

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

Consolidated Financial Statements

September 30, 2018

(Free Translation from the Original Spanish-Language Version)

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

Consolidated balance sheets

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	<u>At September 30,</u> <u>2018</u>	<u>At December 31,</u> <u>2017</u>
ASSETS		
Available funds (notes 3, 4, 34, 35 and 36)		
Cash on hand	6,634,221	7,684,018
Central Bank	50,616,786	40,670,203
Local banks	509,440	343,780
Foreing banks	11,155,611	7,713,978
Other funds	188,171	2,441,878
Interests receivable	2,357	662
	<u>69,106,586</u>	<u>58,854,519</u>
Investments (notes 3, 6, 14, 34, 35, 36 and 38)		
Other investments in debt instruments	88,009,278	89,701,568
Interests receivable	1,521,308	1,265,619
Allowance for investments	(316,268)	(273,010)
	<u>89,214,318</u>	<u>90,694,177</u>
Loans portfolio (notes 3, 7, 14, 34, 35, 36 and 38)		
Current	276,061,285	275,186,946
Restructured	2,973,843	3,769,705
Past due	3,249,233	3,726,844
In legal collection	2,249,532	1,542,689
Interests receivable	7,632,076	7,330,201
Allowance for loans	(9,505,128)	(8,267,297)
	<u>282,660,841</u>	<u>283,289,088</u>
Debtors by acceptances (notes 3, 8 and 34)		
	<u>851,116</u>	<u>1,586,461</u>
Accounts receivable (notes 3, 9, 34 and 36)		
Commissions receivable	405,371	221,536
Accounts receivable	913,310	1,587,669
Insurance premiums receivable	2,537,349	2,238,340
Receivables from insurance and guarantees	4,750	6,688
	<u>3,860,780</u>	<u>4,054,233</u>
Assets received in loans settlements (notes 10, 14 and 38)		
Assets received in loans settlements	9,307,846	8,581,592
Allowance for assets received in loans settlements	(7,111,463)	(6,356,177)
	<u>2,196,383</u>	<u>2,225,415</u>
Investments in shares (notes 3, 11, 14, 34, 35, and 38)		
Investments in shares	1,184,151	1,088,973
Allowance for investments in shares	(30,774)	(27,795)
	<u>1,153,377</u>	<u>1,061,178</u>
Property, furniture and equipment (note 12)		
Property, furniture and equipment	16,820,897	16,741,529
Accumulated depreciation	(4,365,894)	(3,976,434)
	<u>12,455,003</u>	<u>12,765,095</u>
Properties under development intended for sale and lease		
	<u>822,276</u>	<u>895,205</u>
Other assets (notes 3, 13, 22 and 34)		
Deferred charges	4,227,316	3,409,028
Intangibles	205,167	182,453
Other assets	4,921,114	4,532,268
Accumulated amortization	(138,148)	(123,828)
	<u>9,215,449</u>	<u>7,999,921</u>
TOTAL ASSETS	<u>471,536,129</u>	<u>463,425,292</u>
Contingent accounts (notes 23 and 27)	<u>722,859,641</u>	<u>815,498,126</u>
Memorandum accounts (note 28)	<u>1,655,481,638</u>	<u>1,609,976,842</u>

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

(Continues)

