February 1st, 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:

- Interest are payable semi-annually on February and August 1st, 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, 2015, for a nominal value of RD$10,000,000. The amount placed corresponds to two issuances offered simultaneously of 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.

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.

(Continues)

c) Relates to costs incurred when issuing bonds, which are deferred and amortized over the straight-line basis during the term of the bonds.

d) Relates to discounts awarded for the issue of bonds, which are amortized over the straight-line basis during the term of the bonds.

## 22 Technical reserves

The subsidiaries Seguros Reservas, S. A. (previously Seguros Banreservas, S. A.) and Administradora de Riesgos de Salud Reservas, Inc. maintain ongoing specific mathematical risk reserves to meet commitments arisign from the current insurance policies, which amounte to RD$3,044,403 and RD$2,947,010 at March 31, 2017 and December 31, 2016, respectively.

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

| | | Mathematical reserves | Specific reserves and ongoing risk | Total |
|---|---|---|---|---|
| **2017** | | | | |
| Balance at January 1st, 2017 | RD$ | 145,943 | 2,801,067 | 2,947,010 |
| Plus: reserve increase | | 143,538 | 2,674,587 | 2,818,125 |
| Less: reserve decrease | | (138,148) | (2,582,584) | (2,720,732) |
| Balance at March 31, 2017 | **RD$** | **151,333** | **2,893,070** | **3,044,403** |
| **2016** | | | | |
| Balance at January 1st, 2016 | RD$ | 140,019 | 2,524,397 | 2,664,416 |
| Plus: reserve increase | | 140,474 | 2,732,627 | 2,873,101 |
| Less: reserve decrease | | (134,550) | (2,455,957) | (2,590,507) |
| Balance at December 31, 2016 | **RD$** | **145,943** | **2,801,067** | **2,947,010** |

## 23 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.

(Continues)

Income tax expense for the three month periods ended as of March 31, 2017 and 2016, is composed of the following:

| | | 2017 | 2016 |
|---|---|---|---|
| Current income tax | RD$ | 135,395 | 187,512 |
| Deferred | | (6,177) | - |
| Tax expense for participation | | - | 9,583 |
| | **RD$** | **129,218** | **197,095** |

## 24 Responsibilities

In addition to the obligation balances of insured risks retained, at March 31, 2017 and December 31, 2016 for RD$715,892,290 and RD$701,334,489, respectively, the subsidiaries Seguros Reservas, S. A. (previously Seguros Banreservas, S. A.) and Administradora de Riesgos de Salud Reservas, Inc. recognize memorandum accounts for salvages warehouse amounting to RD$19,636 and RD$13,122 in 2017 and 2016.

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

| | | 2017 | 2016 |
|---|---|---|---|
| Responsibilities for insurance businesses and bonds taken directly | RD$ | 715,892,290 | 701,334,489 |
| Surrendered and retracted insurance responsibilities | | (502,083,837) | (485,181,289) |
| | **RD$** | **213,808,453** | **216,153,200** |

## 25 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 are the following:

| March 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|
| Reinsurer | Class of contract | Participation (%) | Reinsurer | Class of contract | Participation (%) |
| Suiza | Surplus | 12.5 | Suiza | Surplus | 10 until 25 |
| | Cuota parte | 65 hasta 100 | | Quota share | 60 until100 |
| Korean GC | Surplus | 5 until 6 | Korean GC | Surplus | 5 until 10 |
| | Quota share | 10.00 | | Quota share | 10.00 |
| Trans. RE Mallen | Surplus | 15 until 25 | Trans. RE Mallen | Surplus | 15 until 25 |
| | Quota share | 15.00 | | Quota share | 15.00 |
| Hannover XL | Excedente | 5 hasta 70 | Hannover XL | Surplus | 5.00 |
| | | 5 | | Quota share | 70 until 100 |
| Thompson Health | Surplus | 2 until 22 | Thompson Health | Surplus | 2 until 22 |
| | Quota share | 5.00 | | Quota share | 5.00 |
| National Borg | Quota share | 5.00 | National Borg | Quota share | 5.00 |

(Continues)

| March 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|
| Everest-BMS | Surplus | 30 until 35 | Everest-BMS | Surplus | 25 until 40 |
| | 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 | 3.00 | Navigators-BMS | Surplus | 3.00 |
| | Quota share | 8.00 | | Quota share | 8.00 |
| Arch Re. | Quota share | 15 until 80 | Arch Re. | Quota share | 15 until 80 |
| Awac-BMS | Surplus | 2 until 3 | Awac-BMS | Surplus | 2 until 3 |
| Siruis-BMS | Surplus | 3.5 until 5 | Siruis-BMS | Surplus | 3.5 until 5 |

