

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

Consolidated Financial Statements

December 31, 2017

(With Independent Auditors' Report)

(Free Translation from the Original Spanish-Language Version)



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RNC 1-01025913

Independent Auditors' Report

To the Shareholders of
Banco del Reservas de la República Dominicana,
Banco de Servicios Múltiples:

Opinion

We have audited the consolidated financial statements of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and its subsidiaries (the Bank), which comprise the consolidated balance sheets as at December 31, 2017, and the consolidated income statements, cash flows and statements of changes in equity for the year then ended, and notes to the consolidated financial statements including significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and Subsidiaries as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with accounting practices established by the Superintendencia of Banks of the Dominican Republic, as described in note 2 to the accompanying consolidated financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Accountants of the International Ethics Standards Boards of Accountants (IESBA), together with the ethics requirements issued by the Institute of Certified Public Accountants of the Dominican Republic (ICPARD per its Spanish acronyms), which are applicable to our Audit of the consolidated financial statements in the Dominican Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to notes 1 and 37 to the consolidated financial statements. As at December 31, 2017 and for the year then ended, for its condition of being the Bank of the Dominican Republic State, a significant proportion of assets and liabilities, as well as financial income and expenses, correspond to balances held and transactions performed with entities of the government sector. Our opinion is not modified in respect of this matter.

(Continues)

Key audit matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation and accounting of provisions for the loan portfolio

See notes 2.4.1, 7 and 14, to the accompanying consolidated financial statements.

The key audit matter

The estimation of provisions for the loan portfolio is a key audit matter because it involves significant judgments and analysis by the Bank's management.

The loan portfolio represents 61 % of the Bank's assets. It is classified as: major, medium and minor commercial debtors; mortgage and consumer. Provisions are determined following the criteria established by the Monetary and Financial Authority, which apply to the different types of portfolio, and the failure to correctly apply them could affect the Bank's results, as well as the adequate compliance with the provisions of the regulator.

How the audit matter was addressed in the audit

Our most relevant audit procedures, in relation to the estimation of provisions for the loan portfolio and their corresponding accounting, included the following:

- ◆ We evaluate the relevant controls related to the determination, accounting and disclosure of provisions for loan portfolio.
- ◆ We perform an analysis of relationships, trends and coverage of provisions for loan portfolio.
- ◆ Using a sampling tool, we selected a representative sample of commercial loan portfolio, recalculate the required provision based on the parameters established by current regulations and compare the results obtained with the provisions reported to the Superintendence of Banks and accounted for, in the Consolidated financial statements.
- ◆ We recalculate provisions for consumer and mortgage loan portfolio based on its payment history.
- ◆ We recalculate the aging assigned by the Bank's system and reported to the Superintendence of Banks for all credits.
- ◆ We evaluate that in the applicable cases, the Bank has the proper authorization from the Monetary and Financial Authority to deal specifically with the determination of the provisions and classification of some credits granted in specific sectors of the Dominican economy.

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Change of Banking Core

See note 1 to the accompanying consolidated financial statements.

The key audit matter

During the year ended December 31, 2017, the Bank completed the implementation and put into production a new Core Banking.

The change in the Banking Core led to changes in the Bank's configurations, systems and internal controls, with the aim of making its operations more efficient.

We consider the change of the Core Banking as a key audit matter of the audit due to, it required significant attention during the audit as a result of the effects as a whole in the consolidated financial statements.

How the matter was addressed in the audit

Our most relevant audit procedures to evaluate the significant risks of material errors, in connection with the integrity of the financial information generated by the new Core Banking of the Bank, considered the following factors:

- ◆ Understanding of the important changes in the Bank's operating and financial systems as a result of the implementation of the new Core Banking and identification of the associated relevant controls.
- ◆ Test over the migration of the data from the previous system to the new Banking Core.
- ◆ Operational efficiency tests of the relevant information technology controls related to the previous system to the new Core Banking.
- ◆ Identification of the exceptions occurred during the process of change and analysis of its proper correction.

Mathematical and specific reserves

See notes 2.23 and 21, to the accompanying consolidated financial statements.

The key audit matter

The estimation of mathematical reserves, specifically individual life and disability and survival, as well as specific reserves, is a key audit matter because it involves significant judgments by management.

The calculation is made on the basis of the net premiums for the individual life insurance and on the basis of the survival probabilities for the pension plans according to the type of interest rate and the mortality tables used by the insurance subsidiary. On the other hand, specific reserves represent an important liability in the Bank's balance sheets, which are determined based on estimates of specific losses according to sinister reported.

How the matter was addressed in the audit

Our most relevant audit procedures, in connection with the estimation of mathematical reserves and specific reserves, included the following:

- ◆ We evaluate the relevant controls related to the opening, constitution and payment of insurance claims.
- ◆ We obtain certification from an external actuary, for the review of the provision for disability and survival claims and the mathematical reserves.

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*The key audit matter**How the matter was addressed in the audit*

- ◆ Using a sampling tool, we select a representative sample of the claims pending to be paid and paid during the period, for which we reviewed the basis used for the recognition of the reserve, as well as the approval and authorization by the management.
- ◆ We perform analyzes comparing the subsequent payments made on unpaid reserves at the end of the year, in order to identify significant deviations between the provisions made and the amounts paid.

Other matter

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows of the bank in accordance with the accounting principles of jurisdictions other than of the Dominican Republic. Therefore, the consolidated balance sheets, the consolidated income statements, the consolidated statements of cash flows and the statements of changes in equity and their use are not designed for those who are not informed about the accounting practices and procedures established by the Superintendence of Banks of the Dominican Republic.

Responsibilities of management and those charged with governance of the Bank for the consolidated financial statements

The Bank's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting standards of the Superintendence of Banks of the Dominican Republic, which is an integral basis of accounting different from the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ◆ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ◆ We evaluate the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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We communicate with those charge with the Bank's governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charge with the governance of the Bank with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate all relationships and other matters that may reasonably be thought to bear on our independence and , where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

SB Registration No. A-006-0101

CPA Euclides Reyes O.
ICPARD Registration No. 3616

March 23, 2018

Santo Domingo,
Dominican Republic

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

Consolidated balance sheets

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	At December 31,	
	2017	2016
ASSETS		
Available funds (notes 3, 4, 34, 35 and 36)		
Cash on hand	7,684,018	5,799,089
Central Bank	40,670,203	65,360,065
Local banks	343,780	859,473
Foreing banks	7,713,978	12,189,931
Other funds	2,441,878	386,541
Interests receivable	662	542
	58,854,519	84,595,641
Investments (notes 3, 6, 14, 34, 35, 36 and 38)		
Other investments in debt instruments	89,701,568	59,761,529
Interests receivable	1,265,619	1,199,556
Allowance for investments	(273,010)	(245,176)
	90,694,177	60,715,909
Loans portfolio (notes 3, 7, 14, 34, 35, 36 and 38)		
Current	275,186,946	276,835,893
Restructured	3,769,705	2,888,530
Past due	3,726,844	2,708,098
In legal collection	1,542,689	1,267,408
Interests receivable	7,330,201	4,011,089
Allowance for loans	(8,267,297)	(6,694,596)
	283,289,088	281,016,422
Debtors by acceptances (notes 3, 8 and 34)		
	1,586,461	2,726,202
Accounts receivable (notes 3, 9, 34 and 36)		
Commissions receivable	221,536	34,498
Accounts receivable	1,587,669	1,702,212
Insurance premiums receivable	2,238,340	1,920,121
Receivables from insurance and guarantees	6,688	8,387
	4,054,233	3,665,218
Assets received in loans settlements (notes 10, 14 and 38)		
Assets received in loans settlements	8,581,592	8,237,324
Allowance for assets received in loans settlements	(6,356,177)	(5,960,004)
	2,225,415	2,277,320
Investments in shares (notes 3, 11, 14, 34, 35, and 38)		
Investments in shares	1,088,973	1,002,937
Allowance for investments in shares	(27,795)	(22,723)
	1,061,178	980,214
Property, furniture and equipment (note 12)		
Property, furniture and equipment	16,741,529	16,498,375
Accumulated depreciation	(3,976,434)	(3,257,052)
	12,765,095	13,241,323
Properties under development intended for sale and lease		
	895,205	1,030,318
Other assets (notes 3, 13, 22 and 34)		
Deferred charges	3,409,028	2,747,827
Intangibles	182,453	197,726
Other assets	4,532,268	3,261,313
Accumulated amortization	(123,828)	(128,660)
	7,999,921	6,078,206
TOTAL ASSETS		
	463,425,292	456,326,773
Contingent accounts (notes 23 and 27)	815,498,126	720,989,336
Memorandum accounts (note 28)	1,609,976,842	1,415,466,800

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

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

Consolidated balance sheets (continued)

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Customers' deposits (notes 3, 15, 34, 35 and 36)		
Checking	58,363,467	50,264,738
Savings	126,993,315	102,638,847
Time	<u>39,276,163</u>	<u>49,078,981</u>
	<u>224,632,945</u>	<u>201,982,566</u>
Deposits from domestic and foreign financial institutions (notes 3, 16, 34 and 35)		
From domestic financial institutions	26,445,805	20,113,683
From foreign financial institutions	-	15,665
	<u>26,445,805</u>	<u>20,129,348</u>
Borrowed funds (notes 3, 17, 34 and 35)		
From domestic financial institutions	1,700,000	1,973,409
From foreign financial institutions	22,974,647	36,452,328
Otros	2,820,940	-
Interests payable	<u>187,380</u>	<u>349,307</u>
	<u>27,682,967</u>	<u>38,775,044</u>
Outstanding acceptances (notes 3, 8 and 34)	1,586,461	2,726,202
Outstanding securities (notes 18, 34, 35 and 36)		
Securities	109,694,488	124,448,151
Creditors for insurance and bank guarantees (notes 3 and 24)	965,831	853,511
Insurance premium deposits	241,490	472,817
Other liabilities (notes 3, 14, 19, 22, 27 and 34)	11,775,358	10,069,078
Technical reserves (note 21)		
Mathematical and technical life insurance reserves	164,903	145,943
Reserves for unearned insurance premiums	<u>3,269,642</u>	<u>2,801,067</u>
	<u>3,434,545</u>	<u>2,947,010</u>
Subordinated debts (notes 3, 20, 34 and 35)		
Subordinate debts	24,235,667	23,728,310
Interest payable	<u>428,050</u>	<u>416,283</u>
	<u>24,663,717</u>	<u>24,144,593</u>
TOTAL LIABILITIES	<u>431,123,607</u>	<u>426,548,320</u>
NET EQUITY OF OWNERS IN PARENT COMPANY (notes 25 and 38)		
Paid-in capital	10,000,000	10,000,000
Other equity reserves	17,137,232	14,872,807
Revaluation surplus	711,105	722,245
Retained earnings from previous periods	26,219	11,140
Net income for the year	<u>4,205,360</u>	<u>3,999,581</u>
	<u>32,079,916</u>	<u>29,605,773</u>
Minority interest	221,769	172,680
TOTAL EQUITY	<u>32,301,685</u>	<u>29,778,453</u>
TOTAL LIABILITIES AND EQUITY	<u>463,425,292</u>	<u>456,326,773</u>
Contingent accounts (notes 23 and 27)	<u>815,498,126</u>	<u>720,989,336</u>
Memorandum accounts (note 28)	<u>1,609,976,842</u>	<u>1,415,466,800</u>

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 income statements

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
Financial income (notes 6, 7, 29 and 36)		
Interest and commissions on loans	34,468,233	33,475,090
Interest on investments	8,244,803	5,849,958
Gains on sale of investments and securities	2,039,467	1,416,863
Insurance premiums net of returns and cancellations	7,302,500	6,414,578
	<u>52,055,003</u>	<u>47,156,489</u>
Financial expenses (notes 15, 16, 17, 18, 20, 29 and 36)		
Interest on deposits	13,750,098	13,323,468
Loss on sale of investments and securities	375,200	202,556
Interest and commissions on borrowed funds	905,261	1,190,865
Reinsurance expense	2,551,136	2,294,849
Insurance claims and contractual obligations	2,716,566	2,335,879
Expenses related to technical adjustment to reserves	233,690	108,001
Expenses related to acquisition, conservation and collection of insurance premiums	707,593	665,402
	<u>21,239,544</u>	<u>20,121,020</u>
Gross financial margin	<u>30,815,459</u>	<u>27,035,469</u>
Allowance for loan losses (note 14)	3,467,448	2,143,124
Allowance for investments (note 14)	-	1,086
	<u>3,467,448</u>	<u>2,144,210</u>
Net financial margin	<u>27,348,011</u>	<u>24,891,259</u>
Foreign exchange gain (loss) (note 30)	<u>(166,237)</u>	<u>(385,175)</u>
Other operating income (notes 31 and 36)		
Credit card fees	1,762,362	1,295,824
Service fees	4,802,996	4,514,567
Foreign exchange commissions	1,349,149	1,875,268
Miscellaneous income	2,239,619	1,916,137
	<u>10,154,126</u>	<u>9,601,796</u>
Other operating expenses (notes 31 and 36)		
Commissions for services	564,364	307,714
Miscellaneous expenses	1,848,693	1,698,711
	<u>2,413,057</u>	<u>2,006,425</u>
Gross operating income	<u>34,922,843</u>	<u>32,101,455</u>
Operating expenses (notes 14, 27, 33 and 37)		
Salaries and personnel compensation	15,917,391	14,804,900
Professional fees	2,542,681	2,638,766
Depreciation and amortization	1,072,871	971,498
Other provisions	908,076	1,627,758
Other expenses	6,992,624	6,572,193
	<u>27,433,643</u>	<u>26,615,115</u>
Net operating income	<u>7,489,200</u>	<u>5,486,340</u>

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**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 Dominican pesos (RD\$)

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Other income (expenses) (note 32)		
Other income	739,653	2,045,188
Other expenses	<u>(996,877)</u>	<u>(938,844)</u>
	<u>(257,224)</u>	<u>1,106,344</u>
Income before income tax	7,231,976	6,592,684
Income tax (note 22)	<u>(705,734)</u>	<u>(403,525)</u>
Net income for the period	<u>6,526,242</u>	<u>6,189,159</u>
ATTRIBUTABLE TO:		
Owners of the controlling entity (Parent Company)	6,469,785	6,153,201
Minority interest	<u>56,457</u>	<u>35,958</u>
	<u>6,526,242</u>	<u>6,189,159</u>

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 Dominican pesos (RD\$)

	Years ended December 31,	
	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Interest and commissions collected from loans	30,774,169	32,341,490
Other financial income collected	9,840,757	6,634,157
Other operating income collected	10,154,126	9,601,796
Insurance premium collected	6,752,954	6,326,430
Increase in insurance and guarantees	(2,890,865)	(2,817,275)
Interest paid on deposits	(13,701,282)	(13,279,325)
Interest and commissions paid on borrowed funds	(1,067,188)	(991,881)
General and administrative expenses paid	(25,432,419)	(23,996,634)
Other operating expenses paid	(2,413,057)	(2,006,425)
Income taxes paid	(532,521)	(403,525)
Insurance claims and contractual obligation	(2,716,566)	(2,335,879)
Miscellaneous collections (payments) of operating activities	<u>(517,099)</u>	<u>94,476</u>
Net cash provided by operating activities	<u>8,251,009</u>	<u>9,167,405</u>
CASH FROM INVESTMENT ACTIVITIES		
Increase in investments	(30,094,771)	(18,786,784)
Loans granted	(290,961,149)	(269,490,091)
Loans collected	286,826,311	255,273,781
Interbank funds granted	(11,066,000)	(18,115,000)
Interbank funds collected	11,066,000	18,115,000
Decrease in properties under development intended for sale and lease	135,113	53,043
Acquisition of property, furniture and equipment	(644,472)	(3,697,518)
Proceeds from sale of property, furniture and equipment	40,993	4,730
Proceeds from sale of assets received in loan settlements	<u>429,540</u>	<u>750,314</u>
Net cash used in investment activities	<u>(34,268,435)</u>	<u>(35,892,525)</u>
CASH FROM FINANCING ACTIVITIES		
Deposits received	3,073,232,175	3,547,511,470
Returned deposits	(3,059,019,002)	(3,498,392,738)
Borrowed funds received	82,111,856	59,389,104
Borrowed funds paid	(93,042,006)	(57,702,857)
Dividends paid and other payments to shareholders	<u>(3,006,719)</u>	<u>(1,287,708)</u>
Net cash provided by financing activities	<u>276,304</u>	<u>49,517,271</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,741,122)	22,792,151
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>84,595,641</u>	<u>61,803,490</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>58,854,519</u>	<u>84,595,641</u>