**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 September 30,</u> <u>2018</u>	<u>At December 31,</u> <u>2017</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Customers' deposits (notes 3, 15, 34, 35 and 36)		
Checking	60,328,633	58,363,467
Savings	141,782,624	126,993,315
Time	39,615,558	39,276,163
Interests payable	266,975	-
	<u>241,993,790</u>	<u>224,632,945</u>
Deposits from domestic and foreign financial institutions (notes 3, 16, 34 and 35)		
From domestic financial institutions	9,014,610	26,445,805
Interests payable	3,608	-
	<u>9,018,218</u>	<u>26,445,805</u>
Borrowed funds (notes 3, 17, 34 and 35)		
Banco Central	21,552	-
From domestic financial institutions	2,022,851	1,700,000
From foreign financial institutions	18,415,875	22,974,647
Otros	8,124,412	2,820,940
Interests payable	242,689	187,380
	<u>28,827,379</u>	<u>27,682,967</u>
Outstanding acceptances (notes 3, 8 and 34)	851,116	1,586,461
Outstanding securities (notes 18, 34, 35 and 36)		
Securities	115,574,599	109,694,488
Creditors for insurance and bank guarantees (notes 3 and 24)	956,458	965,831
Insurance premium deposits	614,227	241,490
Other liabilities (notes 3, 14, 19, 22, 27 and 34)	10,636,308	11,775,358
Technical reserves (note 21)		
Mathematical and technical life insurance reserves	170,885	164,903
Reserves for unearned insurance premiums	3,919,394	3,269,642
	<u>4,090,279</u>	<u>3,434,545</u>
Subordinated debts (notes 3, 20, 34 and 35)		
Subordinate debts	24,736,482	24,235,667
Interest payable	384,615	428,050
	<u>25,121,097</u>	<u>24,663,717</u>
TOTAL LIABILITIES	<u>437,683,471</u>	<u>431,123,607</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	17,137,232
Revaluation surplus	711,105	711,105
Retained earnings from previous periods	182,087	26,219
Net income for the year	5,583,611	4,205,360
	<u>33,614,035</u>	<u>32,079,916</u>
Minority interest	238,623	221,769
TOTAL EQUITY	<u>33,852,658</u>	<u>32,301,685</u>
TOTAL LIABILITIES AND EQUITY	<u>471,536,129</u>	<u>463,425,292</u>
Contingent accounts (notes 23 and 27)	<u>722,859,641</u>	<u>815,498,126</u>
Memorandum accounts (note 28)	<u>1,655,481,638</u>	<u>1,609,976,842</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\$)

	Nine month periods ended	
	<u>At September 30,</u>	
	<u>2018</u>	<u>2017</u>
Financial income (notes 6, 7, 29 and 36)		
Interest and commissions on loans	25,337,560	25,562,661
Interest on investments	6,159,533	5,946,814
Gains on sale of investments and securities	1,483,301	1,629,182
Insurance premiums net of returns and cancellations	5,210,585	4,838,348
	<u>38,190,979</u>	<u>37,977,005</u>
Financial expenses (notes 15, 16, 17, 18, 20, 29 and 36)		
Interest on deposits	8,259,172	10,786,760
Loss on sale of investments and securities	375,473	318,242
Interest and commissions on borrowed funds	657,560	690,661
Reinsurance expense	1,496,927	1,503,453
Insurance claims and contractual obligations	2,263,374	1,946,599
Expenses related to technical adjustment to reserves	112,850	182,086
Expenses related to acquisition, conservation and collection of insurance premiums	535,470	492,997
	<u>13,700,826</u>	<u>15,920,798</u>
Gross financial margin	<u>24,490,153</u>	<u>22,056,207</u>
Allowance for loan losses (note 14)	2,562,353	1,940,422
Allowance for investments (note 14)	11,015	-
	<u>2,573,368</u>	<u>1,940,422</u>
Net financial margin	<u>21,916,785</u>	<u>20,115,785</u>
Foreign exchange gain (loss) (note 30)	<u>(442,261)</u>	<u>(117,202)</u>
Other operating income (notes 31 and 36)		
Credit card fees	1,568,021	1,173,281
Service fees	4,701,619	3,439,298
Foreign exchange commissions	1,145,367	1,018,345
Miscellaneous income	1,575,458	1,362,540
	<u>8,990,465</u>	<u>6,993,464</u>
Other operating expenses (notes 31 and 36)		
Commissions for services	683,018	314,382
Miscellaneous expenses	1,721,653	1,369,248
	<u>2,404,671</u>	<u>1,683,630</u>
Gross operating income	<u>28,060,318</u>	<u>25,308,417</u>
Operating expenses (notes 14, 27, 33 and 37)		
Salaries and personnel compensation	12,490,303	11,798,801
Professional fees	1,995,990	1,605,504
Depreciation and amortization	947,644	799,008
Other provisions	1,121,197	524,606
Other expenses	4,757,367	4,707,517
	<u>21,312,501</u>	<u>19,435,436</u>
Net operating income	<u>6,747,817</u>	<u>5,872,981</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\$)