## 26 Equity

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

| | Common shares | | | |
|---|---|---|---|---|
| | Authorized | | Issued | |
| | Quantity | Amount in RD$ | Quantity | Amount in RD$ |
| Balance at March 31, 2017 and December 31, 2016 | **10,000** | **10,000,000** | **10,000** | **10,000,000** |

At March 31, 2017, the capital contributions of the Bank have arisen as follows:

The Bank’s equity contributions are as follows:

a) Initial capital of RD$50,000 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) 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 issued RD$1,750,000 certified bonds in favor of the Bank.

d) In accordance with Law No. 121-05 of April 7, 2005, the Dominican Republic Government issued RD$1,500,000 bonds in favor of the Bank.

e) In accordance with the Law No. 543-14 of December 5, 2014, RD$2,000,000 by reinvesting dividends to be charged to earnings generated in 2013.

f) RD$2,800,000, by reinvesting dividends to earnings generated in 2015, in accordance with the Law No. 543-14 of December 5, 2014.

g) RD$1,700,000 through the reinvestment of dividends to the profits generated in 2015, pursuant to Law No. 543-14 of December 5, 2014.

(Continues)

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 Branch.

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.

By the 12th (fourteenth) Resolution of the Ordinary Session dated January 31, 2017, 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$2,953,826, as detailed below:

i) RD$2,153,620 transferred to equity reserve. This transfer was done effectively as of December 31, 2016.
ii) RD$75,000 to amortize the National Treasury vouchers Law 99-01.
iii) RD$2,250 to offset interest of the National Treasury vouchers Law 99-01.
iv) RD$722,956 to offset debts of the Dominican Republic State with the Bank.

By the 12th (Twelfth) Resolution of the Ordinary Session dated February 9, 2016, 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$6,111,346, as detailed below:

i) RD$2,135,072 transferred to equity reserve. This transfer was done effectively as of December 31, 2015.
ii) RD$1,275,294 cash dividends to be paid to the Dominican Republic State.
iii) RD$1,700,000 for payment of dividends in shares.
iv) RD$75,000 to amortize the National Treasury vouchers Law 99-01.
v) RD$3,000 to offset interest of the National Treasury vouchers Law 99-01.
vi) RD$922,980 to offset debts of the Dominican Republic State with the Bank.

***Increase in authorized and paid-in capital***

Pursuant to Law No. 543-14 dated December 5, 2014, during the year ended December 31, 2016, the Bank increased authorized, subscribed and paid-in capital from RD$8,300,000, equivalent to 8,300 common shares to RD$10,000,000, equivalent to 10,000 common shares in 2016.

(Continues)

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***Other equity reserves***

In accordance with the Bank's organic law, the Bank must segregate 35 % of its annual net income to equity reserves. As of December 31, 2016, the Bank segregated equity reserves for the amount of RD$2,153,620.

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 income as other equity reserves, provided the Bank is in compliance with the guidelines for distribution of profits as set forth by the supervisory body.

***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.

## 27 Information segments

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

| Segment | Company | Jurisdiction | Functional currency | Equity shares | Percentage of voting rights direct and Indirect |
|---|---|---|---|---|---|
| **March 31, 2017** | | | | | |
| Financial | Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples | Dominican Republic | RD$ | 10,000,000 | 100 % |
| Related services | Tenedora Banreservas, S. A. and Subsidiaries | Dominican Republic | RD$ | 1,551,434 | 97.74 % |
| | | | | 11,551,434 | |
| | Elimination on consolidation adjustment | | | (1,551,434) | |
| | | | | **10,000,000** | |

(Continues)

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**December 31, 2016**

| | | | | | |
|---|---|---|---|---|---|
| Financial | Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples | Dominican Republic | RD$ | 10,000,000 | 100 % |
| Related services | Tenedora Banreservas, S. A. and Subsidiaries | Dominican Republic | RD$ | 1,551,434 | 97.74 % |
| | | | | 11,551,434 | |
| | Elimination on consolidation adjustment | | | (1,551,434) | |
| | | | | **10,000,000** | |