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**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 Dominican pesos (RD\$)

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Reconciliation between the net income for the period and net cash provided by operating activities		
Net income for the period	<u>6,526,242</u>	<u>6,189,159</u>
Adjustments to reconcile net income for the period to net cash provided by operating activities:		
Provisions for risky assets and contingencies	4,375,524	3,771,968
Release of provisions for risky assets and contingencies	-	(807,985)
Mathematical and Technical reserves increase	233,690	108,001
Depreciation and amortization	1,093,148	990,723
Deferred income tax	30,351	(95,897)
Gain (Loss) on sale of property, furniture and equipment	(14,890)	3,507
Equity on earnings in other companies	(138,381)	(41,870)
Gain on sale of assets received in loan settlements	(39,737)	(67,041)
Currency exchange rate fluctuations, net	510,708	359,065
Amortization of debt issuance cost and discount on subordinated debts	37,049	33,925
Net change in assets and liabilities:		
Interests receivable	(3,762,377)	(1,563,708)
Debtors by acceptances	1,139,741	(2,133,735)
Commissions receivable	(187,038)	3,108
Accounts receivable	209,125	(109,907)
Insurance premiums receivable	(318,219)	(399,794)
Receivables from reinsurance and guarantees	1,699	(1,077)
Deferred charges	(661,201)	(107,084)
Intangibles	15,273	(83,669)
Other assets	(1,270,955)	76,484
Interests payable	(150,160)	209,202
Outstanding acceptances	(1,139,741)	2,133,735
Creditors of insurance and bank guarantees	112,320	(30,540)
Insurance premium deposits	(231,327)	311,646
Other liabilities	1,626,320	244,596
Technical reserves	<u>253,845</u>	<u>174,593</u>
Total adjustments	<u>1,724,767</u>	<u>2,978,246</u>
Net cash provided by operating activities	<u>8,251,009</u>	<u>9,167,405</u>

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 changes in equity

Years ended December 31, 2017 and 2016

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	Paid-in capital	Other equity reserves	Revaluation surplus	Retained earning from previous periods	Net Income for the year	Total	Minority interest	Total equity
Balances at January 1st, 2016	8,300,000	12,719,187	733,385	11,140	3,965,134	25,728,846	149,136	25,877,982
Transfer to retained earnings	-	-	-	3,965,134	(3,965,134)	-	-	-
Cash dividends paid to minority interest	-	-	-	-	-	-	(12,414)	(12,414)
Dividends paid to the Dominican Republic Government (note 25):								
Cash	-	-	-	(1,275,294)	-	(1,275,294)	-	(1,275,294)
Common shares	1,700,000	-	-	(1,700,000)	-	-	-	-
Voucher amortization of National Treasury Law 99-01	-	-	-	(75,000)	-	(75,000)	-	(75,000)
Voucher interest payment of National Treasury Law 99-01	-	-	-	(3,000)	-	(3,000)	-	(3,000)
Amortization of debt of the Dominican Republic State	-	-	-	(922,980)	-	(922,980)	-	(922,980)
Effect of depreciation on revaluated assets	-	-	(11,140)	11,140	-	-	-	-
Net income for the year	-	-	-	-	6,153,201	6,153,201	35,958	6,189,159
Transfer to other equity reserves (note 25)	-	2,153,620	-	-	(2,153,620)	-	-	-
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)	-	-	-
Cash dividends paid to minority interest	-	-	-	-	-	-	(7,368)	(7,368)
Dividends paid to the Dominican Republic Government (note 25):								
Cash	-	-	-	(2,999,351)	-	(2,999,351)	-	(2,999,351)
Voucher amortization of National Treasury Law 99-01	-	-	-	(75,000)	-	(75,000)	-	(75,000)
Voucher interest payment of National Treasury Law 99-01	-	-	-	(2,250)	-	(2,250)	-	(2,250)
Debt amortization of the Dominican Republic State	-	-	-	(919,041)	-	(919,041)	-	(919,041)
Effect of depreciation on revaluated assets	-	-	(11,140)	11,140	-	-	-	-
Net income for the year	-	-	-	-	6,469,785	6,469,785	56,457	6,526,242
Transfer to other equity reserves (note 25)	-	2,264,425	-	-	(2,264,425)	-	-	-
Balances at December 31, 2017	10,000,000	17,137,232	711,105	26,219	4,205,360	32,079,916	221,769	32,301,685

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

Simón Lizardo Mézquita
General Administrator

Andrés Guerrero
Comptroller

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

Notes to the consolidated financial statements

December 31, 2017 and 2016

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican Pesos (RD\$)

1 Entity

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

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

In the middle of August 2017, the bank finished the implementation and put into production a new banking Core. The change of the banking Core originated changes in the bank's internal configurations, systems and controls, with the aim of making its operations more efficient.

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:

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

1 Entity (continued)

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

<u>Location</u>	<u>2017</u>			<u>2016</u>		
	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>
Metropolitan area	109	346	-	98	331	-
Provinces	<u>176</u>	<u>356</u>	<u>10</u>	<u>193</u>	<u>317</u>	<u>10</u>
	<u>285</u>	<u>702</u>	<u>10</u>	<u>291</u>	<u>648</u>	<u>10</u>

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

The Bank signed service agreements with multiple merchants located in different parts of the country called banking subagents, through which general public has access to financial services. As of December 31, 2017 and 2016, the network of subagents was 1,258 (428 in the metropolitan area and 830 in the interior of the country) and 1,249 (912 in the metropolitan area and 337 throughout in the interior of the country) businesses authorized, respectively.

The consolidated financial statements were approved for issuance by the Board of Directors on March 23, 2018.

2 Summary of significant accounting policies

2.1 Accounting basis of the consolidated financial statements

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

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

2.1.a Differences between banking regulations and IFRS

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

- i) The provision for the loan portfolio corresponds to the amount determined based on a risk assessment carried out by the Bank and the levels of provisions required for the classification assigned to each loan (for commercial loans denominated major and medium debtors), the number of days past due (in the case of consumer loans, microcredit, mortgage and minor commercial debtors or loans). This evaluation (for major and medium commercial debtors or loans), considers the documentation of the credit files, the figures of the financial statements of the borrower, the payment history and the levels of guarantee (collateral); and for medium-sized commercial debtors, it includes a simplified evaluation based on operating losses and adjusted assets, payment history and guarantee levels. For both types of commercial debtors, the guarantees are only considered for the determination of the provision according to the guidelines established in the Asset Evaluation Regulation (REA per its Spanish acronyms).

In accordance with IFRS, 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 without consideration of any waiver.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- ii) Banking regulations require financial institutions to establish 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; 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. IFRS require that these assets be reserved only in the event of impairment.
- iii) Interests receivable past due for less than 90 days, are reserved according to the classification granted to the corresponding principal. Past due interests receivable with more than 90 days are fully reserved, except for credit card transactions, which are fully reserved after 60 days past due. Subsequently, accrued interests are not recognized in the consolidated financial statements, and are recognized in memorandum accounts. In accordance with IFRS, allowances on interest receivable are determined based on existent risks in the portfolio. In the event of impairment, the loans are adjusted and subsequently, accrual of interest continues 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 reporting date. IFRS require that all foreign currency balances be translated at the exchange rate at which the Bank had access at the reporting date.
- v) The Superintendence of Banks of the Dominican Republic requires that reserves held on loans at the moment of executing their collateral, be transferred to the assets received in loan settlements. IFRS only require reserves when the fair value of the asset is lower than its carrying value or when impairment exists.
- vi) 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.
- vii) The Superintendence of Banks of the Dominican Republic require leasehold improvements and computer software to be authorized by the Superintendence of Banks before recognize it as property, furniture and equipment and intangible assets, respectively, and classify them as other assets until such approval is obtained. The Superintendence of Banks indicates the amount that could be capitalized and the maximum amortization period during which the deferral is allowed. IFRS require that these items be recognized as property, furniture and equipment and intangible assets as long as they generate future economic benefits.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- viii) The Bank determine the useful life of property, furniture and equipment at the time of acquisition, and recognizes in memorandum accounts those fixed assets that are fully depreciated. IFRS require that the residual value and the useful life of an asset be reviewed at least at each financial year-end, and if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimates.
- ix) The Superintendence of Banks of the Dominican Republic has established that short-term highly liquid investments that are easily convertible to cash be classified as investments. IFRS require that this type of investments with original maturities of three months or less be classified as cash equivalent.
- x) The Superintendence of Banks of the Dominican Republic require that financial institutions classify investments into four categories, which are: trading, available-for-sale, held-to-maturity, and other investments in debt securities. Also, the Superintendence allows classifying in one of the first three categories only those investments listed in an active market. Investments held for trading and available-for-sale should be measured at fair value, and investments held to maturity and other investments in debt securities at amortized cost. IFRS do not prescribe the category of other investments in debt securities 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 requires 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 Superintendence of Banks requires 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.
- 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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- xiii) The Superintendence of Banks of the Dominican Republic requires 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.
- xiv) The Superintendence of Banks granted a no objection to the Bank to recognize the actuarial liability related to the Pension and Retirement Funds and those paid directly by the Bank over a nine year period beginning in 2011. IFRS establish that pension plan obligations must be recognized initially in full and periodically updated in subsequent periods and the effects to be recognized either in profit or loss or other comprehensive income.
- xv) 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.
- xvi) 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 carrying value, a gain cannot be recognized as required by 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.
- xvii) The Superintendence of Banks authorizes financial intermediation institutions to write-off a loan with or without guaranties when it becomes past due, 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-off immediately, when loans are determined to be unrecoverable.
- xviii) IFRS require that, if the Bank maintains 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 items comprising 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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- xix) The Superintendence of Banks of the Dominican Republic authorized the inclusion in the consolidated financial statements, the financial statements of subsidiaries that were prepared following different accounting practices to those set in the Accounting Manual for Financial Institutions, without being homogenized with the accounting practices followed by the Bank. Under IFRS, entities included in the consolidation should follow the same accounting policies.
- xx) There are differences between the presentation and certain disclosures for the financial statements according to IFRS and those required or authorized by the Superintendence of Bank.

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

- i) As established by the Superintendence of Insurance, short-term insurance contracts are recognized as revenue when billed; as a result, unearned premium reserves are computed based on specific percentages according to the line of business. These minimum percentages are established in Article 141 of the Insurance and Insurance Bonds Law No. 146-02, as follows:
 - 15 % Transportation and freight.
 - 5 % Collective life insurance, accidents and health, provided premiums are collected on a monthly basis.
 - 40 % Insurance bonds.
 - 40 % Other insurances.

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

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

- ii) In the case of long-term life insurance contracts without a fixed guaranteed term, such as death or survivorship insurance, premiums are recognized 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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- iii) In accordance with IFRS, based on its intention of use, investments are classified into four categories: financial assets at fair value with changes through profit and loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. Under IFRS, these investments are recognized initially at fair value and subsequent to their initial recognition measured at amortized cost, at fair value with changes in profit or loss or at fair value with changes in equity, depending on its initial classification. The accounting practices followed by the Bank initially recognizes investments at fair value and subsequently measured it at amortized cost.
- iv) The Superintendence of Insurance establishes that insurance premiums receivable that are considered uncollectible by the Bank, are reversed against income. In accordance with IFRS, premiums receivable should be assessed regularly and a provision should be created for amounts deemed uncollectible. This provision should be recognized through a charge to operating expenses of the year.
- v) The Superintendence of Insurance does not require the recognition of specific reserves for claims incurred but not reported at the reporting date. IFRS require to create a provision for those probable and quantifiable losses and that these be recognized through a charge to operations of the year in which the damage occurred.
- vi) According to accounting practices of the Superintendence of Insurance, the Bank recognizes salvage and recoveries in memorandum accounts, and these should not be recognized in accounting records until their disposal. IFRS sets out that at the reporting date of the consolidated financial statements, such assets shall be measured at fair value less any cost of sale and recognized as other assets against a deduction of the cost of the claims, that gave rise to the salvages, in the accounting period in which the Bank obtained the rights over the salvages and recoveries.
- vii) In accordance with accounting practices of the Superintendence of Insurance, savings components included in life insurance contracts are not accounted separately. As per IFRS, when an insurance policy has a saving component this saving component should be separated from the premium paid in a life insurance policy, and recognize it as a separate financial liability.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- viii) According to accounting practices established and permitted by the Superintendencia of Insurance, the service components that form part of the insurance contract are not separated, and are recorded as revenue in conjunction with the premium income subscribed. Under IFRS, the components of services over which the company does not withhold insurance risks, should be separated from the insurance contract. Such components must be recognized as a liability, and defer any commission earned by the company in the intermediation in the service as income during the term of the policy that originated such commission.
- ix) Additional costs incurred in the process of acquisition and issuance of insurance contracts are recognized as expenses when they occur, except commissions to agents, which are deferred and amortized in proportion to the premium that originated it following the percentages established by the Superintendencia of Insurance. In accordance with IFRS, these costs must be deferred and recognized as expense using the straight line method over the life of the related insurance contract.
- x) According to the accounting practices established and permitted by the Superintendencia of Insurance, property, furniture and equipment are recognized as such, regardless of their use. IFRS require that property, plant and equipment, which intention of use is to obtain income or goodwill, shall be considered investment property and therefore, their recognition and disclosure are different from the other assets being used in the operations of the Bank.
- xi) The IFRS require to perform a liability adequacy test. This test is basically a calculation based on a statistical methodology that determines if provisions recognized by the Bank are enough to cover possible commitments arising from current insurance contracts. The accounting practices of the Superintendencia of Insurance do not require this kind of provision.
- xii) The Superintendencia of Insurance and the Superintendencia of Health and Labor Risk require that short-term investments, highly liquid investments and investments easily convertible to cash to be classified as investments. However, IFRS require that such investments to be classified as cash equivalents.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

- xiii) IFRS require that, if an entity maintains derivate financial instruments, to separate embedded derivative from the host contract and accounted for as a derivative if economic characteristic and risks of the embedded derivative are not closely related to the economic characteristic and risks of the host contract. Accounting practices established by the Superintendencia of Insurance and the Superintendencia of Health and Labor Risk of the Dominican Republic do not provide for guidance on accounting of derivatives financial instruments.
- xiv) There are certain differences in the presentation and disclosures of financial statements according to the accounting practices established by the Superintendencia of Insurance and the Superintendencia of Health and Labor Risk of the Dominican Republic and financial statements prepared in accordance with IFRS.
- xv) The Superintendencia of Insurance and the Superintendencia of Health and Labor Risk allow that significant revenues and expenses that affect the consolidated financial statements of previous years, be recognized in retained earnings without restating the previous reported amounts of the consolidated financial statements. The IFRS require these transactions to be recognized retroactively, correcting previously reported financial statements, including the presentation of the statements of financial position for the most recent three years.
- xvi) The Superintendencia of Pensions of the Dominican Republic requires that investments in commercial papers and certificates of deposits be classified as investments, regardless of their maturity. IFRS require that investments in these types of instruments to be classified as cash equivalents, when they are highly liquid instruments and their maturity is 90 days or less.
- xvii) The Superintendencia of Pensions of the Dominican Republic requires that the administrators recognize their balances in foreign currency at the average cash purchase rate of commercial banks, published by the Central Bank of the Dominican Republic. IFRS require that the balances in foreign currency be converted to the last access rate that the Administrator had.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.1 Accounting basis of the consolidated financial statements (continued)

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

- xviii) The Superintendence of Pensions requires the Administrator to disclose its investments in securities by sector and by type of instrument. IFRS require additional disclosures that allow users of the consolidated financial statements to evaluate: a) the importance of financial instruments in relation to the financial position and results of the entity and b) the nature and extent of the risks resulting from the financial instruments to which the Entity is exposed during the year and the reporting date and how the entity handles those risks.
- xix) IFRS require that if an entity maintains derivative financial instruments, they are separated from its main contract and recognize it separately, if the characteristics and risks of the main contract and the derivative are not closely related. The Superintendence of Pensions of the Dominican Republic does not have standards in place for the recognition and management of derivative financial instruments.
- xx) There are differences between the presentation and certain disclosures of the financial statements according to IFRS and those required by the Superintendence of Pensions of the Dominican Republic.

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

2.2 Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the period. The estimates are used primarily to account for provisions for risky assets, accounts and premium receivable, depreciation and amortization of long-term assets, impairment of long-term assets, current and deferred income tax, technical reserves for insurance and contingencies. Actual results may differ from those estimates.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.3 Consolidation

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

Tenedora Reservas, S. A. and Subsidiaries

Is the Parent Company of the following subsidiaries:

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

(e) Fiduciaria Reservas, S. A.