	Nine month periods ended	
	<u>At September 30,</u>	
	<u>2018</u>	<u>2017</u>
Other income (expenses) (note 32)		
Other income	930,849	536,887
Other expenses	<u>(1,574,729)</u>	<u>(1,037,755)</u>
	<u>(643,880)</u>	<u>(500,868)</u>
Income before income tax	6,103,937	5,372,113
Income tax (note 22)	<u>(493,066)</u>	<u>(459,486)</u>
Net income for the period	<u>5,610,871</u>	<u>4,912,627</u>
ATTRIBUTABLE TO:		
Owners of the controlling entity (Parent Company)	5,583,611	4,884,764
Minority interest	<u>27,260</u>	<u>27,863</u>
	<u>5,610,871</u>	<u>4,912,627</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\$)

	Nine month periods ended	
	<u>At September 30,</u>	
	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Interest and commissions collected from loans	24,062,693	21,666,016
Other financial income collected	7,010,172	7,554,447
Other operating income collected	8,990,465	6,993,464
Insurance premium collected	5,284,313	4,508,559
Increase in insurance and guarantees	(1,496,948)	(2,171,178)
Interest paid on deposits	(8,276,122)	(10,771,981)
Interest and commissions paid on borrowed funds	(602,251)	(874,411)
General and administrative expenses paid	(19,246,245)	(18,135,032)
Other operating expenses paid	(2,404,671)	(1,683,630)
Income taxes paid	(493,066)	(459,486)
Insurance claims and contractual obligation	(2,263,374)	(1,946,599)
Miscellaneous collections payments of operating activities	<u>(2,783,998)</u>	<u>419,922</u>
Net cash provided by operating activities	<u>7,780,968</u>	<u>5,100,091</u>
CASH FROM INVESTMENT ACTIVITIES		
Increase (decrease) in investments	1,642,784	(12,648,449)
Loans granted	(165,610,770)	(276,261,826)
Loans collected	162,930,081	285,002,015
Interbank funds granted	(8,120,000)	(10,116,000)
Interbank funds collected	8,120,000	10,116,000
Decrease in properties under development intended for sale and lease	72,929	65,572
Acquisition of property, furniture and equipment	(643,915)	(515,675)
Proceeds from sale of property, furniture and equipment	29,709	48,569
Proceeds from sale of assets received in loan settlements	<u>158,215</u>	<u>33,817</u>
Net cash used in investment activities	<u>(1,420,967)</u>	<u>(4,275,977)</u>
CASH FROM FINANCING ACTIVITIES		
Deposits received	4,020,859,216	2,901,705,685
Returned deposits	(4,015,045,847)	(2,887,637,980)
Borrowed funds received	40,259,679	69,076,701
Borrowed funds paid	(39,170,576)	(83,652,362)
Dividends paid and other payments to shareholders	<u>(3,010,406)</u>	<u>(3,006,719)</u>
Net cash provided by (used in) financing activities	<u>3,892,066</u>	<u>(3,514,675)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,252,067	(2,690,561)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>58,854,519</u>	<u>84,595,641</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>69,106,586</u>	<u>81,905,080</u>

(Continues)

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

Consolidated statements of cash flows (continued)

(Free Translation From the Original Spanish-Language Version)

Amounts in thousands of Dominican pesos (RD\$)

	Nine month periods ended	
	<u>At September 30,</u>	
	<u>2018</u>	<u>2017</u>
Reconciliation between the net income for the period and net cash provided by operating activities		
Net income for the period	<u>5,610,871</u>	<u>4,912,627</u>
Adjustments to reconcile net income for the period to net cash provided by operating activities:		
Provisions for risky assets and contingencies	3,694,565	2,465,028
Mathematical and Technical reserves increase	112,850	182,086
Depreciation and amortization	945,059	775,798
Gain on sale of property, furniture and equipment	(6,441)	(4,134)
Equity on earnings in other companies	(119,314)	(94,869)
Gain on sale of assets received in loan settlements	(9,700)	(12,516)
Currency exchange rate fluctuations, net	384,983	303,822
Amortization of debt issuance cost and discount on subordinated debts	26,485	25,999
Net change in assets and liabilities:		
Interests receivable	(1,532,056)	(3,599,952)
Debtors by acceptances	735,345	(485,390)
Commissions receivable	(183,835)	(72,954)
Accounts receivable	674,359	(524,137)
Insurance premiums receivable	(299,009)	(466,376)
Receivables from reinsurance and guarantees	1,938	1,073
Deferred charges	(818,288)	(635,822)
Intangibles	(22,714)	27,046
Other assets	(388,846)	(1,984,969)
Interests payable	11,874	(194,970)
Outstanding acceptances	(735,345)	485,390
Creditors of insurance and bank guarantees	(9,373)	(297,656)
Insurance premium deposits	372,737	136,587
Other liabilities	(1,208,061)	4,036,525
Technical reserves	<u>542,884</u>	<u>121,855</u>
Total adjustments	<u>2,170,097</u>	<u>187,464</u>
Net cash provided by operating activities	<u>7,780,968</u>	<u>5,100,091</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