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

| | | At March 31, 2017 | | Three month period ended at March 31, 2017 | | |
|---|---|---|---|---|---|---|
| Company | | Assets | Liabilities | Income | Expenses | Net income |
| Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples | RD$ | 427,697,078 | 397,333,090 | 12,989,311 | 11,430,890 | 1,558,421 |
| Tenedora Banreservas, S. A. and Subsidiaries | | 14,618,585 | 8,086,620 | 2,587,304 | 2,271,343 | 315,961 |
| Administradora de Riesgos de Salud Reservas, Inc. | | 427,088 | 109,707 | 180,726 | 173,932 | 6,794 |
| | | 442,742,751 | 405,529,417 | 15,757,341 | 13,876,165 | 1,881,176 |
| Elimination on consolidation adjustment | | (8,035,478) | (1,367,883) | (794,057) | (480,373) | (313,684) |
| | **RD$** | **434,707,273** | **404,161,534** | **14,963,284** | **13,395,792** | **1,567,492** |

| | | At December 31, 2016 | | Three month period ended at March 31, 2016 | | |
|---|---|---|---|---|---|---|
| Company | | Assets | Liabilities | Income | Expenses | Net income |
| Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples | RD$ | 451,072,673 | 421,466,900 | 12,123,277 | 10,586,077 | 1,537,200 |
| Tenedora Banreservas, S. A. and Subsidiaries | | 14,357,520 | 8,141,821 | 2,409,301 | 2,139,926 | 269,375 |
| Administradora de Riesgos de Salud Reservas, Inc. | | 410,744 | 100,157 | 162,143 | 158,370 | 3,773 |
| | | 465,840,937 | 429,708,878 | 14,694,721 | 12,884,373 | 1,810,348 |
| Elimination on consolidation adjustment | | (9,514,164) | (3,160,558) | (720,861) | (455,820) | (265,041) |
| | **RD$** | **456,326,773** | **426,548,320** | **13,973,860** | **12,428,553** | **1,545,307** |

(Continues)

## 28 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 financial statements. The most important balances of these commitments and contingent liabilities include:

| | | March 31 2017 | December 31 2016 |
|---|---|---|---|
| Collaterals granted: | | | |
| Endorsements | RD$ | 3,091,127 | 2,969,145 |
| Other collaterals granted | | 26,915 | 44,091 |
| Non-negotiable letters of credit issued | | 336,411 | 575,939 |
| Credit lines of automatic use | | 19,120,013 | 16,065,672 |
| | **RD$** | **22,574,466** | **19,654,847** |

At March 31, 2017 and December 31, 2016, the Bank has reserves to cover possible losses from these operations for the amounts of RD$210,497 and RD$212,372, respectively.

At March 31, 2017 and December 31, 2016, the Insurance subsidiary and the ARS had contingent liabilities for retained risk, estimated as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| General risks | RD$ | 657,040,785 | 632,409,476 |
| Individual life insurance | | 11,830,160 | 10,798,158 |
| Collective life insurance | | 47,021,345 | 58,126,855 |
| | **RD$** | **715,892,290** | **701,334,489** |

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 lease contracts for the premises where some of its administrative offices, branches, business centers and ATM are located. For the three month periods ended March 31, 2017 and 2016, expenses for this concept amounted to approximately RD$186,682 and RD$162,588, respectively, which are recognized in other operating expenses in the accompanying consolidated income statements.

### (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 three month periods ended March 31, 2017 and 2016, was approximately RD$197,800 and RD$183,000, respectively, and has been recognized in other operating expenses in the accompanying consolidated statements.

(Continues)

**(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 three month periods ended March 31, 2017 and 2016, were approximately and RD$69,489 RD$81,702, respectively, and are recognized in other operating expenses in the accompanying consolidated statements.

**(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 three month periods ended March 31, 2017 and 2016, was approximately RD$141,904 and RD$163,352, respectively, and are recognized in the line item of other operating expenses in the accompanying consolidated statements.

**(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 card 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 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**

At March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, the amount reserved to meet these claims increased to RD$93,693 and RD$105,673, 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. (previously Seguros Banreservas, 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. (previously Seguros Banreservas, S. A.) has received insurance claims for catastrophes that arose in the normal course of business, which have occurred at December 31, 2016. 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.

**(i) Guaranteed minimum return**

As of March 31, 2017 and December 31, 2016, 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 *Admistradora* would have a payment commitment with the fund.