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

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

Constituted under the laws of the Dominican Republic, its objective is to 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 Banreservas, S. A., so they can obtain premiums of all types of insurance policies, as well as the efforts of collection and legal procedures and compulsive fees and other related services to both individual and corporate level.

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

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

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

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

2.4 Loan portfolio

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

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 on March 7, 2008 and the provisions contained in the second resolution of the Monetary Board dated October 26, 2017.

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 of the Dominican Republic Central Government institutions and other public institutions that are classified as established by the Instructive for Loan Evaluation, Investments and Contingent Operations of the Public Sector, as established by the first Resolution of the Monetary Board dated July 9, 2015.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.1 Allowance for loans portfolio (continued)

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).

Major commercial debtors are those whose total credit operations owed in the financial system are equal to or greater than RD\$40 millions, 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 systems only the totals of credits owed are to be considered.

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

For 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 prove 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.

The Circular 005/08 of March 4, 2008, for approval and enforcement of the Instructions for the Process of Assets Evaluation in Permanent Regime establishes that no prior authorization will be required to transfer the excesses of provisions that are generated from cancellations and improvements in the ratings of debtors and issuers, formalization of guarantees, sale of goods received in credit recovery, among others. The aforementioned excesses could be transferred from one line of the asset to another that reflects a lack of provisions, reporting this situation to the Superintendence of Banks. Excess provisions for loan portfolio cannot be released without prior authorization from the Superintendence of Banks, except for provisions for receivables over 90 days.

Through the Second Resolution dated September 28, 2017, the Monetary Board approved the final version of the proposal for a comprehensive amendment to the Asset Evaluation Regulation, which establishes the methodology that financial intermediation entities must follow to assess credit risk associated with its financial assets, contingent accounts and other risky assets with effect from January 2nd, 2018. Subsequently, through the Second Resolution of the Monetary Board dated October 26, 2017, it authorized the entry into force of the immediate of several articles included in the new regulation.

According to this resolution, the largest commercial debtors will be segmented into three groups, depending on their consolidated debt in the system, excluding contingencies, according to the following:

- ◆ Major-sized commercial debtors: with obligations in excess of RD\$40,000,000 (forty million Dominican pesos 00/100) or its equivalent in foreign currency.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

- ◆ Medium-sized commercial debtors: with obligations equal to or greater than RD\$25,000,000 (twenty-five million Dominican pesos 00/100) and less than RD\$40,000,000 (forty million Dominican pesos 00/100) or its equivalent in foreign currency.
- ◆ Minor-sized commercial debtors: with obligations lower than RD \$ 25,000,000 (twenty-five million Dominican pesos 00/100) or its equivalent in foreign currency.

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

Guarantee

The guarantees that support credit operations are classified according to the Asset Evaluation Regulations and the modifications made through SIB Circular No. CC / 010/17, based on their multiple uses and facilities. Each type of guarantee is considered as a secondary element for the calculation of the coverage of the provisions, based on an established admissible amount. The admissible guarantees will be accepted based on the percentages of discount established in this regulation and on their market value. These are classified in:

Multi-use collateral (“Multipurpose guarantees”)

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)**2.5 Determination of provisions to cover credit risks on loan losses in the loan portfolio, other assets and contingent operations (continued)****2.5.1 Allowance for loans portfolio (continued)*****Specific use collateral (“Non-Multipurpose 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 50 % and 60 % of the appraisal value for purposes of calculating the coverage of the risk they support.

Each classification of collateral is taken into account for calculating the amount of loan coverage based on a schedule table No. 5 (Table 8 2016) established in the Asset Evaluation Regulation and its modifications.

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

Other considerations

As of December 31, 2017 and 2016, the Bank has received waivers and no objections from the Central Bank of the Dominican Republic and the Superintendence of Banks to specifically recognize for and report on certain loans granted to specific sectors of the Dominican Republic economy, such as: contractors of priority works of the Dominican State, development of road network, loans granted to some power generators and other operations linked to the sector, some credits to the agricultural sector and loan portfolio acquired from a local financial institution.

According to the seventh (7th) and sixth (6th) resolution of the Monetary Board, dated December 20, 2017 and 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 private sector.

A non-objection was granted until April 30, 2017 for the Bank to classify these loans with risk category "A" and 0 % provision requirement, as well as their accounting as current credits of the private sector. These terms were extended until December 31, 2018, through the seventh (7th) resolution of the Monetary Board dated December 20, 2017.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.2 Allowance for loans portfolio of the public sector

As of December 31, 2017 and 2016, the Bank evaluated the portfolio for major commercial debtors of the public sector, following the Instructional Guidelines for the Evaluation of Investment Loans and Contingent Operations of the Public Sector and related circulars. Provisions for public sector loans, with guarantees of the own public sector with real cash flows according to the Law on General Budget of the State are classified as "A", and have a provision requirement of a 0%, according to the First Resolution of the Monetary Board dated July 9, 2015.

2.5.3 Allowance for interest receivable

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

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

2.5.4 Allowance for other assets

The Asset Valuation Regulation establishes a maximum term for the disposal of assets received in 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, recognized on a straight-line basis starting on the seventh month.

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

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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.4 Allowance for other assets (continued)

The 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 27 to the consolidated financial statements.

2.6 Employee benefit cost

2.6.1 Bonuses and other benefits

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

2.6.2 Defined benefits plan

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

The Bank's contribution to the plan is 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 approved pensions to be paid directly by the Bank, which are included in the determination of actuarial liability of the Plan.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

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

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

2.6.3 Defined contribution plan

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

2.6.4 Severance 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 justified cause. The Bank recognizes as expenses the amounts paid for this concept at the time of the termination of employment contracts.

2.7 Outstanding securities and subordinated debts

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.8 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.

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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.8 Valuation of different types of investments (continued)

2.8.1 Investments in securities and allowances (continued)

Other considerations

As of December 31, 2017 and 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 authorization of the Superintendence of Banks.

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

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

2.9 Valuation of property, furniture and equipment and depreciation method used

2.9.1 Basis of recognition

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

2.9.2 Depreciation

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.9.2 Depreciation (continued)

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

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

2.10 Valuation of assets received in loan settlements

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

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

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

2.11 Deferred charges

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

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

2.12 Assets and liabilities in foreign currency

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

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

As of December 31, 2017 and 2016, the exchange rates used for the translation of the US dollar balances to Dominican pesos was RD\$48.1930 and RD\$46.6171, respectively, for each United States dollar (US\$).

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

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

For the year 2017, the provisions created for the receivables on interest from credit operations and cards cannot be released and recognized as income without the prior authorization of the Superintendence of Banks.

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

Interest expenses are recognized in the consolidated 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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)**2.13 Revenue recognition and most significant expenditures (continued)****2.13.1 Banks' revenue recognition and expenditures (continued)***Other income and other operating expenses*

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

Other income and expenses

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

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

2.13.2 Revenue recognition of insurance companies

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.13 Revenue recognition and most significant expenditures (continued)

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

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 1st to 15 % and for the Fund T-5 corresponds to 5 % of the excess of yield portfolio of the weighted average rate of the previous month for all terms of fixed-term certificates of deposits, indefinite certificates of deposit and time certificates issued by commercial and multiple services banks. The Superintendence of Pensions reports the rate to the AFPs according to the information provided by the Central Bank of the Dominican Republic.

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

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

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

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.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)**2.13 Revenue recognition and most significant expenditures (continued)****2.13.6 Revenues from brokerage services**

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

2.13.7 Management fees

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

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

2.14 Provisions

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

2.15 Income tax

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

In accordance with Law No. 8-90 and Resolution No. 19-02 A of the National Council of free zones, the subsidiary Operadora de Zonas Francas Villa Esperanza, S. A. is exempt from payment of import tax, customs duties, income tax, and other related taxes, for a period of 15 years until 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.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.15 Income tax (continued)

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

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

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

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

2.16 Financial Instruments

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

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

Short-term financial instruments

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

Investment in securities and shares

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

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)**2.16 Financial Instruments (continued)***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 De-recognition 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.

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.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)**2.20 Accounts receivable**

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

2.21 Distribution of dividends

The Bank pays dividends based on the results of their operations in accordance with the decisions of the Board of Directors' meeting. As established by Resolution No. 12-2001 dated December 5, 2001, issued by the Superintendence of Banks of the Dominican Republic, which provides the allowed maximum amount of dividends to be distributed among the shareholders, should not be greater than the amount of the retained earning calculated on cash basis and considering what is established by the Bank's Organic Law No. 6133 and its amendments. (See note 40).

2.22 Revaluation surplus

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

2.23 Mathematical and technical reserves - life insurance and collective insurance

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

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

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.23 Mathematical and technical reserves - life insurance and collective insurance (continued)

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

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

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

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

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

2.25 Specific reserves

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

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.

2.27 Incurred but not reported claims (IBNR)

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

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

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

2.28 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 <u>US\$</u>	Total in <u>RD\$</u>	Amount in foreign currency <u>US\$</u>	Total in <u>RD\$</u>
Assets				
Available funds	683,609	32,945,176	984,083	45,875,099
Investments	582,545	28,074,582	437,417	20,391,092
Loan portfolio, net	1,636,417	78,863,847	1,826,090	85,127,017
Debtors by acceptances	32,919	1,586,461	58,481	2,726,202
Accounts receivable	28,132	1,355,741	19,579	912,736
Investments in shares, net	827	39,879	832	38,773
Other assets	3,044	146,699	736	34,328
Contingencies (a)	<u>250,000</u>	<u>12,048,250</u>	<u>150,000</u>	<u>6,992,565</u>
Total assets	<u>3,217,493</u>	<u>155,060,635</u>	<u>3,477,218</u>	<u>162,097,812</u>
Liabilities				
Customers' deposits	1,844,787	88,905,820	1,837,627	85,664,827
Deposits from domestic and foreign financial institutions	455,386	21,946,429	338,340	15,772,409
Borrowed funds	480,305	23,147,331	792,865	36,961,079
Outstanding acceptances	32,919	1,586,461	58,481	2,726,202
Creditors for insurance and bonds	7,514	362,125	3,272	152,534
Other liabilities	40,515	1,952,563	57,596	2,684,964
Subordinated debts	<u>307,188</u>	<u>14,804,288</u>	<u>306,942</u>	<u>14,308,747</u>
Total liabilities	<u>3,168,614</u>	<u>152,705,017</u>	<u>3,395,123</u>	<u>158,270,762</u>
Long position in foreing currency	<u><u>48,879</u></u>	<u><u>2,355,618</u></u>	<u><u>82,095</u></u>	<u><u>3,827,050</u></u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

- (a) Corresponds to the nominal operation value through a "Foreign Exchange Contracts" with the Central Bank of the Dominican Republic (BCRD per its Spanish acronyms), for which the Bank sold to the BCRD, as of December 31, 2017 and 2016, the amount of US\$250 and US\$150 million, respectively, to be exchanged for Dominican pesos at the rate in force at the date for each US\$1, offering the BCRD foreign exchange hedge on the exchange amount of the currencies agreed upon for the difference between the rate of the original operation and the exchange rate of sale of the BCRD in effect on each date of coverage.

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 December 31, 2017 and 2016, the exchange rates used by the Bank was RD\$48.1930 and RD\$46.6171, respectively.

4 Available funds

Available funds are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash on hand (a)	7,684,018	5,799,089
Central Bank of the Dominican Republic (b)	40,670,203	65,360,065
Domestic banks (c)	343,780	859,473
Foreign banks (d)	7,713,978	12,189,931
Other funds - in transit (e)	2,441,878	386,541
Interest receivable (f)	<u>662</u>	<u>542</u>
	<u>58,854,519</u>	<u>84,595,641</u>

(a) Includes US\$21,566 in 2017 and US\$21,300 in 2016.

(b) Includes US\$458,172 in 2017 and US\$689,321 in 2016.

(c) Includes US\$5,956 in 2017 and US\$8,524 in 2016.

(d) Includes US\$160,064 in 2017 and US\$261,491 in 2016.

(e) Represents effects received from other banks pending collection in the Clearing House. As of December 31, 2017 includes US\$37,837 and US\$3,439 in 2016.

(f) Corresponds to US\$14 in 2017 and US\$8 in 2016 pending to be collect.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

4 Available funds (continued)

The required legal reserve amounts to RD\$30,454,750 and US\$379,785 for 2017 and RD\$35,299,033 and US\$382,903 for 2016. For these purposes, the Bank maintains amounts of RD\$30,898,039 and US\$458,197 for 2017 and RD\$35,634,201 and US\$688,836 for 2016.

5 Interbank funds

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

	<u>Entity</u>	<u>Quantity</u>	<u>Interbank assets</u>		<u>Percentage of Weighted average rate (%)</u>
			<u>Amount in RD\$</u>	<u>No. of days</u>	
2017					
	Banco Múltiple BHD León, S. A.	7	3,700,000	4	5.71
	Banco Múltiple BDI, S. A.	3	81,000	3	6.39
	Banco Múltiple Caribe Internacional, S. A.	22	2,155,000	3	6.50
	Citibank, N. A.	7	3,070,000	3	5.66
	Banco Dominicano del Progreso, S. A., Banco Múltiple	3	1,200,000	4	6.49
	Banesco, Banco Múltiple, S. A.	2	500,000	2	7.00
	Asociación La Nacional de Ahorros y Préstamos	3	<u>360,000</u>	4	<u>6.72</u>
			<u>11,066,000</u>		
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

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

5 Interbank funds (continued)

	<u>Entity</u>	<u>Interbank assets</u>			<u>Percentage of Weighted average rate (%)</u>
		<u>Quantity</u>	<u>Amount in RD\$</u>	<u>No. of days</u>	
2016					
	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	<u>410,000</u>	3	<u>6.66</u>
			<u>18,115,000</u>		

During the years 2017 and 2016, the Bank negotiated interbank funds with different financial institutions; however, as of December 31, 2017 and 2016 there are no pending balances in interbank funds.

6 Investments

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

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
2017				
Other investments in debt instruments:				
Time deposits	Central Bank of the Dominican Republic	23,318,977	3.75 % until 15.50 %	2018 until 2024
Bonds Law No. 99-01	Dominican Republic State	150,000	0.05 % until 9.25 %	2024
Bonds Law 175-12, 331-15, 58-14, 48-10, 47-13, 58-13, 260-15, 547-14, 131-11, 260-15, 297-10, 152-14, 155-13, 366-09, 361-11, 193-11, 151-14, 294-11, 143-13, 331-15, 687-16, 293-16, and 693-16 (a)	Dominican Republic State (includes US\$24,432)	28,345,436	4.34 % until 18.50 %	2018 until 2044

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
2017				
Trust values (b)	Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana	2,248,890	10.50 %	2026
Agreement with the Dominican Republic Electric Sector debt (b)	Edesur Dominicana, S. A. (corresponds to US\$128,982)	6,216,026	10.00 %	2020
	Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US\$197,606)	9,523,254	7.75 % until 10.00 %	2020
	Edenorte Dominicana, S. A. (corresponds to US\$221,794)	10,688,911	7.75 % until 10.00 %	2020
Corporate bonds	Empresa Generadora de Electricidad Haina, S. A. (corresponds to US\$1,602)	95,236	5.75 % until 11.25 %	2020 until 2027
Bonds	Consorcio Energético CEPM (corresponds to US\$2,962)	142,760	5.15 % until 5.50 %	2025 until 2027
Bonds	Compañía de Electricidad de Puerto Plata, S. A. (corresponds to US\$1,153)	55,538	5.90 % until 6.00 %	2027
Corporate bonds	Parallax Valores, Puesto de Bolsa, S. A.	50,000	10.90 %	2018
Corporate bonds	Dominican Power Partners, (corresponds to US\$352)	16,988	5.90 % until 6.25 %	2018 until 2023
Bonds	Asociación La Nacional de Ahorros y Préstamos	14,363	10.75 %	2024
Corporate bonds	United Capital Puesto de Bolsa	10,000	9.00 %	2020
Time deposits	Banco Agrícola de la República Dominicana	685,000	7.00 %	2018
Time deposits	Asociación Popular de Ahorros y Préstamos	72,530	5.35 % until 8.50 %	2018
Time deposits	Asociación Peravia de Ahorros y Préstamos	88,461	6.00 % until 8.50 %	2018
Time deposits	Asociación La Vega Real de Ahorros y Préstamos	111,830	6.50 % until 7.50%	2018
Time deposits	Asociación La Nacional de Ahorros y Préstamos	42,194	6.00 % and 8.35 %	2018
Time deposits	Asociación Maguana de Ahorros y Préstamos	28,036	8.00 %	2018
Time deposits	Asociación Romana de Ahorros y Préstamos	36,079	6.75 %	2018
Time deposits	Asociación Duarte de Ahorros y Préstamos	2,197	6.80 %	2018
Time deposits	Asociación Bonao de Ahorros y Préstamos	25,910	6.25 % until 6.75 %	2018
Time deposits	Banco Múltiple Caribe, S. A.	13,582	7.75 %	2018
Time deposits	Banco Múltiple Lafise, S. A.	15,460	8.00 % until 8.15 %	2018