Nine Month Periods Ended at September 30, 2018 and 2017

(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, 2017	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)
Amortization of debt of the Dominican Republic State	-	-	-	(851,075)	-	(851,075)	-	(851,075)
Net income for the period	-	-	-	-	4,884,764	4,884,764	27,863	4,912,627
Balances at September 30, 2017	10,000,000	14,872,807	722,245	83,045	4,884,764	30,562,861	193,175	30,756,036
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
Transfer to retained earnings	-	-	-	4,205,360	(4,205,360)	-	-	-
Cash dividends paid to minority interest	-	-	-	-	-	-	(10,406)	(10,406)
Dividends paid to the Dominican Republic Government (note 25):								
Cash	-	-	-	(3,000,000)	-	(3,000,000)	-	(3,000,000)
Voucher amortization of National Treasury Law 99-01	-	-	-	(75,000)	-	(75,000)	-	(75,000)
Voucher interest payment of National Treasury Law 99-01	-	-	-	(1,500)	-	(1,500)	-	(1,500)
Debt amortization of the Dominican Republic State	-	-	-	(972,992)	-	(972,992)	-	(972,992)
Net income for the period	-	-	-	-	5,583,611	5,583,611	27,260	5,610,871
Balances at September 30, 2018	10,000,000	17,137,232	711,105	182,087	5,583,611	33,614,035	238,623	33,852,658

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

Simón Lizardo Mézquita
General Administrator

Andrés Guerrero
Comptroller

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

Notes to the consolidated financial statements

As of September 30, 2018 and December 31, 2017 and for the Nine Months Periods Ended
September 30, 2018 and 2017

(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	Treasurer
Julio Enrique Páez Presbot	General Auditor

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

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

1 Entity (continued)

As of September 30, 2018 and December 31 2017, a detail of the Bank's offices, automatic teller machines (ATMs) and post offices is as follows:

<u>Location</u>	<u>2018</u>			<u>2017</u>		
	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>	<u>Offices (*)</u>	<u>ATMs</u>	<u>Post Offices</u>
Metropolitan area	109	352	-	109	346	-
Provinces	<u>177</u>	<u>369</u>	<u>10</u>	<u>176</u>	<u>356</u>	<u>10</u>
	<u>286</u>	<u>721</u>	<u>10</u>	<u>285</u>	<u>702</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 September 30, 2018 and December 31, 2017, the network of subagents was 1,259 (429 in the metropolitan area and 830 in the interior of the country) and 1,258 (428 in the metropolitan area and 830 throughout in the interior of the country) businesses authorized, respectively.

The consolidated financial statements were approved for issuance by the Board of Directors on November 27, 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 Superintendence of Insurance and the Superintendence of Health and Labor Risk (SISALRIL per its Spanish acronyms) and IFRS (continued)

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

**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.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.1 Allowance for loans portfolio (continued)

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.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.1 Allowance for loans portfolio (continued)

- ◆ 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.

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.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.1 Allowance for loans portfolio (continued)

Specific use collateral (“Non-Multipurpose guarantees”)

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 September 30, 2018 and December 31, 2017, 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) resolution of the Monetary Board, dated December 20, 2017, 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.

2.5.2 Allowance for loans portfolio of the public sector

As of September 30, 2018 and December 31, 2017, 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.

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Notes to the consolidated financial statements (continued)

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2 Summary of significant accounting policies (continued)

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

2.5.3 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.

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.

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

2 Summary of significant accounting policies (continued)

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

2.5.5 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.

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.

**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)**2.6 Employee benefit cost (continued)****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.

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.

**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)**2.8 Valuation of different types of investments (continued)****2.8.1 Investments in securities and allowances (continued)**

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.

Other considerations

As of September 30, 2018 and December 31, 2017, 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.

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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)

2.8 Valuation of different types of investments (continued)

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.