## 29 Memorandum accounts

As of March 31, 2017 and December 31, 2016, Memorandum accounts presented in the Bank's consolidated balance sheet consist of:

| | | 2017 | 2016 |
|---|---|---|---|
| Funds under management by the Bank: | | | |
| PROMIPYME Resources | RD$ | 2,530,191 | 2,482,231 |
| PROMIPYME - PROCREA | | 265 | 303 |
| SEH - PETROCARIBE Resources | | 61 | 61 |
| PROMICENTRAL | | 109,875 | 113,833 |
| PROMIPYME - Fonper funds | | 64,125 | 60,717 |
| PROMIPYME - PRESAAC loans | | 1,010 | 1,045 |
| MI PRIMER PROGRESO loans | | 13,272 | 13,463 |
| MI PRODEMICRO loans | | 282,322 | 279,348 |
| Solidarity Bank | | 1,883,809 | 1,905,363 |
| D and E loans from BNV | | 311,993 | 315,172 |
| | **RD$** | 5,196,923 | 5,171,536 |

(Continues)

| | | 2017 | 2016 |
|---|---|---|---|
| Funds managed by the subsidiary - Pension Fund Management: | | | |
| Mandatory individual capitalization pension plan (Pension Fund T-1) | RD$ | 61,195,750 | 58,598,845 |
| Pension fund of officers and employees of Banco de Reservas of the Dominican Republic (Pension Fund T-4) | | 11,508,102 | 11,207,070 |
| Social solidary fund (Pension Fund T-5) | | 24,479,840 | 23,468,234 |
| | | 97,183,692 | 93,274,149 |
| | **RD$** | **102,380,615** | **98,445,685** |

## 30 Financial income and expenses

A summary of financial income and expenses is as follows:

| | | Three month periods ended at March 31, 2017 | 2016 |
|---|---|---|---|
| Financial income: | | | |
| Loans portfolio: | | | |
| Commercial | RD$ | 5,408,134 | 5,424,044 |
| Consumers | | 2,320,565 | 2,129,681 |
| Mortgage | | 822,016 | 791,983 |
| | | 8,550,715 | 8,345,708 |
| Investments: | | | |
| Other debt securities | | 1,654,444 | 1,415,894 |
| Gain on sale of investments | | 684,034 | 420,793 |
| Insurance premiums net of returns and cancelations | | 1,514,643 | 1,448,592 |
| **Total** | **RD$** | **12,403,836** | **11,630,987** |
| Financial expenses-on deposits: | | | |
| Customer deposits | RD$ | (654,727) | (605,395) |
| Securities | | (2,647,195) | (2,030,049) |
| Subordinated debts | | (531,413) | (521,380) |
| | | (3,833,335) | (3,156,824) |
| Financing-borrowed funds | | (332,428) | (225,056) |

(Continues)

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| | | 2017 | 2016 |
|---|---|---|---|
| Investments: | | | |
| Amortization of premiums from investments in debt securities | | (64,086) | (48,951) |
| Loss on sale of investments | | (1) | (475) |
| | | (64,087) | (49,426) |
| Reinsurance: | | | |
| Reinsurance costs | | (537,090) | (550,745) |
| Contratual losses and obligations | | (578,120) | (467,410) |
| | | (1,115,210) | (1,018,155) |
| Expenses for technical adjustment to reserves | | (35,543) | (41,107) |
| Acquisition expense, conservation and premium collection - commission and other acquisition costs of the insurance company | | (155,961) | (143,929) |
| Total | **RD$** | **(5,536,564)** | **(4,634,497)** |

## 31 Income (expense) for exchange differences

A summary of the main income and expenses due to exchange differences were recognized during the three month periods ended at March 31, 2017 and 2016, is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Income due to foreign exchange: | | | |
| Loan portfolio | RD$ | 1,624,157 | 8,331,810 |
| Investments | | 408,749 | 374,337 |
| Available funds | | 3,577,596 | 5,629,439 |
| Accounts receivable | | 2,862 | 1,368 |
| Non-financial investments | | 858 | 550 |
| Other assets | | 61,872 | 74,893 |
| Adjustments for exchange rate differences | | 1,299,823 | 4,155,985 |
| Subtotal | | 6,975,917 | 18,568,382 |
| Expenses due to foreign exchange: | | | |
| Customer deposits | | (2,093,378) | (2,143,534) |
| Borrowed funds | | (742,535) | (470,345) |
| Financial obligations | | (94,359) | (160,612) |
| Subordinated debts | | (299,154) | (191,389) |
| Creditors and various provisions | | (2,984) | (2,832) |
| Other liabilities | | (40,947) | (1,438,313) |

(Continues)

| | | 2017 | 2016 |
|---|---|---|---|
| Adjustments for exchange rate differences | | (3,732,112) | (14,197,358) |
| Subtotal | | (7,005,469) | (18,604,383) |
| | **RD$** | **(29,552)** | **(36,001)** |