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
2017				
Time deposits	Banco Múltiple Promérica de la República Dominicana, S. A.	15,670	7.15 %	2018
Time deposits	Banco Popular Dominicano, S. A. Banco Múltiple	208,774	6.45 % until 6.75 %	2018
Time deposits	Motor Crédito, S. A. Banco de Ahorro y Crédito	31,659	6.00 % and 7.50 %	2018
Time deposits	Banco Múltiple de las Américas, S.A. (includes US\$504)	62,707	3.25 % until 9.50 %	2018
Time deposits	Banco Múltiple Santa Cruz, S. A.	14,153	5.95 %	2018
Time deposits	Banesco Banco Múltiple, S. A.	111,325	7.50 % and 10.10 %	2018
Time deposits	Banco de Ahorro y Crédito ADOPEM, S. A.	12,242	7.50 %	2018
Quote of participation	Administradora de Fondos de Inversión Universal, S. A.	61,489		2018
Quote of participation	Administradora de Fondos de Inversión BHD, S. A.	30		2018
Quote of participation	JMMB Sociedad Administradora de Fondos de Inversión, S. A.	89,832		2018
Quote of participation	Fondo Mutuo Educacional La Isabela	100		
Quote of participation	Fondo Mutuo Larimar	100		
Quote of participation	Fondo Inmobiliario Exce (corresponds to US\$501)	24,151		
Restricted securities				
Reports	Various	3,177,021		2018
Reports	Alpha Sociedad de valores	702,066		2018
Bonds Law No.260-15, 547-15, and 693-16	Dominican Republic State	1,985,000	7.0 % until 8.50 %	2023 until 2032
Profitability guarantee	Profitability guarantee of La Administradora de Fondos de Pensiones, Invested in different Institutions	1,106,388		
Mortgage notes (c)	Banco Múltiple BHD León, S. A.	201	7.30 %	2018
Time deposits (c)	Asociación Popular de Ahorros y Préstamos	3,000	5.00 %	2018
Other investments (b)	Fideicomiso Viviendas Bajo Costo	78,002	12.00 %	2020
Electric Sector Factoring	Fideicomiso Multivalores	<u>20,000</u>	12.00 %	2020
		89,701,568		
	Interest receivable, (includes US\$2,812)	<u>1,265,619</u>		
		90,967,187		
	Provision for investment, (includes US\$155)	<u>(273,010)</u>		
		<u>90,694,177</u>		

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
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
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

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
2016				
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		
Other investments (b)	Fideicomiso Viviendas Bajo Costo	78,462		
Bonds	Treasury of the United States of America, (corresponds to US\$712)	<u>33,198</u>	13.16 %	2024
		59,761,529		
	Interest receivable, (includes US\$3,531)	<u>1,199,556</u>		
		60,961,085		
	Provision for investment, (includes US\$184)	<u>(245,176)</u>		
		<u>60,715,909</u>		

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

6 Investments (continued)

- (a) As of 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
<u>Commercial loans</u>						
Advances on checking accounts	-	52,136	52,136	-	14,399	14,399
Loans (includes US\$1,615,463 in 2017 and US\$1,572,059 in 2016)	63,433,385	128,550,228	191,983,613	66,979,833	126,888,344	193,868,177
Discounted notes	-	101	101	-	2,902	2,902
Invoice discounting (include US\$2,312 in 2017 and US\$250,531 in 2016)	-	115,523	115,523	-	11,701,652	11,701,652
Financial leases	1,487,874	2,449	1,490,323	31,862	3,157	35,019
Advance on export notes (corresponds to US\$23 in 2017 and US\$740 in 2016)	-	1,124	1,124	-	34,496	34,496
Letters of credit (corresponds to US\$1,867 in 2016)	-	172	172	-	87,032	87,032
Other loans	-	5,267	5,267	-	15,932	15,932
	<u>64,921,259</u>	<u>128,727,000</u>	<u>193,648,259</u>	<u>67,011,695</u>	<u>138,747,914</u>	<u>205,759,609</u>
<u>Consumer loans</u>						
Credit cards (includes US\$20,593 and US\$17,220 in 2017 and 2016)	-	7,898,248	7,898,248	-	6,629,865	6,629,865
Consumer loans (includes US\$1,522 and US\$1,732 in 2017 and 2016)	-	43,816,587	43,816,587	-	37,844,445	37,844,445
	<u>-</u>	<u>51,714,835</u>	<u>51,714,835</u>	<u>-</u>	<u>44,474,310</u>	<u>44,474,310</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Mortgage loans</u>						
Residential purchases (includes US\$1,770 and US\$1,520 in 2017 and 2016)	-	37,877,516	37,877,516	-	32,490,619	32,490,619
Construction, improvements, repairs, expansion and others	-	985,574	985,574	-	975,391	975,391
	-	38,863,090	38,863,090	-	33,466,010	33,466,010
	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>	<u>67,011,695</u>	<u>216,688,234</u>	<u>283,699,929</u>
Interest receivable (includes US\$21,193 and US\$8,697 in 2017 and 2016)	495,494	6,834,707	7,330,201	172,606	3,838,483	4,011,089
Allowance for loan losses and interest receivable (includes US\$26,459 and US\$28,276 in 2017 and 2016)	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

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

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Commercial loans</u>						
Current (i) (includes US\$1,561,531 and US\$1,775,626 in 2017 and 2016)	64,921,112	119,117,004	184,038,116	67,011,089	128,911,756	195,922,845
Restructured (ii) (includes US\$46,659 and US\$37,912 in 2017 and 2016)	-	3,525,242	3,525,242	-	2,832,986	2,832,986
Past due:						
31 to 90 days (iii) (includes US\$588 and US\$34 in 2017 and 2016)	-	140,293	140,293	-	44,583	44,583
More than 90 days (iv) (includes US\$1,755 and US\$2,069 in 2017 and 2016)	147	1,179,620	1,179,767	606	867,878	868,484
Legal collections (v), (includes US\$7,193 and US\$7,259 in 2017 and 2016)	-	1,057,215	1,057,215	-	833,820	833,820
	<u>64,921,259</u>	<u>125,019,374</u>	<u>189,940,633</u>	<u>67,011,695</u>	<u>133,491,023</u>	<u>200,502,718</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Microcredits</u>						
Current (i)	-	5,126	5,126	-	14,888	14,888
Past due:						
31 to 90 days (iii)	-	99	99	-	-	-
More than 90 days (iv)	-	281	281	-	-	-
	<u>-</u>	<u>5,506</u>	<u>5,506</u>	<u>-</u>	<u>14,888</u>	<u>14,888</u>
<u>Microenterprises loans</u>						
Current (i) (includes US\$55 and US\$2,252 in 2017 and 2016)	-	3,408,817	3,408,817	-	5,005,216	5,005,216
Restructured (ii)	-	44,093	44,093	-	3,251	3,251
Past due:						
31 to 90 days (iii) (includes US\$4 in 2017 and 2016)	-	20,227	20,227	-	12,512	12,512
More than 90 days (iv) (includes US\$25 in 2016)	-	185,658	185,658	-	150,026	150,026
Legal collections (v) (include US\$15 in 2017 and 2016)	-	43,325	43,325	-	70,998	70,998
	<u>-</u>	<u>3,702,120</u>	<u>3,702,120</u>	<u>-</u>	<u>5,242,003</u>	<u>5,242,003</u>
<u>Consumer loans</u>						
Current (i) (includes US\$21,163 and US\$18,040 in 2017 and 2016)	-	49,884,199	49,884,199	-	43,148,086	43,148,086
Restructured (ii)	-	97,199	97,199	-	10,960	10,960
Past due:						
31 to 90 days (iii)	-	261,841	261,841	-	198,461	198,461
More than 90 days (iv) (includes US\$950 and US\$808 in 2017 and 2016)	-	1,330,814	1,330,814	-	992,134	992,134
Legal collections (v), (includes US\$104 in 2016)	-	140,782	140,782	-	124,669	124,669
	<u>-</u>	<u>51,714,835</u>	<u>51,714,835</u>	<u>-</u>	<u>44,474,310</u>	<u>44,474,310</u>
<u>Mortgage loans</u>						
Current (i) (includes US\$1,298 and US\$1,058 in 2017 and 2016)	-	37,850,688	37,850,688	-	32,744,858	32,744,858
Restructured (ii)	-	103,171	103,171	-	41,333	41,333
Past due:						
31 to 90 days (iii) (includes US\$1 in 2017 and 2016)	-	7,933	7,933	-	3,728	3,728
More than 90 days (iv) (includes US\$462 in 2016)	-	599,931	599,931	-	438,170	438,170
Legal collections (v) (includes US\$471 in 2017)	-	301,367	301,367	-	237,921	237,921
	<u>-</u>	<u>38,863,090</u>	<u>38,863,090</u>	<u>-</u>	<u>33,466,010</u>	<u>33,466,010</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Interest receivable</u>						
Current (i) (includes US\$18,471 and US\$5,986 in 2017 and 2016)	495,325	6,191,497	6,686,822	172,531	3,405,813	3,578,344
Restructured (ii) (includes US\$1,551 and US\$231 in 2017 and 2016)	149	116,288	116,437	-	11,589	11,589
Past due:						
From 31 to 90 days (iii) (includes US\$65 and US\$19 in 2017 and 2016)	-	141,403	141,403	-	89,953	89,953
More than 90 days (iv) (includes US\$166 and US\$2,326 in 2017 and 2016)	20	250,170	250,190	75	284,958	285,033
Legal collections (v) (includes US\$940 and US\$135 in 2017 and 2016)	-	135,349	135,349	-	46,170	46,170
	<u>495,494</u>	<u>6,834,707</u>	<u>7,330,201</u>	<u>172,606</u>	<u>3,838,483</u>	<u>4,011,089</u>
Allowance for loans and interest receivable (includes US\$26,459 and US\$28,276 in 2017 and 2016)	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

- (i) Corresponds to loans that are up to date in fulfilling the payment plan agreed or that do not show arrears over 30 days from the date on which they have become due and payable, except consumer loans relating to credit card, which will remain current until 60 days after the date on which payments have become due and payable.
- (ii) Corresponds to principal and interest receivable on loans, that 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.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

c) *By type of collateral:*

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Multi-use collateral (i)	1,486,383	97,726,361	99,212,744	31,862	62,933,533	62,965,395
Specific use collateral (ii)	-	3,076,292	3,076,292	-	5,581,691	5,581,691
Without collateral (iii)	<u>63,434,876</u>	<u>118,502,272</u>	<u>181,937,148</u>	<u>66,979,833</u>	<u>148,173,010</u>	<u>215,152,843</u>
	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>	<u>67,011,695</u>	<u>216,688,234</u>	<u>283,699,929</u>
Interest receivable	495,494	6,834,707	7,330,201	172,606	3,838,483	4,011,089
Allowance for loan losses and interest receivable	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

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. These collaterals are considered as follows:

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u>	
	<u>2017</u>	<u>2016</u>
Debt securities issued or guaranteed by the Dominican State (Central Bank, Ministry of Finance)	100	100
Debt securities issued by financial intermediaries	95	95
Time deposits in domestic or foreign currency owned by the financial intermediary	100	100
Time deposits in domestic or foreign currency of other financial intermediaries	95	95
Sureties or guarantees, irrevocable letters of credit and letters of credit stand-by	95	95
Mutual guarantee certificates	80	-
Investment fund participation fees (a)	-	-
Plots or land	80	80
Plots or exclusive land for agricultural purposes	80	80
Residential buildings, property and apartments	80	80
Buildings and commercial space	80	80
Buildings and commercial premises	80	80

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u>	
	<u>2017</u>	<u>2016</u>
Operating hotels (c)	80	70
Hotel projects under construction (c)	70	50
Industrial warehouses (c)	80	80
Aircraft	80	-
Motor vehicles with an aging of less than five years	50	50
Renewable energy equipment (c)	80	-
Industries of multiple use	70	70
Warrants of inventory	90	90
Securities guaranteed by trusts of public offering constituted over securities of the Central Bank and Ministry of Finance (b)	-	-
Security trust certificates over guarantee trusts (b)	-	-
Trust accounts for payment sources	50	50
Other multi-use collateral	-	70

- (a) The percentage of admissibility of the shares in investment funds, as well as their classification in multi-purpose or polyvalent or non-multipurpose, are established according to the assets that make up the equity.
- (b) 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.
- (c) By the Second Monetary Board resolution dated 26 October 2017, these types of guarantees were amended so that they are considered to be multi-purpose.
- (ii) Specific-use collaterals are real guarantees that, due to their nature, are considered of unique use, and therefore present characteristics that are difficult to realize due to their specialized origin. These collaterals will apply according to the following percentages:

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u>	
	<u>2017</u>	<u>2016</u>
Heavy vehicles	50	50
Free trade zone	60	80
Specialized machines and equipment	50	50
Other non-multi-use collaterals	-	50

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

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

d) By source of funds:

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Own funds	64,921,259	219,279,678	284,200,937	67,011,695	216,658,101	283,669,796
Other domestic institutions	-	25,247	25,247	-	30,133	30,133
	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>	<u>67,011,695</u>	<u>216,688,234</u>	<u>283,699,929</u>
Interest receivable	495,494	6,834,707	7,330,201	172,606	3,838,483	4,011,089
Allowance for loan losses and interest receivable	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

e) By term:

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Short-term (up to one year)	46,789,166	78,787,889	125,577,055	49,507,875	100,457,153	149,965,028
Medium-term (more than one year and up to three years)	8,769,376	104,103,599	112,872,975	14,630,229	84,449,881	99,080,110
Long-term (more than three years)	<u>9,362,717</u>	<u>36,413,437</u>	<u>45,776,154</u>	<u>2,873,591</u>	<u>31,781,200</u>	<u>34,654,791</u>
	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>	<u>67,011,695</u>	<u>216,688,234</u>	<u>283,699,929</u>
Interest receivable	495,494	6,834,707	7,330,201	172,606	3,838,483	4,011,089
Allowance for loan losses and interest receivable	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

f) By economic sector:

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Government	62,919,774	-	62,919,774	67,010,556	-	67,010,556
Financial sector	2,001,485	2,944,049	4,945,534	1,139	4,063,476	4,064,615
Non-financial sector						
Agriculture, livestock and forestry	-	5,109,917	5,109,917	-	3,497,323	3,497,323
Fishing	-	5,920	5,920	-	9,675	9,675
Mining and quarries	-	450,699	450,699	-	463,561	463,561
Manufacturing industry	-	12,841,120	12,841,120	-	10,625,370	10,625,370
Electricity, gas and water	-	3,913,566	3,913,566	-	4,997,872	4,997,872
Construction wholesale and retail business	-	29,008,673	29,008,673	-	47,331,261	47,331,261
	-	44,848,256	44,848,256	-	39,228,519	39,228,519

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

	2017			2016		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Hotels and restaurants	-	15,291,667	15,291,667	-	12,510,870	12,510,870
Transportation, warehousing and communication	-	1,965,208	1,965,208	-	1,787,716	1,787,716
Real estate, and leasing activities	-	6,826,256	6,826,256	-	7,002,710	7,002,710
Education	-	276,649	276,649	-	319,307	319,307
Health and social services	-	127,112	127,112	-	172,507	172,507
Other social and personal services activities	-	87,748,415	87,748,415	-	77,969,614	77,969,614
Private household with local services	-	7,947,418	7,947,418	-	6,708,453	6,708,453
	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>	<u>67,011,695</u>	<u>216,688,234</u>	<u>283,699,929</u>
Interest receivable	495,494	6,834,707	7,330,201	172,606	3,838,483	4,011,089
Allowance for loan losses and interest receivable	-	(8,267,297)	(8,267,297)	-	(6,694,596)	(6,694,596)
	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>	<u>67,184,301</u>	<u>213,832,121</u>	<u>281,016,422</u>

As of December 31, 2017 and 2016, loans to the private sector include RD\$34,400 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", provision requirement of 1 % and their recognition as private sector loans. Through the sixth resolution of the Monetary Board dated December 20, 2016, a no-objection was granted until April 30, 2017 for the Bank to classify these credits with risk category "A" and provision requirement of 0 %, as well as their presentation as current and classify as loans to the private sector. These terms were extended until December 31, 2018, through the seventh (7th) Resolution of the Monetary Board dated December 20, 2017.

According to the First Resolution of the Monetary Board dated July 9, 2015, direct and indirect financing granted to the Dominican State that has the 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 presented as current. This no objection was extended until December 31, 2018, through the Seventh (7th) Resolution of the Monetary Board dated December 20, 2017.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

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

- ◆ The domestic financial institution transferred to the Bank its loan portfolio, classified by the Superintendence of Banks in risk categories of D and E, with a face value of approximately RD\$800,000. For the administration of this portfolio, the Bank charges a commission on the recovered values. During 2017 and 2016, revenues from this commission amounted to approximately RD\$6,200 and RD\$8,500, respectively, and are presented as part of the other operating income in the accompanying consolidated statements of income for those years.
- ◆ The Bank sold to local and foreign financial institutions a portion of its loan portfolio with the Ministry of Finance and other debtors, amounting to \$62,134 and RD\$9,621,081 in 2016. During the year ended December 31, 2016, these operations generated profits for the Bank for approximately RD\$59,100, which are presented as part of other income in the accompanying consolidated income statements.

8 Debtors by acceptances

A summary of debtors by acceptances, is as follows:

<u>Correspondent Bank</u>	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Maturity Date</u>
Wells Fargo Bank (corresponds to US\$7,604 in 2017 and US\$9,818 in 2016)	366,461	2018	457,670	2017
Commerzbank (corresponds to to US\$227 in 2017 and US\$2,680 in 2016)	10,955	2018	124,917	2017
Bank of America (corresponds to US\$120 in 2016)	-	-	5,594	2017
Societe Generale (corresponds to US\$10,514 in 2017 and US\$6,861 in 2016)	506,708	2018	319,822	2017
Deutsche Bank (corresponds to US\$4,410 in 2017 and US\$7,888 in 2016)	212,531	2018	367,710	2017

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

8 Debtors by acceptances (continued)

<u>Correspondent Bank</u>	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Maturity Date</u>
CoBank (corresponds to US\$10,000 in 2017 and US\$30,011 in 2016)	481,928	2018	1,399,045	2017
CitiBank (corresponds to US\$164 in 2017)	7,878	2018	-	-
The Bank of Tokyo-Mitsubishi (corresponds to US\$1,103 in 2016)	-	-	51,444	2017
	<u>1,586,461</u>		<u>2,726,202</u>	

9 Accounts receivable

A summary of accounts receivable is as follows:

	<u>2017</u>	<u>2016</u>
Commissions receivable (includes US\$182 in 2017 and US\$61 in 2016)	<u>221,536</u>	<u>34,498</u>
Other receivables:		
Foreign exchange contracts (includes US\$968 in 2016)	-	45,106
Advances to suppliers	260	9,017
Accounts receivable from employees	14,545	505,797
Recoverable expenses	6,571	5,962
Security deposits	46,461	46,437
Judicial and administrative deposits	2,014	2,014
Credit card claims	93,490	47,869
Accounts receivable for real estate and leasing operations (includes US\$59 in 2017 and US\$73 in 2016)	6,911	6,487
Management funds	410,374	125,118
Discounted notes receivable	91,458	128,679
Documents receivable from instruments with a re-sale agreement	130,773	-
Returned checks (includes US\$2 in 2017 in 2016)	320	114
Accounts receivable - other (includes US\$4,232 in 2017 and US\$2,278 in 2016)	<u>784,492</u>	<u>779,612</u>
	<u>1,587,669</u>	<u>1,702,212</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

9 Accounts receivable (continued)

	<u>2017</u>	<u>2016</u>
Insurance premiums receivable:		
General insurances (includes US\$23,157 and US\$15,643 in 2017 and 2016)	2,182,192	1,828,833
Life insurance includes US\$500 and US\$554 in 2017 and 2016)	<u>56,148</u>	<u>91,288</u>
	<u>2,238,340</u>	<u>1,920,121</u>
Receivables from insurance and guarantees	<u>6,688</u>	<u>8,387</u>
	<u>4,054,233</u>	<u>3,665,218</u>

10 Assets received in loan settlements

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	491,542	486,920
Real estate	<u>8,090,050</u>	<u>7,750,404</u>
	8,581,592	8,237,324
Allowance for losses on assets received in loan settlements	<u>(6,356,177)</u>	<u>(5,960,004)</u>
	<u>2,225,415</u>	<u>2,277,320</u>

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

2017	<u>Amount</u>	<u>Provision</u>
Up to 40 months:		
Furniture and equipment	491,325	(491,325)
Real estate	3,285,943	(1,060,528)
More than 40 months:		
Furniture and equipment	216	(216)
Real estate	<u>4,804,108</u>	<u>(4,804,108)</u>
Total	<u>8,581,592</u>	<u>(6,356,177)</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

10 Assets received in loan settlements (continued)

	<u>Amount</u>	<u>Provision</u>
2016		
Up to 40 months:		
Furniture and equipment	486,233	(486,233)
Real estate	3,954,153	(1,676,833)
More than 40 months:		
Furniture and equipment	687	(687)
Real estate	<u>3,796,251</u>	<u>(3,796,251)</u>
Total	<u>8,237,324</u>	<u>(5,960,004)</u>

11 Investments in shares

A summary of investments in shares as of December 31, 2017 and 2016, is as follows:

<u>Amount of investment</u>	<u>Percentage of shares</u>	<u>Type of shares</u>	<u>Face value</u>	<u>Market value</u>	<u>Number of outstanding shares</u>
December 31, 2017					
<u>Investments in associates:</u>					
685,259	24.53 %	Common	100	(a)	4,866,613
<u>249,268</u>	27.08 %	Common	1,000	(a)	161,888
<u>934,527</u>					
<u>Investments in other entities:</u>					
41,374 (a)	0 %	Common	311	1,295	128,776
15,605 (b)	10 %	Common	100	(a)	156,048
<u>97,467 (b)</u>					
<u>154,446</u>					
1,088,973					
<u>(27,795) (c)</u>					
Total					<u>1,061,178</u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

11 Investments in shares (continued)

<u>Amount of investment</u>	<u>Percentage of shares</u>	<u>Type of shares</u>	<u>Face value</u>	<u>Market value</u>	<u>Number of outstanding shares</u>
December 31, 2016					
<u>Investments in associates:</u>					
647,508	24.53 %	Common	100	(a)	4,866,613
<u>202,336</u>	27.08 %	Common	1,000	(a)	161,888
<u>849,844</u>					
<u>Investments in other entities:</u>					
40,021 (a)	0 %	Common	311	1,372	128,776
15,605 (b)	10 %	Common	100	(a)	156,048
<u>97,467 (b)</u>					
<u>153,093</u>					
1,002,937					
<u>(22,723) (c)</u>					
Total					
<u>980,214</u>					

(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 an active market, which book value as of December 31, 2017 and 2016 amounted to RD\$41 and RD\$40 million, respectively, the market value was RD\$167 and RD\$177 million, respectively.

(b) Corresponds to minor investments in several entities.

(c) Represents an allowance for investments in shares.

As of December 31, 2017 and 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 as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Investment balances at January 1 st	849,844	863,553
Equity on earnings recognized	138,381	41,870
Dividends received in cash	<u>(53,698)</u>	<u>(55,579)</u>
Investment balances at December 31	<u>934,527</u>	<u>849,844</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

12 Property, furniture and equipment

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

	Land and improvements	Buildings	Furniture and equipment	Leasehold improvements	Construction and acquisitions in process (a)	Total
2017						
Balance at						
January 1 st , 2017	1,502,291	5,065,251	4,874,138	208,393	4,848,302	16,498,375
Acquisitions	-	37,367	81,703	-	525,398	644,468
Disposals	-	(4,784)	(399,913)	-	-	(404,697)
Transfers	<u>7,250</u>	<u>561,003</u>	<u>602,424</u>	<u>123,499</u>	<u>(1,290,793)</u>	<u>3,383</u>
Balance at December						
31, 2017	<u>1,509,541</u>	<u>5,658,837</u>	<u>5,158,352</u>	<u>331,892</u>	<u>4,082,907</u>	<u>16,741,529</u>
Accumulated depreciation						
at January 1 st , 2017	-	(1,430,693)	(1,757,754)	(68,605)	-	(3,257,052)
Depreciation expenses (b)	-	(186,646)	(836,690)	(74,083)	-	(1,097,419)
Disposals	<u>-</u>	<u>4,784</u>	<u>373,253</u>	<u>-</u>	<u>-</u>	<u>378,037</u>
Balance at December 31,						
2017	<u>-</u>	<u>(1,612,555)</u>	<u>(2,221,191)</u>	<u>(142,688)</u>	<u>-</u>	<u>(3,976,434)</u>
Property, furniture and equipment at						
December 31, 2017	<u>1,509,541</u>	<u>4,046,282</u>	<u>2,937,161</u>	<u>189,204</u>	<u>4,082,907</u>	<u>12,765,095</u>
2016						
Balance at						
January 1 st , 2016	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
Disposals	-	-	(491,163)	-	-	(491,163)
Transfers	<u>115,726</u>	<u>354,608</u>	<u>1,430,222</u>	<u>31,625</u>	<u>(1,932,181)</u>	<u>-</u>
Balance at December						
31, 2016	<u>1,502,291</u>	<u>5,065,251</u>	<u>4,874,138</u>	<u>208,393</u>	<u>4,848,302</u>	<u>16,498,375</u>
Accumulated depreciation						
at January 1 st , 2016	-	(1,299,123)	(1,457,426)	(37,276)	-	(2,793,825)
Depreciation expenses (b)	-	(131,570)	(771,109)	(43,474)	-	(946,153)
Disposals	<u>-</u>	<u>-</u>	<u>470,781</u>	<u>12,145</u>	<u>-</u>	<u>482,926</u>
Balance at December 31,						
2016	<u>-</u>	<u>(1,430,693)</u>	<u>(1,757,754)</u>	<u>(68,605)</u>	<u>-</u>	<u>(3,257,052)</u>
Property, furniture and equipment at						
December 31, 2016	<u>1,502,291</u>	<u>3,634,558</u>	<u>3,116,384</u>	<u>139,788</u>	<u>4,848,302</u>	<u>13,241,323</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

12 Property, furniture and equipment (continued)

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

(b) As of December 31, 2017 and 2016, includes RD\$20,277 and RD\$19,225, respectively, correspond to depreciation of assets in use by officers and employees which are presented as part of salaries and compensation to personnel in the accompanying consolidated statements of income.

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

13 Other assets

A summary of other assets is as follows:

	<u>2017</u>	<u>2016</u>
Deferred charges:		
Commissions to insurance agents on unearned premiums	249,479	236,793
Prepaid insurances	218,711	205,038
Non-deferred proportional ceded reinsurance premium (a)	150,742	184,498
Prepaid income tax	1,378,319	1,403,038
Other prepaid payments (includes US\$4 in 2017 and 2016)	1,230,646	565,789
Other deferred charges	<u>181,131</u>	<u>152,671</u>
	<u>3,409,028</u>	<u>2,747,827</u>
Intangibles:		
Software	180,253	195,526
Others	<u>2,200</u>	<u>2,200</u>
	182,453	197,726
Accumulated amortization	<u>(123,828)</u>	<u>(128,660)</u>
	<u>58,625</u>	<u>69,066</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

13 Other assets (continued)

	<u>2017</u>	<u>2016</u>
Other assets:		
Assets acquired for financial leases	736,821	727,060
Stationery and office supplies	88,177	122,672
Plastic inventory of credit card	44,568	15,138
Libraries and artwork	24,547	24,365
Other miscellaneous assets (b)	3,000,236	2,254,441
Items pending for allocation (c), (includes US\$3,040 in 2017 and US\$732 in 2016)	540,898	111,649
Others	<u>97,021</u>	<u>5,988</u>
	<u>4,532,268</u>	<u>3,261,313</u>
	<u>7,999,921</u>	<u>6,078,206</u>

- (a) Corresponds to insurance premiums pending to be amortized from reinsurance contracts 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.

14 Summary of allowances for risky assets

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

	<u>Loan portfolio</u>	<u>Investments</u>	<u>Interest receivable</u>	<u>Other assets (a)</u>	<u>Contingent operations (b)</u>	<u>Total RD\$</u>
December 31, 2017						
Balance at January 1 st , 2017	6,276,242	267,115	419,138	5,960,004	212,372	13,134,871
Constitution of allowances	3,467,448	32,952	490,659	297,666	86,799	4,375,524
Write-offs against allowances	(1,833,279)	-	(374,952)	-	-	(2,208,231)
Transfers of allowances	(186,457)	(2,686)	(22,869)	253,507	(41,495)	-
Reverse of allowances (e)	-	-	-	(155,000)	-	(155,000)
Effect of change in exchange rates and others	<u>34,051</u>	<u>454</u>	<u>286</u>	<u>-</u>	<u>4,305</u>	<u>39,096</u>
Balance at December 31, 2017	7,758,005	297,835	512,262	6,356,177	261,981	15,186,260
Minimum allowances required at December 31, 2017 (c)	<u>7,642,679</u>	<u>292,014</u>	<u>479,865</u>	<u>6,352,464</u>	<u>213,748</u>	<u>14,980,770</u>
Excess (deficit) in the minimum allowance required at December 31, 2017 (d)	<u>115,326</u>	<u>5,821</u>	<u>32,397</u>	<u>3,713</u>	<u>48,233</u>	<u>205,490</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

14 Summary of allowances for risky assets (continued)

	Loan portfolio	Investments	Interest receivable	Other assets (a)	Contingent operations (b)	Total RD\$
December 31, 2016						
Balance at January 1 st , 2016	5,432,913	238,516	336,324	5,257,239	194,790	11,459,782
Constitution of allowances	2,143,124	7,186	901,951	647,095	72,612	3,771,968
Write-offs against allowances	(1,132,269)	-	(172,276)	-	-	(1,304,545)
Transfers of allowances	(180,050)	21,174	160,909	55,670	(57,703)	-
Release of allowances	-	-	(807,985)	-	-	(807,985)
Effect of change in exchange rates and others	<u>12,524</u>	<u>239</u>	<u>215</u>	<u>-</u>	<u>2,673</u>	<u>15,651</u>
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)	<u>6,218,208</u>	<u>248,836</u>	<u>331,204</u>	<u>5,959,068</u>	<u>195,251</u>	<u>12,952,567</u>
Excess (deficit) in the minimum allowance required at December 31, 2016 (d)	<u><u>58,034</u></u>	<u><u>18,279</u></u>	<u><u>87,934</u></u>	<u><u>936</u></u>	<u><u>17,121</u></u>	<u><u>182,304</u></u>

- (a) Corresponds to the allowance for assets received in loan settlements.
- (b) This allowance is included as part of other liabilities in note 19 and the constitution expense is included as part of operating expenses in the consolidated statement of income.
- (c) Represents the amounts of allowance determined by a self-assessment as of December 31, 2017 and 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.
- (e) Includes amount of reversed provision of assets received in recovery of credits.

As of December 31, 2017 and 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.

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14 Summary of allowances for risky assets (continued)

The Superintendence of Banks of the Dominican Republic communicated to the Bank its non-objection to the development of a financing program in favor of contractors of priority works, both of the Central Government and decentralized and autonomous companies and nonfinancial public companies, to be classified in category of risk "A" and therefore constitute 1 % of provision. By means of the Sixth (6th) Resolution of the Monetary Board of December 20, 2016, a waiver was granted until April 20, 2017 to grant a rating of risk "A" and requirement to provide a 0 % on these credits, these terms were extended until December 31, 2018, through the seventh (7th) resolution of the Monetary Board of December 20, 2017. As of December 31, the amount of the debt under this program amounts to approximately RD\$34,400,000 and 43,800,000 and the decrease in the required provision originated by this exemption was approximately RD\$344,000 and RD\$438,000, respectively.