## 32 Other operating income (expense)

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

| | | 2017 | 2016 |
|---|---|---|---|
| Other operating income: | | | |
| Credit Cards | RD$ | 368,280 | 254,693 |
| Service fees: | | | |
| Drafts and wire transfers | | 50,960 | 39,594 |
| Certification and sales of bank's checks | | 6,468 | 6,709 |
| Collections | | 11,314 | 6,760 |
| Other commissions collected | | 1,070,701 | 790,646 |
| Letters of credit | | 4,671 | 22,004 |
| Collaterals granted | | 4,754 | 13,700 |
| | | 1,148,868 | 879,413 |
| Exchange commissions: | | | |
| Gains on foreign exchange | | 310,710 | 355,079 |
| Premium for future foreign exchange contracts | | 95,408 | 7,772 |
| | | 406,118 | 362,851 |
| Income on available funds | | 35,404 | 6,580 |
| Other miscellaneous operating expenses: | | | |
| Claims for medical services | | 173,189 | 155,345 |
| Other services and contingenies | | 262,573 | 258,466 |
| | | 471,166 | 420,391 |
| Total of other operating income | **RD$** | **2,394,432** | **1,917,348** |
| Other operating expenses: | | | |
| Services fees: | | | |
| Correspondents | RD$ | (8,724) | (6,945) |
| Other services | | (77,875) | (65,522) |
| | | (86,599) | (72,467) |

(Continues)

| | | 2017 | 2016 |
|---|---|---|---|
| Miscellaneous expenses: | | | |
| Exchange commission | | (48,504) | (1,809) |
| Other operating expenses | | (278,154) | (274,083) |
| Commisions and sales of property | | (310) | (12,707) |
| Claims for medical services | | (167,398) | (148,244) |
| | | (494,366) | (436,843) |
| Total of other operating expenses | **RD$** | **(580,965)** | **(509,310)** |

## 33 Other income (expenses)

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

| | | 2017 | 2016 |
|---|---|---|---|
| Other income: | | | |
| Recovery of written off assets | RD$ | 67,249 | 81,406 |
| Decrease of allowance for risky assets | | - | 222,682 |
| Non-financial investments | | 2,338 | 3,005 |
| Gain on sale of property, furniture and equipment | | 3,636 | 1,033 |
| Gain on sales of assets received in loan settlement | | 3,240 | 1,360 |
| Leases of property | | 17,029 | 19,342 |
| Others | | 68,162 | 94,572 |
| | | 161,654 | 423,400 |
| Other expenses: | | | |
| Assets received in loan settlements | | (19,330) | (19,083) |
| Loss on sale of property, furniture and equipment | | (1,484) | (77) |
| Loss on sales of assets received in loan settlement | | (614) | (3,041) |
| Other expenses: | | | |
| Accounts receivable | | (56) | (256) |
| Penalty for breach | | (216) | (256) |
| Donations | | (50,400) | (24,236) |
| Losses from thefts, assaults and frauds | | (7,999) | (7,237) |
| Others | | (447,611) | (184,813) |
| | | (527,710) | (238,999) |
| Other income, net | **RD$** | **(366,056)** | **184,401** |

(Continues)

## 34 Salaries and compensations to personnel

A summary of salaries and compensations to personnel is as follows:

| | | Three month periods ended at March 31, | |
|---|---|---|---|
| | | 2017 | 2016 |
| Wages, salaries and benefits to employees | RD$ | 2,230,938 | 2,129,963 |
| Social security | | 210,051 | 189,434 |
| Contributions to the pension plan | | 281,290 | 284,265 |
| Other personnel expenses | | 1,079,503 | 993,983 |
| | **RD$** | **3,801,782** | **3,597,645** |

At of March 31, 2017 and 2016, compensations to personnel include approximately RD$868,781 and RD$668,063, respectively, that corresponds to the executive management of the Bank which are defined as directors and above.

At March 31, 2017 and 2016, the Bank has approximately 11,886 and 11,464 employees, respectively.

## 35 Risk assessment

A summary of assets and liabilities subject to the interest rates risks at March 31, 2017 and December 31, 2016, is as follows:

***Interest rate risk***

| | | At March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | | Local currency | Foreign currency | Local currency | Foreign currency |
| Assets sensitive to interest rate | RD$ | 203,104,599 | 75,137,253 | 208,471,126 | 98,443,494 |
| Liabilities sensitive to interest rate | | (246,885,742) | (139,454,865) | (255,954,912) | (154,294,248) |
| Net position | **RD$** | **(43,781,143)** | **(64,317,612)** | **(47,483,786)** | **(55,850,754)** |
| Interest rate exposure | **RD$** | **96,900** | **850,376** | **39,536** | **997,801** |

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.