15 Customers' deposits

Customers' deposits are summarized as follows:

a) By type

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
December 31, 2017					
Checking	58,363,467	0.57	-	-	58,363,467
Savings	77,361,260	1.23	49,632,055	0.96	126,993,315
Time	<u>2,398</u>	<u>3.49</u>	<u>39,273,765</u>	<u>2.11</u>	<u>39,276,163</u>
	<u>135,727,125</u>	<u>0.95</u>	<u>88,905,820</u>	<u>1.47</u>	<u>224,632,945</u>
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	<u>2,470</u>	<u>6.12</u>	<u>49,076,511</u>	<u>2.49</u>	<u>49,078,981</u>
	<u>116,317,739</u>	<u>1.05</u>	<u>85,664,827</u>	<u>1.82</u>	<u>201,982,566</u>

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Notes to the consolidated financial statements (continued)

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15 Customers' deposits (continued)

b) By sector

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
December 31, 2017					
Non-financial public sector	26,077,862	0.58	11,173,666	1.05	37,251,528
Non-financial private sector	109,635,593	1.03	77,711,546	1.53	187,347,139
Non-resident	<u>13,670</u>	<u>0.67</u>	<u>20,608</u>	<u>1.14</u>	<u>34,278</u>
	<u>135,727,125</u>	<u>0.95</u>	<u>88,905,820</u>	<u>1.47</u>	<u>224,632,945</u>
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	<u>1,730</u>	<u>0.63</u>	<u>9,182</u>	<u>1.50</u>	<u>10,912</u>
	<u>116,317,739</u>	<u>1.05</u>	<u>85,664,827</u>	<u>1.82</u>	<u>201,982,566</u>

c) By maturity date

December 31, 2017					
To 15 days	135,724,727	0.95	50,029,533	0.98	185,754,260
16 to 30 days	8	1.13	280,969	2.03	280,977
31 to 60 days	237	1.55	6,065,874	1.75	6,066,111
61 to 90 days	202	1.90	4,889,391	1.90	4,889,593
91 to 180 days	819	1.60	8,091,855	1.95	8,092,674
181 to 360 days	138	2.17	12,872,078	2.56	12,872,216
More than 1 year	<u>994</u>	<u>6.01</u>	<u>6,676,120</u>	<u>1.94</u>	<u>6,677,114</u>
	<u>135,727,125</u>	<u>0.95</u>	<u>88,905,820</u>	<u>1.47</u>	<u>224,632,945</u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

15 Customers' deposits (continued)

	<u>Local currency</u>	Annual weighted average rate (%)	<u>Foreign currency</u>	Annual weighted average rate (%)	<u>Total RD\$</u>
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 a year	<u>1,014</u>	<u>6.01</u>	<u>3,763,826</u>	<u>2.35</u>	<u>3,764,840</u>
	<u>116,317,739</u>	<u>1.05</u>	<u>85,664,827</u>	<u>1.82</u>	<u>201,982,566</u>

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

	<u>Inactive accounts</u>	<u>Foreclosed funds</u>	<u>Deceased customers</u>	<u>Security deposits</u>	<u>Total RD\$</u>
December 31, 2017					
Customers' deposits:					
Checking	94,191	797,559	26,920	-	918,670
Savings	723,676	503,479	831,258	-	2,058,413
Time	-	<u>173,676</u>	<u>182,736</u>	<u>2,633,808</u>	<u>2,990,220</u>
	<u>817,867</u>	<u>1,474,714</u>	<u>1,040,914</u>	<u>2,633,808</u>	<u>5,967,303</u>
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	-	<u>1,409</u>	<u>74,647</u>	<u>2,166,070</u>	<u>2,242,126</u>
	<u>845,913</u>	<u>1,074,351</u>	<u>881,195</u>	<u>2,331,277</u>	<u>5,132,736</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

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15 Customers' deposits (continued)

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

	From 3 to <u>10 years</u>	More than <u>10 years</u>	<u>Total</u>
December 31, 2017			
Customer deposits:			
Checking	90,882	3,309	94,191
Savings	<u>560,098</u>	<u>163,578</u>	<u>723,676</u>
	<u>650,980</u>	<u>166,887</u>	<u>817,867</u>
December 31, 2016			
Customer deposits:			
Checking	61,587	1,322	62,909
Savings	<u>764,464</u>	<u>18,540</u>	<u>783,004</u>
	<u>826,051</u>	<u>19,862</u>	<u>845,913</u>

16 Deposits from domestic and foreign financial institutions

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

a) By type and currency

	Local <u>currency</u>	Annual weighted average rate (%)	Foreign <u>currency</u>	Annual weighted average rate (%)	<u>Total RD\$</u>
December 31, 2017					
Checking	4,253,398	0.57	-	-	4,253,398
Savings	245,882	1.23	15,641,857	0.96	15,887,739
Time	<u>96</u>	<u>2.27</u>	<u>6,304,572</u>	<u>1.57</u>	<u>6,304,668</u>
	<u>4,499,376</u>	<u>0.61</u>	<u>21,946,429</u>	<u>1.14</u>	<u>26,445,805</u>
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	<u>104</u>	<u>3.68</u>	<u>5,042,234</u>	<u>1.69</u>	<u>5,042,338</u>
	<u>4,356,939</u>	<u>0.71</u>	<u>15,772,409</u>	<u>1.17</u>	<u>20,129,348</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

16 Deposits from domestic and foreign financial institutions (continued)

b) By maturity date

	<u>Local currency</u>	<u>Annual weighted average rate (%)</u>	<u>Foreign currency</u>	<u>Annual weighted average rate (%)</u>	<u>Total RD\$</u>
December 31, 2017					
To 15 days	4,499,294	0.61	15,641,844	0.96	20,141,138
31 to 60 days	50	2.25	5,792,874	1.57	5,792,924
61 to 90 days	-	-	296,267	1.17	296,267
91 to 180 days	30	2.05	116,440	1.95	116,470
181 to 360 days	-	-	59,517	2.46	59,517
More than a year	<u>2</u>	<u>5.63</u>	<u>39,487</u>	<u>2.80</u>	<u>39,489</u>
	<u>4,499,376</u>	<u>0.61</u>	<u>21,946,429</u>	<u>1.14</u>	<u>26,445,805</u>
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	<u>2</u>	<u>5.63</u>	<u>99,501</u>	<u>2.91</u>	<u>99,503</u>
	<u>4,356,939</u>	<u>0.71</u>	<u>15,772,409</u>	<u>1.17</u>	<u>20,129,348</u>

As of December 31, 2017 and 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\$206,229 and RD\$149,812, respectively.

As of December 31, 2017 and 2016, the estatus of the inactive and/or dormant accounts of the deposits in domestic financial institutions with three to ten year term is RD\$464 and RD\$297, respectively.

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17 Borrowed funds

A summary of borrowed funds is as follows:

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
December 31, 2017					
Domestic financial institutions:					
Banco Popular Dominicano, S. A.	Line of credit	Secured	7.00 %	2018	700,000
Banco Múltiple BHD León, S. A.	Line of credit	Secured	8.00 %	2018	500,000
Asociación Popular de Ahorros y Préstamos	Line of credit	Secured	8.50 %	2018	<u>500,000</u>
					<u>1,700,000</u>
Foreign financial institutions:					
Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US\$100,000)	Line of credit	Unsecured	2.72 % until 2.77 %	2018	4,819,300
Citibank, N. A. (corresponds to US\$110,000)	Line of credit	Unsecured	2.88 % until 2.93 %	2018	5,301,230
Banco Interamericano de Desarrollo, BID (corresponds to US\$20,000)	Loan	Unsecured	3.96 %	2018	963,860
Eximbank, Republic of China - Taiwán (corresponds to US\$304)	Loan	Unsecured	2.10 % until 2.40 %	2018 until 2019	14,634
Sumitomo Mithsui Banking Corp. (corresponds to US\$29,000)	Loan	Unsecured	2.70 % until 3.22 %	2018	1,397,597
Wells Fargo Bank (corresponds to US\$91,423)	Loan	Unsecured	2.64 % until 2.73 %	2018	4,405,944
Mercantil Commerce Bank (corresponds to US\$28,000)	Loan	Unsecured	3.18 % 3.29 %	2018	1,349,404
Bank of America (corresponds to US\$15,000)	Loan	Unsecured	2.75 %	2018	722,895
U. S. Century Bank (corresponds to US\$6,000)	Loan	Unsecured	3.00 %	2018	289,158
Deutsche Bank (corresponds to US\$20,000)	Loan	Unsecured	2.88 %	2018	963,960

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Notes to the consolidated financial statements (continued)

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17 Borrowed funds (continued)

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
December 31, 2017					
Banco Centroamericano de Integración económica (corresponds to US\$40,000)	Loan	Unsecured	2.75 %	2018	1,927,720
Banco de Crédito e Inversiones (corresponds to US\$5,000)	Loan	Unsecured	3.96 %	2018	240,965
Bac Florida Bank (corresponds to US\$12,000)	Loan	Unsecured	2.56 %	2018	578,316
Cost of debt commissions (a)					<u>(236)</u>
					22,974,647
Other:					
Various	Sale of investments with re-purchase agreement	Secured	0.31 % until 20.27 %	2018	<u>2,820,940</u>
Interest payable (includes US\$3,578)					<u>187,380</u>
					<u>27,682,967</u>
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	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	<u>250,000</u>
					<u>1,973,409</u>
Foreign financial institutions:					
Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US\$146,000)	Line of credit	Unsecured	2.30 % until 2.95 %	2016 until 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 %	2016 until 2017	8,391,078

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17 Borrowed funds (continued)

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance (RD\$)</u>
Eximbank, Republic of China - Taiwán (corresponds to US\$438)	Loan	Unsecured	1.61 % until 2.04 %	2016 until 2017	20,427
Sumitomo Mithsui 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 Bank (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)					<u>(45,980)</u>
					36,452,328
Interest payable (includes US\$7,420)					<u>349,307</u>
					<u>38,775,044</u>

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

18 Outstanding securities

A summary of outstanding securities, is as follows:

a) By type

	<u>Local currency RD\$</u>	<u>Annual weighted average rate (%)</u>
December 31, 2017		
Time certificates	<u>109,694,488</u>	<u>5.90</u>
December 31, 2016		
Time certificates	<u>124,448,151</u>	<u>8.08</u>

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Notes to the consolidated financial statements (continued)

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18 Outstanding securities (continued)

b) By sector

	Local currency <u>RD\$</u>	Annual weighted average rate (%)
December 31, 2017		
Non-financial public sector	18,618,706	6.34
Non-financial private sector	75,324,220	5.78
Financial sector	15,690,680	5.93
Non-resident	<u>60,882</u>	<u>7.95</u>
	<u><u>109,694,488</u></u>	<u><u>5.90</u></u>
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	<u>10</u>	<u>5.00</u>
	<u><u>124,448,151</u></u>	<u><u>8.08</u></u>

c) By maturity date

December 31, 2017		
0 to 15 days	207,764	5.86
16 to 30 days	284,434	5.63
31 to 60 days	16,326,785	5.45
61 to 90 days	18,335,124	6.19
91 to 180 days	29,170,446	5.81
181 to 360 days	27,377,424	5.96
More than a year	<u>17,992,511</u>	<u>6.08</u>
	<u><u>109,694,488</u></u>	<u><u>5.90</u></u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

18 Outstanding securities (continued)

	Local currency <u>RD\$</u>	Annual weighted average rate (%)
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	<u>8,761,564</u>	<u>7.35</u>
	<u>124,448,151</u>	<u>8.08</u>

As of December 31, 2017 and 2016, outstanding securities include restricted amounts, as follows:

	<u>Deceased clients</u>	<u>Received in collateral</u>	<u>Total</u>
December 31, 2017			
Outstanding securities - time certificates	<u>324,733</u>	<u>8,605,139</u>	<u>8,929,872</u>
December 31, 2016			
Outstanding securities - time certificates	<u>358,139</u>	<u>7,415,885</u>	<u>7,774,024</u>

19 Other liabilities

A summary of other liabilities is as follows:

	<u>2017</u>	<u>2016</u>
Demand obligations (includes US\$12,423 in 2017 and US\$359 in 2016) (a)	1,793,758	671,811
Term obligations (includes US\$22,300 in 2017 and US\$52,396 in 2016) (b)	1,386,266	3,043,694
Differential by position of future contracts	37	13

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19 Other liabilities (continued)

	<u>2017</u>	<u>2016</u>
Unclaimed third party balances (includes US\$467 in 2017 and US\$218 in 2016)	22,501	105,675
Sundry creditors:		
Commissions payable	19,621	57,186
Accounts payables to suppliers (includes US\$62 in 2017 and US\$146 in 2016)	246,653	179,949
Withheld tax payable	163,509	89,216
Retained payable insurance premium	38,412	108,922
Other sundry creditors (c) (includes US\$3,339 in 2017 and US\$103 in 2016) (c)	1,606,323	848,971
Reserves for contingent operations (includes US\$2,657 in 2016) (d)	261,981	212,372
Other provisions:		
Income tax (note 22)	134,757	19,029
Provision for litigation (note 27)	83,743	105,673
Bonus and other employee's benefits	2,827,900	2,550,766
Systemic risk prevention program	154,388	148,512
Contingency fund	86,264	99,511
Credit card and electronic transactions	159,044	137,816
Extraordinary contributions to pension plans	20,194	60,582
Other reserves (includes US\$62 in 2017 and US\$66 in 2016)	816,059	246,101
Items pending for allocation (includes US\$554 in 2017 and US\$395 in 2016) (e)	172,146	241,567
Administration fund of the public sector	205,094	24,453
Commissions to agents on premiums pending collection (includes US\$1,271 in 2017 and US\$1,256 in 2016)	175,544	168,156
Tax on outstanding premium	263,056	197,710
Withholding tax to reinsurers	9,782	9,813
Payments received in advance (includes US\$37 in 2017)	71,185	89,560
Others	<u>1,057,141</u>	<u>652,020</u>
	<u>11,775,358</u>	<u>10,069,078</u>

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

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

19 Other liabilities (continued)

- (c) As of December 31, 2017 and 2016, includes RD\$1,029,452 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 14).
- (e) Corresponds to creditors' balances that, due to internal operating reasons or characteristics of the operation, it was not possible to immediately allocate the balances in the final accounts.

20 Subordinated debts

A summary of the subordinated debts, is as follows:

<u>Type</u>	<u>Amount in RD\$</u>	<u>Effective interest rate</u>	<u>Type of currency</u>	<u>Term</u>
December 31, 2017				
Subordinated debts (corresponds to US\$300,000 nominal value (a))	14,457,900	7.12 %	Dollar	10 years
Subordinated debts nominal value (b)	9,999,000	10.20 %	Peso	10 years
Debt issuance costs (c)	(145,933)	-	-	-
Discount on the issuance of debt (corresponds to (US\$1,562) (d))	<u>(75,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	24,235,667			
Interest payable (corresponds to US\$8,750)	<u>428,050</u>			
	<u>24,663,717</u>			

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

20 Subordinated debts (continued)

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

- 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 annual interest rate of 7 % 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, 2014, for a nominal value of RD\$10,000,000. The amount placed corresponds to two issuances offered simultaneously for RD\$5,000 million each, with a maturity of 10 years until December 29, 2024, and a floating interest rate equivalent to the weighted interest average rate (TIPPP for its Spanish acronyms) of multiple banks, published by the Central Bank of the Dominican Republic plus a fixed margin of 2.75 %. The effective rate at the time of placement was 9.66 %, reviewable every six months. These bonds have no collateral and in the case of dissolution or liquidation of the Bank, the payment of the bonds is subject to all the Bank's obligations.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

20 Subordinated debts (continued)

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

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

21 Technical reserves

The subsidiaries Seguros Reservas, S. A. and Administradora de Riesgos de Salud Reservas, Inc. maintain ongoing specific mathematical risk reserves to meet commitments arising from the current insurance policies, which amounted to RD\$3,434,545 and RD\$2,947,010 as of December 31, 2017 and 2016, respectively.