(Continues)

## *Liquidity risk*

A summary of the most significant assets and liabilities according to their maturity date as of March 31, 2017 and December 31, 2016, 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 |
|---|---|---|---|---|---|---|---|
| **March 31, 2017** | | | | | | | |
| Assets: | | | | | | | |
| Available funds | RD$ | 83,655,414 | - | - | - | - | 83,655,414 |
| Investments | | 17,699,327 | 1,080,047 | 15,158,258 | 21,466,154 | 20,541,747 | 75,945,533 |
| Loans portfolio | | 12,852,582 | 37,984,708 | 77,927,184 | 70,797,035 | 51,010,872 | 250,572,381 |
| Debtors by acceptances | | 6,638 | 484,943 | 2,413,884 | - | - | 2,905,465 |
| Accounts receivable | | 4,310,339 | - | - | - | 147,699 | 4,458,038 |
| Investments in shares | | - | - | - | - | 1,003,486 | 1,003,486 |
| Other assets (i) | | 847,478 | 2,617,720 | - | - | 44,267 | 3,509,465 |
| Total assets | **RD$** | **119,371,778** | **42,167,418** | **95,499,326** | **92,263,189** | **72,748,071** | **422,049,782** |
| Liabilities: | | | | | | | |
| Customers' deposits | RD$ | 171,665,686 | 11,885,501 | 17,553,514 | 3,759,266 | 2,813,154 | 207,677,121 |
| Deposits from domestic and foreign financial institutions | | 6,031,967 | 260,026 | 257,393 | 87,603 | 108,213 | 6,745,202 |
| Borrowed funds | | 8,101,800 | 9,332,829 | 10,976,351 | 1,450,000 | - | 29,860,980 |
| Outstanding acceptances | | 6,638 | 484,943 | 2,413,884 | - | - | 2,905,465 |
| Outstanding securities | | 23,396,954 | 37,026,382 | 48,741,983 | 9,264,541 | - | 118,429,860 |
| Other liabilities (ii) | | 1,778,609 | 12 | 5,912,920 | 287,667 | 2,140,261 | 10,119,469 |
| Subordinated debt | | - | 425,289 | - | - | 23,928,287 | 24,353,576 |
| Total liabilities | **RD$** | **210,981,654** | **59,414,982** | **85,856,045** | **14,849,077** | **28,989,915** | **400,091,673** |
| **December 31, 2016** | | | | | | | |
| Assets: | | | | | | | |
| Available funds | RD$ | 84,595,641 | - | - | - | - | 84,595,641 |
| Investments | | 3,018,847 | 6,877,157 | 9,798,822 | 13,182,756 | 28,083,503 | 60,961,085 |
| Loans portfolio | | 42,334,694 | 19,433,248 | 104,941,876 | 70,923,966 | 50,077,234 | 287,711,018 |
| Debtors by acceptances | | 325,754 | 150,888 | 2,249,560 | - | - | 2,726,202 |
| Accounts receivable | | 3,551,977 | - | - | - | 113,241 | 3,665,218 |
| Investments in shares | | - | - | - | - | 1,002,937 | 1,002,937 |
| Other assets (i) | | 838,709 | 2,386,664 | - | - | 35,940 | 3,261,313 |
| Total assets | **RD$** | **134,665,622** | **28,847,957** | **116,990,258** | **84,106,722** | **79,312,855** | **443,923,414** |
| Liabilities: | | | | | | | |
| Customers' deposits | RD$ | 165,461,107 | 10,848,664 | 19,099,630 | 3,826,693 | 2,746,472 | 201,982,566 |
| Deposits from domestic and foreign financial institutions | | 19,591,181 | 115,553 | 178,975 | 99,501 | 144,138 | 20,129,348 |
| Borrowed funds | | 3,133,033 | 9,900,059 | 22,870,026 | 2,871,926 | - | 38,775,044 |
| Outstanding acceptances | | 325,754 | 150,888 | 2,249,560 | - | - | 2,726,202 |
| Outstanding securities | | 33,881,539 | 45,099,760 | 36,625,826 | 8,841,026 | - | 124,448,151 |
| Other liabilities (ii) | | 2,095,647 | 12 | 4,567,917 | 141,134 | 3,264,368 | 10,069,078 |
| Subordinated debt | | - | 407,900 | 8,384 | - | 23,728,309 | 24,144,593 |
| Total liabilities | **RD$** | **224,488,261** | **66,522,836** | **85,600,318** | **15,780,280** | **29,883,287** | **422,274,982** |

(Continues)

(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 at March 31, 2017 and December 31, 2016, is as follows:

| | As of March 31, 2017 | | As of December 31, 2016 | |
|---|---|---|---|---|
| | In local currency | In foreign currency | In local currency | In foreign currency |
| Liquidity ratio: | | | | |
| 15 days adjusted | 82.93 % | 159.52 % | 104.61 % | 313.03 % |
| 30 days adjusted | 193.41 % | 138.23 % | 165.96 % | 286.89 % |
| 60 days adjusted | 181.86 % | 117.37 % | 223.49 % | 210.69 % |
| 90 days adjusted | 312.18 % | 108.96 % | 234.52 % | 181.70 % |
| Position: | | | | |
| 15 days adjusted | (2,333,630) | 249,321 | 637,367 | 772,334 |
| 30 days adjusted | 13,597,589 | 204,565 | 10,071,453 | 767,486 |
| 60 days adjusted | 14,792,334 | 118,346 | 23,090,108 | 652,634 |
| 90 days adjusted | 41,299,388 | 68,730 | 26,472,979 | 576,008 |
| Global (months) | (41.71) % | (21.77) % | (44.24) % | (23.08) % |

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 %. At March 31, 2017 and December 31, 2016, the liquidity ratios maintained by the Bank are higher than required.

## 36 Fair value of financial instruments

A summary of the fair value of financial instruments at March 31, 2017 and December 31, 2016, is as follows:

| | | At March 31, 2017 | | At December 31, 2016 | |
|---|---|---|---|---|---|
| | | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | | |
| Available funds | RD$ | 83,655,414 | 83,655,414 | 84,595,641 | 84,595,641 |
| Investments, net (a) | | 75,703,429 | N/A | 60,715,909 | N/A |
| Loans portfolio, net (a) | | 243,744,255 | N/A | 281,016,422 | N/A |
| Investments in shares, net (b) | | 980,055 | N/A | 980,214 | N/A |
| | **RD$** | **404,083,153** | **83,655,414** | **427,308,186** | **84,595,641** |

(Continues)

| | | At March 31, 2017 | | At December 31, 2016 | |
|---|---|---|---|---|---|
| | | Book value | Fair value | Book value | Fair value |
| Liabilities: | | | | | |
| Customer deposits | RD$ | 207,657,121 | N/A | 201,982,566 | N/A |
| Deposits from domestic and foreign financial institutions | | 6,745,202 | N/A | 20,129,348 | N/A |
| Borrowed funds (a) | | 29,860,980 | N/A | 38,775,044 | N/A |
| Outstanding securities (a) | | 118,429,860 | N/A | 124,448,151 | N/A |
| Subordinated debt | | 24,353,576 | 24,353,576 | 24,144,593 | 23,832,028 |
| | **RD$** | **387,046,739** | **24,353,576** | **409,479,702** | **23,832,028** |

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 may be obtained.

## 37 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 March 31, 2017 and December 31, 2016, are as follows:

| | Current loans | Past due loans | Total | Collaterals |
|---|---|---|---|---|
| **March 31, 2017** | | | | |
| Related to the ownership | 37,904,017 | - | 37,904,017 | 1,498,420 |
| Related to management | 11,763,441 | 158,405 | 11,921,846 | 7,755,891 |
| **December 31, 2016** | | | | |
| Related to the ownership | 67,011,695 | - | 67,011,695 | 31,862 |
| Related to management | 12,311,108 | 36,905 | 12,348,013 | 7,639,665 |

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

(Continues)

As of March 31, 2017 and December 31, 2016, there are credits granted to contractors and suppliers of the Dominican State for approximately RD$37,325 and RD$41,840, respectively, which are guaranteed by the Dominican State and are classified as loans provided to the private sector.

At March 31, 2017 and December 31, 2016, loans related to the management of the Bank includes RD$9,110 million, which were awarded 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.