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

	<u>Mathematical reserves</u>	<u>Specific reserves and ongoing risk</u>	<u>Total</u>
2017			
Balance at January 1 st , 2017	145,943	2,801,067	2,947,010
Plus: reserve increase	158,658	3,186,282	3,344,940
Less: reserve decrease	<u>(139,698)</u>	<u>(2,717,707)</u>	<u>(2,857,405)</u>
Balance at December 31, 2017	<u>164,903</u>	<u>3,269,642</u>	<u>3,434,545</u>
2016			
Balance at January 1 st , 2016	140,019	2,524,397	2,664,416
Plus: Reserve increase	140,474	2,732,627	2,873,101
Less: Reserve decrease	<u>(134,550)</u>	<u>(2,455,957)</u>	<u>(2,590,507)</u>
Balance at December 31, 2016	<u>145,943</u>	<u>2,801,067</u>	<u>2,947,010</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

22 Income tax

In accordance with the Organic Law, the Bank is exempt from income tax. However, the Bank performs the computation and voluntarily pays income tax by following some guidelines of the Tax Code and special criteria after considering that the final beneficiary is the Dominican Republic State. The consolidated companies declare and pay their income tax individually and separately. Consolidated companies determine their net taxable income based on accounting practices to comply with existing legislation. A reconciliation of the results reported in the consolidated financial statements and for tax purposes for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Income before income tax	7,231,976	6,592,684
Plus (less) tax adjustments:		
Adjustments of exempted income and other items considered by the Bank	(6,165,935)	(5,652,547)
Exempt income from investments in associates	(138,381)	(41,870)
Dividends received from investments in shares	(25,510)	(14,552)
Fringe benefits taxes	163,638	163,562
Non-deductable taxes	1,015,841	535,259
Effect of depreciation of fixed assets	(93,806)	(110,532)
Gain on sale of fixed assets	(21,700)	(11,497)
Net results of companies that pay taxes on another basis	202,709	140,325
Other non-deductible items	<u>173,472</u>	<u>79,421</u>
Net taxable income	<u>2,342,304</u>	<u>1,680,253</u>

A detail of the determined income tax as of December 31, 2017 and 2016, it is as follows:

	<u>2017</u>	<u>2016</u>
Net taxable income	2,342,304	1,680,253
Tax rate	<u>27 %</u>	<u>27 %</u>
	<u>632,422</u>	<u>453,668</u>
Total net taxable assets	1,060,203	1,138,015
Tax rate	<u>1 %</u>	<u>1 %</u>
	<u>10,602</u>	<u>11,380</u>
Total income tax determined	<u>643,024</u>	<u>465,048</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

22 Income tax (continued)

Income tax expense determined for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Current income tax	643,024	465,048
Deferred income tax	32,766	(95,897)
Tax withheld on payment of dividends	50,233	67,231
Tax credit for Film Law	-	(19,000)
Tax credit for Renewal Energy Law	(18,354)	(9,793)
Previous year income tax	<u>(1,935)</u>	<u>(4,064)</u>
	<u>705,734</u>	<u>403,525</u>

A reconciliation between the current tax, prepaid income tax and the tax payable for the years ended as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Determined tax	643,024	465,048
Prepaid taxes during the year	(369,147)	(689,080)
Prepaid income tax from previous years	(1,394,390)	(962,249)
Tax credit deduction for payments to government entities	(121,141)	(107,701)
Adjustment to the prepaid income tax	(1,589)	(4,064)
Tax credit for Film Law	-	(19,000)
Tax credit for Renewal Energy Law	(18,354)	(9,793)
Other movements, net	<u>18,035</u>	<u>(57,170)</u>
Prepaid income tax, net at the end of the period	<u>(1,243,562)</u>	<u>(1,384,009)</u>
Prepaid income tax	(1,378,319)	(1,403,038)
Income tax payable	<u>134,757</u>	<u>19,029</u>
	<u>(1,243,562)</u>	<u>(1,384,009)</u>

As of December 31 2017 and 2016, prepaid income tax is recognized as part of other assets, and income tax payable as part of other liabilities in the accompanying consolidated balance sheets.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

22 Income tax (continued)

The movement of deferred income tax during the years ended December 31, 2017 and 2016, is as follows:

	<u>Beginning balances</u>	<u>Recognized in profit</u>	<u>Ending balances</u>
December 31, 2017			
Property, plant and equipment	10,439	4,917	15,356
Other assets	(7,387)	1,013	(6,374)
Net income of the consolidated subsidiaries	(78,783)	(29,870)	(108,653)
Other non-deductible provisions	4,165	(8,192)	(4,027)
Other deferred charges	4,032	-	4,032
Exchange rate difference	<u>1,815</u>	<u>(634)</u>	<u>1,181</u>
Total deferred income tax liabilities	<u>(65,719)</u>	<u>(32,766)</u>	<u>(98,485)</u>
December 31, 2016			
Property, plant and equipment	8,526	1,913	10,439
Other assets	(6,004)	(1,383)	(7,387)
Net income of the consolidated subsidiaries	(170,343)	91,560	(78,783)
Other non-deductible provisions	4,366	(201)	4,165
Other deferred charges	18	4,014	4,032
Exchange rate difference	<u>1,821</u>	<u>(6)</u>	<u>1,815</u>
Total deferred income tax liabilities	<u>(161,616)</u>	<u>95,897</u>	<u>(65,719)</u>

As of December 31, 2017 and 2016, the deferred income tax liabilities, net is presented as part of other liabilities in the accompanying consolidated balance sheets.

23 Responsibilities

In addition to the obligation balances of insured risks retained, as of December 31, 2017 and 2016 for RD\$790,293,517 and RD\$701,334,489, respectively, the subsidiaries Seguros Reservas, S. A. and Administradora de Riesgo de Salud Reservas, Inc. recognize memorandum accounts for salvages warehouse amounting to RD\$20,429 and RD\$13,122 in 2017 and 2016.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

23 Responsibilities (continued)

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

	<u>2017</u>	<u>2016</u>
Responsibilities for insurance businesses and bonds taken directly	790,293,517	701,334,489
Surrendered and retracted insurance responsibilities	<u>(495,213,853)</u>	<u>(485,181,289)</u>
	<u>295,079,664</u>	<u>216,153,200</u>

24 Reinsurance

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

The reinsurers that support the insurance business are the following:

<u>December 31, 2017</u>			<u>December 31, 2016</u>		
<u>Reinsurer</u>	<u>Class of contract</u>	<u>Participation (%)</u>	<u>Reinsurer</u>	<u>Class of contract</u>	<u>Participation (%)</u>
Suiza	Surplus Quota share	12.5 60 until 100	Suiza	Surplus Quota share	10 until 25 60 until 100
Korean GC	Surplus Quota share	5 until 10 10.00	Korean GC	Surplus Quota share	5 until 10 10.00
Trans. RE Mallen	Surplus Quota share	15 until 25 15.00	Trans. RE Mallen	Surplus Quota share	15 until 25 15.00
Hannover XL	Surplus Quota share	5.00 5 until 70	Hannover XL	Surplus Quota share	5.00 70 until 100
Thompson Health	Surplus Quota share	2 until 22 5.00	Thompson Health	Surplus Quota share	2 until 22 5.00
National Borg	Quota share	5.00	National Borg	Quota share	5.00
Everest-BMS	Surplus Quota share	30 until 35 25 until 40	Everest-BMS	Surplus Quota share	25 until 40 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 Quota share	3.00 8.00	Navigators-BMS	Surplus Quota share	3.00 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

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

25 Equity

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 December 31, 2017	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>
Balance at December 31, 2016	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>

As of December 31, 2017, the capital contributions of the Bank have been originated as follow:

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

25 Equity (continued)

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

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

By the 12th (Twelfth) 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\$6,153,201, as detailed below:

- i) RD\$2,153,620 transferred to equity reserve. This transfer was done effectively as of December 31, 2016.
- ii) RD\$2,999,351 cash dividends to be paid to the Dominican Republic State.
- iii) RD\$75,000 to amortize the National Treasury vouchers, Law 99-01.
- iv) RD\$2,250 to offset interest of the National Treasury vouchers, Law 99-01.
- v) RD\$922,980 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:

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

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

25 Equity (continued)

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.

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, 2017 and 2016, the Bank segregated equity reserves for the amount of RD\$2,264,425 and RD\$2,153,620, respectively.

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. As of December 31, 2017 and 2016, the amortized amount corresponding to these revalued assets, amounted to RD\$11,140 for both years.

26 Information segments

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

<u>Segment</u>	<u>Company</u>	<u>Jurisdiction</u>	<u>Functional currency</u>	<u>Equity shares</u>	Percentage of voting rights direct and <u>Indirect</u>
December 31, 2017					
Financial	Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	Dominican Republic	RD\$	10,000,000	100%
Related services	Tenedora Reservas, S. A. and Subsidiaries	Dominican Republic	RD\$	<u>1,551,434</u>	97.74 %
				11,551,434	
	Elimination adjustments in consolidation			<u>(1,551,434)</u>	
				<u>10,000,000</u>	

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

26 Information segments (continued)

<u>Segment</u>	<u>Company</u>	<u>Jurisdiction</u>	<u>Functional currency</u>	<u>Equity shares</u>	Percentage of voting rights direct and <u>Indirect</u>
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\$	<u>1,551,434</u>	97.74 %
				11,551,434	
	Elimination adjustments in consolidation			<u>(1,551,434)</u>	
				<u>10,000,000</u>	

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

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
December 31, 2017					
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	453,765,935	421,686,019	53,793,097	47,323,312	6,469,785
Tenedora Reservas, S. A. and Subsidiaries	19,192,316	11,091,328	12,197,282	10,310,710	1,886,572
Administradora de Riesgos de Salud Reservas, Inc.	<u>504,501</u>	<u>119,918</u>	<u>785,519</u>	<u>711,523</u>	<u>73,996</u>
	473,462,752	432,897,265	66,775,898	58,345,545	8,430,353
Elimination adjustments in consolidation	<u>(10,037,460)</u>	<u>(1,773,658)</u>	<u>(3,874,852)</u>	<u>(1,970,741)</u>	<u>(1,904,111)</u>
	<u>463,425,292</u>	<u>431,123,607</u>	<u>62,901,046</u>	<u>56,374,804</u>	<u>6,526,242</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

26 Information segments (continued)

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
December 31, 2016					
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	451,072,673	421,466,900	50,707,162	44,553,961	6,153,201
Tenedora Reservas, S. A. and Subsidiaries	14,357,520	8,141,821	10,641,276	9,452,662	1,188,614
Administradora de Riesgos de Salud Reservas, Inc.	<u>410,744</u>	<u>100,157</u>	<u>665,440</u>	<u>621,804</u>	<u>43,636</u>
	465,840,937	429,708,878	62,013,878	54,628,427	7,385,451
Elimination adjustments in consolidation	<u>(9,514,164)</u>	<u>(3,160,558)</u>	<u>(3,247,909)</u>	<u>(2,051,617)</u>	<u>(1,196,292)</u>
	<u>456,326,773</u>	<u>426,548,320</u>	<u>58,765,969</u>	<u>52,576,810</u>	<u>6,189,159</u>

27 Commitments and contingencies

(a) Contingent operations

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Collaterals granted:		
Endorsements	3,469,441	2,969,145
Other collaterals granted	166,983	44,091
Non-negotiable letters of credit issued	282,253	575,939
Credit lines of automatic use	<u>21,285,932</u>	<u>16,065,672</u>
	<u>25,204,609</u>	<u>19,654,847</u>

As of December 31, 2017 and 2016, the Bank has reserves to cover possible losses from these operations for the amounts of RD\$261,981 and RD\$212,372, respectively, which are included in other liabilities in the consolidated balance sheets at those dates.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

27 Commitments and contingencies (continued)

(a) Contingent operations (continued)

As of December 31, 2017 and 2016, the Insurance subsidiary and the Administradora de Riesgos de Salud Reservas, Inc. had contingent liabilities for retained risk, estimated as follows:

	<u>2017</u>	<u>2016</u>
General risks	723,200,574	632,409,476
Individual life insurance	774,801	10,798,158
Collective life insurance	<u>66,318,142</u>	<u>58,126,855</u>
	<u>790,293,517</u>	<u>701,334,489</u>

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

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

The Bank has leasing contracts for the premises where some of its administrative offices, branches, business centers and ATM are located. For the years ended December 31, 2017 and 2016, expenses for this concept amounted to approximately RD\$742,410 and RD\$688,218, respectively, which are recognized in other operating expenses in the accompanying consolidated income statements. The commitments to pay for these leasing contracts of the administrative offices and branches for 2018 will be approximately RD\$755,000.

(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 years ended December 31, 2017 and 2016 was approximately RD\$791,000 and RD\$730,000, respectively, and has been recognized in other operating expenses in the accompanying consolidated income statements.

(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.

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Notes to the consolidated financial statements (continued)

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27 Commitments and contingencies (continued)**(d) Contingent fund (continued)**

Expenses for this concept for the years ended December 31, 2017 and 2016, were approximately RD\$325,000 and RD\$301,000, respectively, and are recognized in other operating expenses in the accompanying consolidated income 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 year ended December 31, 2017 and 2016, was approximately RD\$607,000 and RD\$541,000, respectively, and are recognized as part of other operating expenses in the accompanying consolidated income statements.

(f) Credit card licenses***MasterCard credit cards***

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

Visa credit cards

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

(g) Lawsuits

As of December 31, 2017 and 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 December 31, 2017 and 2016, the amount reserved to meet these claims increased to RD\$83,743 and RD\$105,673, respectively, and is recognized in other liabilities in the accompanying consolidated balance sheet.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

27 Commitments and contingencies (continued)

(g) Lawsuits (continued)

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

(h) Insurance claims

The subsidiary Seguros Reservas, S. A. has received insurance claims for catastrophes that arose in the normal course of business, which have occurred as of December 31, 2017. 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 December 31, 2017 and 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 *Administradora* would have a payment commitment with the fund.

28 Memorandum accounts

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

	<u>2017</u>	<u>2016</u>
Funds under management by the Bank:		
PROMIPYME Resources	2,880,448	2,482,231
PROMIPYME - PROCREA	252	303
SEH - PETROCARIBE Resources	61	61
PROMICENTRAL	100,904	113,833
PROMIPYME - Fonper funds	60,405	60,717
PROMIPYME - PRESAAC loans	939	1,045
MI PRIMER PROGRESO loans	12,952	13,463
MI PRODEMICO loans	318,709	279,348
Solidarity Bank	2,071,525	1,905,363
D and E loans from BNV	<u>296,554</u>	<u>315,172</u>
	<u>5,742,749</u>	<u>5,171,536</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

28 Memorandum accounts (continued)

	<u>2017</u>	<u>2016</u>
Funds managed by the subsidiary - Pension Fund Management:		
Mandatory individual capitalization pension plan (Pension Fund T-1)	70,618,664	58,598,845
Pension fund of officers and employees of Banco de Reservas of the Dominican Republic (Pension Fund T-4)	12,643,232	11,207,070
Social solidary fund (Pension Fund T-5)	<u>28,265,987</u>	<u>23,468,234</u>
	<u>111,527,883</u>	<u>93,274,149</u>
	<u>117,270,632</u>	<u>98,445,685</u>

29 Financial income and expenses

A summary of financial income and expenses is as follows:

	<u>2017</u>	<u>2016</u>
Financial income:		
Loans portfolio:		
Commercial	20,639,634	21,819,853
Consumers	10,263,194	8,405,620
Mortgage	<u>3,565,405</u>	<u>3,249,617</u>
	<u>34,468,233</u>	<u>33,475,090</u>
Investments:		
Other debt securities	8,244,803	5,849,958
Gain on sale of investments	2,039,467	1,416,863
Insurance premiums net of returns and cancelations	<u>7,302,500</u>	<u>6,414,578</u>
Total	<u>52,055,003</u>	<u>47,156,489</u>
Financial expenses-on deposits:		
Customer deposits	(2,618,684)	(2,532,835)
Securities	(9,029,080)	(8,729,033)
Subordinated debts	<u>(2,102,334)</u>	<u>(2,061,600)</u>
	<u>(13,750,098)</u>	<u>(13,323,468)</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

29 Financial income and expenses (continued)

	<u>2017</u>	<u>2016</u>
Investments:		
Amortization of premiums from investments in debt securities	(373,702)	(201,896)
Loss on sale of investments	<u>(1,498)</u>	<u>(660)</u>
	<u>(375,200)</u>	<u>(202,556)</u>
Financing-borrowed funds	<u>(905,261)</u>	<u>(1,190,865)</u>
Reinsurance:		
Reinsurance costs	(2,551,136)	(2,294,849)
Contratual losses and obligations	<u>(2,716,566)</u>	<u>(2,335,879)</u>
	<u>(5,267,702)</u>	<u>(4,630,728)</u>
Expenses for technical adjustment to reserves	<u>(233,690)</u>	<u>(108,001)</u>
Acquisition expense, conservation and premium collection - commission and other acquisition costs of the insurance company	<u>(707,593)</u>	<u>(665,402)</u>
Total	<u><u>(21,239,544)</u></u>	<u><u>(20,121,020)</u></u>

30 Income (expense) for exchange differences

A summary of the main income and expenses due to exchange differences were recognized during the years ended as of December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Income due to foreign exchange:		
Loan portfolio	3,685,407	3,592,483
Investments	488,694	405,003
Available funds	2,704,819	2,617,994
Accounts receivable	9,679	4,917
Forward contracts	25	4
Non-financial investments	2,663	2,240
Other assets	43,860	39,338
Adjustments for exchange rate differences	<u>2,228,048</u>	<u>1,668,319</u>
Subtotal	<u>9,163,195</u>	<u>8,330,298</u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