The main balances and transactions with related parties through ownership for the years ended March 31, 2017 and December 31, 2016, include:

| | | Balance | | Effects on Revenues (Expenses) Three month periods ended at March 31, | |
|---|---|---|---|---|---|
| | | March 31, 2017 | December 31, 2016 | 2017 | 2016 |
| Available funds | RD$ | 68,443,641 | 65,360,065 | - | - |
| Loans portfolio | | 37,904,017 | 67,011,695 | 1,572,446 | 1,800,415 |
| Customers' deposits - checking | | 24,960,443 | 23,819,105 | 34,872 | 52,629 |
| Customers' deposits - saving | | 10,114,411 | 3,487,314 | - | - |
| Other investments in debt securities | | 43,298,553 | 42,883,975 | 1,007,566 | 946,003 |
| Outstanding securities | | 22,176,424 | 16,668,471 | (430,159) | (339,496) |
| Interest receivable | | 1,160,616 | 1,036,172 | - | - |
| Other liabilities | | 403,737 | 391,455 | - | - |

Other transactions with identifiable related parties performed during the periods ended March 31, 2017 and December 31, 2016, include:

| | | Balance | | Effects on Revenues (Expenses) Three month periods ended at March 31, | |
|---|---|---|---|---|---|
| | | March 31, 2017 | December 31, 2016 | 2017 | 2016 |
| Loans portfolio | RD$ | 11,921,846 | 11,843,664 | 130,450 | 112,158 |
| Accounts receivable to officers and employees | | 569,972 | 504,348 | - | - |
| Officers and employees deposits | | 6,694,720 | 6,901,773 | (57,397) | (32,020) |

(Continues)

# 38 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 9th, 2001, which established the Social Security System of the Dominican Republic. Until June 30, 2015, contributions to this plan were 12.5 % of the monthly salaries of officials and employees paid. From July 1st, 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:

| | | 2017 | 2016 |
|---|---|---|---|
| Present value of obligations for past services | RD$ | (11,600,043) | (11,600,043) |
| Net assets of the plan | | 11,207,070 | 11,207,070 |
| **Net position of the plan** | **RD$** | **(392,973)** | **(392,973)** |

The expense recognized during the periods of three month ended at March 31, 2017 and 2016 amounted to RD$262,767 and RD$265,555, respectively, including extraordinary contributions of RD$60,582 for both periods, 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***

At March 31, 2017 and December 31, 2016, the principal actuarial assumptions and other basic information of the plan used in determining the actuarial liabilities, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Mortality table | SIPEN 2011(M-F) | SIPEN 2011 (M-F) |
| Rate of return on assets | 10.40 % | 10.40 % |
| Long- term annual discount rate | 9.00 % | 9.00 % |
| Annual salary increase scale | 8.50 % | 8.50% |
| Long-term annual inflation rate | 5.00 % | 5.00 % |

(Continues)

A summary of the number and amount of current pensions as of March 31, 2017 and December 31, 2016 is as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Number of members | | 1,904 | 1,904 |
| Average retirement age | | 47 | 47 |
| Average monthly salary | RD$ | 77 | 77 |

b) Employees who are affiliated to the Social Security System of the Dominican Republic, created by Law No. 87-01 issued on May 9th, 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.

## 39 Non-monetary transactions

Non-monetary transactions are as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Write off of loan portfolio and interest receivable | RD$ | 457,757 | 1,304,545 |
| Assets received in loan settlements | | 3,792 | 637,650 |
| Transfer between allowance for risky assets: | | | |
| Loan portfolio | | 187,239 | (180,050) |
| Investments | | (2,831) | 21,174 |
| Interest receivable | | (180,908) | 160,909 |
| Assets received in loan settlements | | - | 55,670 |
| Contingencies | | (3,500) | (57,703) |
| Sales of assets received in loan settlements by new credit facilities | | 10,437 | 71,356 |
| Share profit in associated companies | | - | 41,870 |
| Acquisition of loan portfolio of a domestic financial institution: | | | |
| Amortization of National Treasury bonds Law 99-01 | | 75,000 | 75,000 |
| Interest on National Treasurer bonds Law 99-01 | | 2,250 | 3,000 |
| Transfers of net income of the period to other to equity reserves | | - | 2,153,620 |
| Dividends paid in shares | | - | 1,700,000 |
| Dividends paid by offsetting the debt of the Dominican Republic State's institutions: | | | |
| Equity-retained earnigs from | | | |

(Continues)

| | | |
|---|---|---|
| prior periods | 722,956 | 922,980 |

# 40 Other disclousures

## 40.1 Future aplication of accounting standards

Circular SB: No. 006/17 dated May 12, 2017, Modifies the instructions on Formalization, Registration and Control of Guarantees, regarding the incorporation of new admissible guarantees, corresponding to aircraft and renewable energy equipment.

# 41 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 March 31, 2017 and December 31, 2016, 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.
- 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.

(Continues)