30 Income (expense) for exchange differences (continued)

	<u>2017</u>	<u>2016</u>
Expenses due to foreign exchange:		
Customer deposits	(3,920,016)	(3,387,621)
Borrowed funds	(1,263,921)	(1,222,083)
Financial obligations	(287,679)	(262,134)
Subordinated debts	(326,427)	(353,003)
Creditors and various provisions	(18,837)	(9,921)
Future foreign exchange rate forward contract	(18)	(5)
Other liabilities	(145,515)	(123,525)
Adjustments for exchange rate differences	<u>(3,367,019)</u>	<u>(3,357,181)</u>
Subtotal	<u>(9,329,432)</u>	<u>(8,715,473)</u>
	<u>(166,237)</u>	<u>(385,175)</u>

31 Other operating income (expense)

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

	<u>2017</u>	<u>2016</u>
Other operating income:		
Credit Cards	<u>1,762,362</u>	<u>1,295,824</u>
Service fees:		
Drafts and wire transfers	294,091	184,596
Certification and sales of bank's checks	28,224	27,007
Collections	44,833	36,104
Other commissions collected	4,354,022	4,172,361
Letters of credit	36,934	48,216
Collaterals granted	<u>44,892</u>	<u>46,283</u>
	<u>4,802,996</u>	<u>4,514,567</u>
Exchange commissions:		
Gains on foreign exchange	993,004	1,791,500
Premium for future foreign exchange contracts	<u>356,145</u>	<u>83,768</u>
	<u>1,349,149</u>	<u>1,875,268</u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

31 Other operating income (expense) (continued)

	<u>2017</u>	<u>2016</u>
Income on available funds	152,841	85,930
Other miscellaneous operating expenses:		
Claims for medical services	325,345	297,932
Other services and contingencies	<u>1,761,433</u>	<u>1,532,275</u>
	<u>2,239,619</u>	<u>1,916,137</u>
Total of other operating income	<u>10,154,126</u>	<u>9,601,796</u>
Other operating expenses:		
Services fees:		
Correspondents	(95,402)	(29,992)
Other services	<u>(468,962)</u>	<u>(277,722)</u>
	<u>(564,364)</u>	<u>(307,714)</u>
Miscellaneous expenses:		
Exchange commission	(130,440)	(21,447)
Other operating expenses	(1,046,774)	(1,085,819)
Commissions and sales of property	(2,385)	(8,805)
Claims for medical services	<u>(669,094)</u>	<u>(582,640)</u>
	<u>(1,848,693)</u>	<u>(1,698,711)</u>
Total of other operating expenses	<u>(2,413,057)</u>	<u>(2,006,425)</u>

32 Other income (expenses)

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

	<u>2017</u>	<u>2016</u>
Other income:		
Recovery of written off assets	453,697	392,591
Decrease of allowance for risky assets	-	807,985
Non-financial investments	138,381	41,870
Gain on sale of property, furniture and equipment	20,675	10,698
Gain on sales of assets received in loan settlement	51,680	93,740
Leases of property	18,210	45,491
Others	<u>57,010</u>	<u>652,813</u>
	<u>739,653</u>	<u>2,045,188</u>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

32 Other income (expenses) (continued)

	<u>2017</u>	<u>2016</u>
Other expenses:		
Assets received in loan settlements	(68,404)	(76,390)
Loss on sale of property, furniture and equipment	(5,785)	(13,690)
Loss on sales of assets received in loan settlement	(11,943)	(26,699)
Other expenses:		
Accounts receivable	(4,374)	(379)
Penalty for breach	(1,645)	(367)
Donations	(134,005)	(92,570)
Losses from thefts, assaults and frauds	(40,252)	(25,190)
Acquisition of parts for ATM - others	<u>(730,469)</u>	<u>(703,559)</u>
	<u>(996,877)</u>	<u>(938,844)</u>
Other income, net	<u>(257,224)</u>	<u>1,106,344</u>

33 Salaries and compensations to personnel

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

	<u>2017</u>	<u>2016</u>
Wages, salaries and benefits to employees	9,363,265	8,711,471
Social security	884,251	789,409
Contributions to the pension plan	1,157,208	1,094,731
Other personnel expenses	<u>4,512,667</u>	<u>4,209,289</u>
	<u>15,917,391</u>	<u>14,804,900</u>

As of December 31, 2017 and 2016, compensations to personnel include approximately RD\$1,740,000 and RD\$1,700,000, respectively, that corresponds to the executive management of the Bank which are defined as directors and above.

As of December 31, 2017 and 2016, the Bank has approximately 12,100 and 11,800 employees, respectively.

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

34 Risk assessment

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

Interest rate risk

	2017		2016	
	<u>Local currency</u>	<u>Foreign currency</u>	<u>Local currency</u>	<u>Foreign currency</u>
Assets sensitive to interest rate	227,981,288	86,994,310	208,471,126	98,443,494
Liabilities sensitive to interest rate	<u>(259,621,638)</u>	<u>(149,836,943)</u>	<u>(255,954,912)</u>	<u>(154,294,248)</u>
Net position	<u>(31,640,350)</u>	<u>(62,842,633)</u>	<u>(47,483,786)</u>	<u>(55,850,754)</u>
Interest rate exposure	<u>162,410</u>	<u>437,283</u>	<u>39,536</u>	<u>997,801</u>

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

Liquidity risk

A summary of the most significant assets and liabilities according to their maturity date as of December 31, 2017 and 2016, is as follows:

	<u>Up to 30 days</u>	<u>31 to 90 days</u>	<u>91 Days to one Year</u>	<u>One year to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
December 31, 2017						
Assets:						
Available funds	58,854,519	-	-	-	-	58,854,519
Investments	7,891,614	2,979,848	31,842,877	18,011,313	30,241,535	90,967,187
Loans portfolio	56,486,242	23,206,153	88,274,545	63,936,124	59,653,321	291,556,385
Debtors by acceptances	725,264	668,557	192,640	-	-	1,586,461
Accounts receivable	3,787,608	-	-	-	266,625	4,054,233
Investments in shares	-	-	-	-	1,088,973	1,088,973
Other assets (i)	<u>614,237</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,098</u>	<u>728,335</u>
Total assets	<u>128,359,484</u>	<u>26,854,558</u>	<u>120,310,062</u>	<u>81,947,437</u>	<u>91,364,552</u>	<u>448,836,093</u>

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Notes to the consolidated financial statements (continued)

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34 Risk assessment (continued)

Liquidity risk (continued)

	Up to 30 days	31 to 90 days	91 Days to one Year	One year to 5 years	More than 5 years	Total
December 31, 2017						
Liabilities:						
Customers' deposits	190,795,788	10,760,718	16,848,063	3,404,174	2,824,202	224,632,945
Deposits from domestic and foreign financial institutions	25,380,167	749,854	140,392	24,327	151,065	26,445,805
Borrowed funds	2	9,507,942	16,405,642	1,769,381	-	27,682,967
Outstanding acceptances	725,264	668,557	192,640	-	-	1,586,461
Outstanding securities	25,966,970	38,546,531	39,091,075	6,006,490	83,422	109,694,488
Other liabilities (ii)	3,415,249	37	3,876,201	238,974	-	7,530,461
Subordinated debt	-	421,689	6,362	-	24,235,666	24,663,717
Total liabilities	<u>246,283,440</u>	<u>60,655,328</u>	<u>76,560,375</u>	<u>11,443,346</u>	<u>27,294,355</u>	<u>422,236,844</u>
December 31, 2016						
Assets:						
Available funds	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	<u>134,665,622</u>	<u>28,847,957</u>	<u>116,990,258</u>	<u>84,106,722</u>	<u>79,312,855</u>	<u>443,923,414</u>
Liabilities:						
Customers' deposits	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	<u>224,488,261</u>	<u>66,522,836</u>	<u>85,600,318</u>	<u>15,780,280</u>	<u>29,883,287</u>	<u>422,274,982</u>

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Notes to the consolidated financial statements (continued)

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34 Risk assessment (continued)

- (i) Consists of transactions that represent a right of collection for the Bank.
(ii) Consists of transactions that represent an obligation to the Bank.

The liquidity ratios of the Bank as of December 31, 2017 and 2016, is as follows:

	As of December 31, 2017		As of December 31, 2016	
	In local currency	In foreign currency	In local currency	In foreign currency
Liquidity ratio:				
15 days adjusted	126.60 %	214.72 %	104.61 %	313.03 %
30 days adjusted	148.45 %	177.31 %	165.96 %	286.89 %
60 days adjusted	127.74 %	207.97 %	223.49 %	210.69 %
90 days adjusted	138.73 %	163.05 %	234.52 %	181.70 %
Position:				
15 days adjusted	5,380,047	447,777	637,367	772,334
30 days adjusted	10,068,776	379,919	10,071,453	767,486
60 days adjusted	7,932,733	587,183	23,090,108	652,634
90 days adjusted	11,711,008	463,095	26,472,979	576,008
Global (months)	(29.83) %	(22.89) %	(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 %. As of December 31, 2017 and 2016, the liquidity ratios maintained by the Bank are higher than required.

35 Fair value of financial instruments

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

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
Available funds	58,854,519	58,854,519	84,595,641	84,595,641
Investments, net (a)	90,694,177	N/D	60,715,909	N/D
Loans portfolio, net (a)	283,289,088	N/D	281,016,422	N/D
Investments in shares, net (b)	1,061,178	N/D	980,214	N/D
	433,898,962	58,854,519	427,308,186	84,595,641

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Notes to the consolidated financial statements (continued)

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35 Fair value of financial instruments (continued)

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Liabilities				
Customer deposits	224,632,945	N/D	201,982,566	N/D
Deposits from domestic and foreign financial institutions	26,445,805	N/D	20,129,348	N/D
Borrowed funds (a)	27,682,967	N/D	38,775,044	N/D
Outstanding securities (a)	109,694,488	N/D	124,448,151	N/D
Subordinated debt	<u>24,663,717</u>	<u>25,347,061</u>	<u>24,144,593</u>	<u>23,832,028</u>
	<u>413,119,922</u>	<u>25,347,061</u>	<u>409,479,702</u>	<u>23,832,028</u>

N/A: Not available.

- (a) The Bank has not performed an analysis of the fair values of its loan portfolio, customer deposits, outstanding securities and borrowed funds, which market values might be affected by changes in the interest rates.
- (b) There is not an active stock market in the Dominican Republic where the fair values of these investments can be obtained.

36 Operations with related parties

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

The most important operations and balances with related parties in accordance with the criteria established by the Regulation on Credit Limits to Related Parties as of December 31, 2017 and 2016, are as follows:

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>	<u>Collaterals</u>
December 31, 2017				
Related to ownership	65,416,753	-	65,416,753	1,486,383
Related to management	<u>12,758,503</u>	<u>61,519</u>	<u>12,820,022</u>	<u>8,366,536</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

36 Operations with related parties (continued)

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>	<u>Collaterals</u>
December 31, 2016				
Related to ownership	67,011,695	-	67,011,695	31,862
Related to management	<u>12,311,108</u>	<u>36,905</u>	<u>12,348,013</u>	<u>7,639,665</u>

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

As of December 31, 2017 and 2016, there are credits granted to contractors and suppliers of the Dominican State for approximately RD\$34,400 and RD\$43,800, respectively, which are guaranteed by the Dominican State and are classified as loans provided to the private sector.

As of December 31, 2017 and 2016, loans related to the management of the Bank includes RD\$12,181 and RD\$9,110 million, respectively, which were provided to employees and relatives by consanguinity at an interest rate on more favorable terms than with non-related parties in accordance with the policy for personnel incentives. Similarly, deposits with related parties maintain interest rates at different conditions from those with unrelated parties.

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

	<u>2017</u>		<u>2016</u>	
	<u>Balance</u>	<u>Effect on profit income (expenses)</u>	<u>Balance</u>	<u>Effect on profit income (expenses)</u>
Available funds	40,670,203	-	65,360,065	-
Other investments in debt securities	78,350,626	6,525,565	42,883,975	3,635,377
Loans portfolio	64,921,259	5,518,562	67,011,695	7,239,295
Interest receivable	1,745,578	-	1,036,172	-
Customers' deposits - checking	26,450,418	(287,238)	23,819,105	(173,586)
Customers' deposits - saving	9,101,625	-	3,487,314	-
Outstanding securities	21,017,494	(2,475,838)	16,668,471	(1,507,956)
Other liabilities	<u>171,930</u>	<u>-</u>	<u>391,455</u>	<u>-</u>

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Notes to the consolidated financial statements (continued)

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36 Operations with related parties (continued)

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

	2017		2016	
	Balance	Effect on profit income (expenses)	Balance	Effect on profit income (expenses)
Loans portfolio	12,328,006	569,217	11,843,664	773,639
Accounts receivable to officers and employees	13,809	-	504,348	-
Officers and employees deposits	5,160,534	(303,156)	6,901,773	(236,690)

37 Pension fund

The Bank makes contributions to the following pension plans:

- a) A pension plan with defined benefits and other pension for employees not covered by the Social Security Law No. 87-01 of May 9th, 2001, which established the Social Security System of the Dominican Republic. Until June 30, 2014, contributions to this plan were 12.5 % of the monthly salaries of officials and employees paid. From July 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	(12,462,850)	(11,600,043)
Net assets of the plan	12,733,010	11,207,070
Net position of the plan	(270,160)	(392,973)

The expense recognized during the years 2017 and 2016 amounted to RD\$1,150,014 and RD\$1,017,070, respectively, including extraordinary contributions of RD\$242,327 for both years, with the purpose to cover the deficit until 2019, as authorized by the Superintendence of Banks.

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Notes to the consolidated financial statements (continued)

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37 Pension fund (continued)

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

Actuarial assumptions

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

	<u>2017</u>	<u>2016</u>
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	8.00 %	8.50%
Long-term annual inflation rate	<u>4.50 %</u>	<u>5.00%</u>

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

	<u>2017</u>	<u>2016</u>
Number of members	1,791	1,904
Average retirement age	48	47
Average monthly salary	<u>91,223</u>	<u>77</u>

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

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38 Non-monetary transactions

Non-monetary transactions are as follows:

	<u>2017</u>	<u>2016</u>
Write-off of loan portfolio and interest receivable	2,208,231	1,304,545
Release of provision for assets received in loan settlements	155,000	-
Assets received in loan settlements	926,901	637,650
Transfer between allowance for risky assets:		
Loan portfolio	(186,457)	(180,050)
Investments	(2,686)	21,174
Interest receivable	(22,869)	160,909
Assets received in loan settlements	253,507	55,670
Contingencies	(41,495)	(57,703)
Sales of assets received in loan settlements by new credit facilities	70,638	71,356
Transfer of accounts receivable of Torre Atiemar to assets received in loan settlements	36,192	-
Equity on earnings in associated companies	138,381	41,870
Acquisition of credit portfolio of a local financial institution:		
Amortization of National Treasury bonds Law 99-01	75,000	75,000
Interest on National Treasurer bonds Law 99-01	2,250	3,000
Transfers of net income of the period to other equity reserves	2,264,425	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 earnings from prior periods	<u>919,041</u>	<u>922,980</u>

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Notes to the consolidated financial statements (continued)

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39 Other disclosures

39.1 Future application of accounting standards

The second (2nd) resolution of the Monetary Board, dated September 28, 2017, fully modifies the Asset Evaluation Regulation (REA per its Spanish acronyms) and is intended to establish the methodology to be followed by financial intermediation entities to assess the credit risk associated with its financial assets, contingent accounts and other risky assets. The foregoing, repealing the Regulation of Assets Evaluation, approved by the first Resolution issued by the Monetary Board on December 29, 2004 and its amendments, as well as all the provisions that are contrary. This new regulation will become effective as of January 2nd, 2018.

Through Circular SIB No. CC / 010/17 dated October 26, 2017, it was indicated that the integral entry into force of the Asset Evaluation Regulation (REA), is January 2nd, 2018.

Circular SIB: No. 004/18 dated January 22, 2018, which updates the mechanism for determining minor, medium and large-sized commercial debtors in accordance with the Asset Evaluation Regulation (REA) of September 28, 2017.

40 Subsequent events

On January 31, 2018, the Board of Directors of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples approved a distribution of dividends, as follows:

Cash dividends to be delivered to the Dominican Republic Government	3,158,393
15 % to cover the Dominican Republic State debts and its agencies with the Bank	970,468
Amortization of 5 % of certified vouchers of the National Treasury Law No. 99-01 and the yields generated	75,000
1 % interest on certified vouchers Law No. 99-01	<u>1,500</u>

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 December 31, 2017, the following notes are not included because they are not applicable:

- ♦ Changes in accounting policies.
- ♦ Earnings per shares.
- ♦ Significant discontinued operations.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

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

- ◆ 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.