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>

**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)

2.10 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.

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 September 30, 2018 and December 31, 2017, the exchange rates used for the translation of the US dollar balances to Dominican pesos was RD\$49.7741 and RD\$48.1930, 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.

**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)****2.13.1 Banks' revenue recognition and expenditures (continued)*****Financial income and expenses***

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.

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.

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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)

2.13.2 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.

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.

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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)****2.13.4 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.

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.

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Notes to the consolidated financial statements (continued)

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

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.

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Notes to the consolidated financial statements (continued)

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

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.

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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)**2.17 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.

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.

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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)

2.22 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.

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>

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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)

2.25 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.

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.

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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

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:

	September 30, 2018		December 31, 2017	
	Amount in foreign currency US\$	Total in RD\$	Amount in foreign currency US\$	Total in RD\$
Assets				
Available funds	824,267	41,027,174	683,609	32,945,176
Investments	532,314	26,495,189	582,545	28,074,582
Loan portfolio, net	1,363,805	67,882,149	1,636,417	78,863,847
Debtors by acceptances	17,100	851,116	32,919	1,586,461
Accounts receivable	17,602	876,145	28,132	1,355,741
Investments in shares, net	756	37,643	827	39,879
Other assets	1,299	64,642	3,044	146,699
Contingencies (a)	-	-	250,000	12,048,250
Total assets	<u>2,757,143</u>	<u>137,234,058</u>	<u>3,217,493</u>	<u>155,060,635</u>
Liabilities				
Customers' deposits	1,972,153	98,162,128	1,844,787	88,905,820
Deposits from domestic and foreign financial institutions	59,272	2,950,209	455,386	21,946,429
Borrowed funds	383,597	19,093,209	480,305	23,147,331
Outstanding acceptances	17,100	851,116	32,919	1,586,461
Creditors for insurance and bonds	4,231	210,569	7,514	362,125
Other liabilities	9,129	454,407	40,515	1,952,563
Subordinated debts	<u>302,133</u>	<u>15,038,421</u>	<u>307,188</u>	<u>14,804,288</u>
Total liabilities	<u>2,747,615</u>	<u>136,760,059</u>	<u>3,168,614</u>	<u>152,705,017</u>
Long position in foreign currency	<u><u>9,528</u></u>	<u><u>473,999</u></u>	<u><u>48,879</u></u>	<u><u>2,355,618</u></u>

- (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, the amount of US\$250 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 September 30, 2018 and December 31, 2017, the exchange rates used by the Bank was RD\$49.7741 and RD\$48.1930, respectively.

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Notes to the consolidated financial statements (continued)

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4 Available funds

Available funds are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cash on hand (a)	6,634,221	7,684,018
Central Bank of the Dominican Republic (b)	50,616,786	40,670,203
Domestic banks (c)	509,440	343,780
Foreign banks (d)	11,155,611	7,713,978
Other funds - in transit (e)	188,171	2,441,878
Interest receivable (f)	<u>2,357</u>	<u>662</u>
	<u>69,106,586</u>	<u>58,854,519</u>

(a) Includes US\$18,784 in 2018 and US\$21,566 in 2017.

(b) Includes US\$574,477 in 2018 and US\$458,172 in 2017.

(c) Includes US\$5,116 in 2018 and US\$5,956 in 2017.

(d) Includes US\$224,125 in 2018 and US\$160,064 in 2017.

(e) Represents effects received from other banks pending collection in the Clearing House. As of September 30, 2018 includes US\$1,720 and US\$37,837 in December 31, 2017.

(f) Corresponds to US\$45 in September 30, 2018 and US\$14 in December 31, 2017 pending to be collect.

As of september 30, 2018 and December 31, 2017, to RD\$32,234,622 and US\$404,937 and RD\$30,454,750 and US\$379,785, respectively. For these purposes, the Bank maintains amounts of RD\$32,378,258 and US\$618,695 and RD\$30,898,039 and US\$458,197, 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\$)

5 Interbank funds

The movements of interbank funds received and granted during the periods ended September 30, 2018 and December 31, 2017, is as follows:

Entity	Quantity	Interbank assets		Percentage of Weighted average rate (%)
		Amount in RD\$	No. of days	
September 30, 2018				
Banco Múltiple BHD León, S. A.	8	5,200,000	2	2.81
Scotiabank	3	1,140,000	5	5.32
Banco Múltiple Caribe Internacional, S. A.	5	480,000	4	6.50
Citibank, N. A.	2	1,000,000	2	6.01
Banco Dominicano del Progreso, S. A., Banco Múltiple	1	250,000	6	6.45
Asociación La Nacional de Ahorros y Préstamos	1	<u>50,000</u>	3	<u>6.63</u>
		<u>8,120,000</u>		
December 31, 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
Banescos, 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>		

During the nine month periods ended at September 30, 2018 and December 31, 2017, the Bank negotiated interbank funds with different financial institutions; however, at September 30, 2018 and December 31, 2017, there are no pending balances in interbank funds.

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6 Investments

As of September 30, 2018 and December 31, 2017, 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>
September 30, 2018				
Other investments in debt instruments:				
Time deposits	Central Bank of the Dominican Republic	23,263,764	9.50 % until 18.50 %	2018 until 2025
Bonds Law No. 99-01	Dominican Republic State	75,000	1.00 %	2018 until 2021
Bonds Law 175-12, 331-15, 48-10, 548-14, 58-13, 131-11, 260-15, 152-14, 361-11, 294-11, 248-17, 687-16, and 693-16 (a)	Dominican Republic State (includes US\$41,793)	31,784,036	5.50 % until 18.50 %	2019 until 2044
Trust values (b)	Fideicomiso para la Operación, Mantenimiento y Expansión de La Red Vial principal de la República Dominicana	3,586,103	10.31 % until 10.50%	2026
Agreement with the Dominican Republic Electric Sector debt (b)	Edesur Dominicana, S. A. (corresponds to US\$120,279)	5,986,760	7.75 % until 10.00 %	2020
	Empresa Distribuidora de Electricidad del Este, S. A. (corresponds to US\$177,227)	8,821,327	7.75 % until 10.00 %	2020
	Edenorte Dominicana, S. A. (corresponds to US\$176,483)	8,784,266	7.75 % until 10.00 %	2020
Corporate bonds	Empresa Generadora de Electricidad Haina, S. A. (corresponds to US\$1,404)	79,966	6.00 % until 11.25 %	2020 until 2027
Bonds	Consorcio Energético CEPM (corresponds to US\$380)	18,902	5.15 % until 5.50 %	2025 until 2027
Corporate bonds	Dominican Power Partners, (corresponds to US\$347)	17,253	5.90 % until 6.00 %	2027
Corporate bonds	Asociación La Nacional de Ahorros y Préstamos	14,749	10.75 %	2024
Corporate bonds	United Capital Puesto de Bolsa	10,215	9.00 %	2020
Time deposits	Asociación Popular de Ahorros y Préstamos	36,443	6.50 % and 7.75 %	2018 and 2019
Time deposits	Asociación Peravia de Ahorros y Préstamos	80,436	6.15 % until 6.70 %	2018 and 2019
Time deposits	Asociación La Vega Real de Ahorros y Préstamos	117,044	6.00 % and 6.50%	2018
Time deposits	Asociación La Nacional de Ahorros y Préstamos	97,619	7.10 % and 7.25 %	2018 and 2019
Time deposits	Asociación Maguana de Ahorros y Préstamos	28,036	6.50 % until 7.80%	2018

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Notes to the consolidated financial statements (continued)

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6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
September 30, 2018				
Time deposits	Asociación Romana de Ahorros y Préstamos	36,079	6.00 % until 6.50%	2018
Time deposits	Asociación Bonaio de Ahorros y Préstamos	53,410	6.00 % until 6.25%	2018 and 2019
Time deposits	Banco Múltiple Caribe, S. A.	40,609	7.25 % until 7.30%	2018
Time deposits	Banco Múltiple Lafise, S. A.	1,092	8.40 %	2018
Time deposits	Banco Múltiple Promérica de la República Dominicana, S. A.	42,321	7.50 % until 8.10 %	2018 and 2019
Time deposits	Banco Popular Dominicano, S. A. Banco Múltiple	109,007	4.20 % until 7.45%	2018
Time deposits	Motor Crédito, S. A. Banco de Ahorro y Crédito	22,822	7.25 % and 7.30 %	2018
Time deposits	Banco Múltiple de las Américas, S.A (corresponds to US\$801)	69,222	7.00 % until 8.75%	2018 and 2019
Time deposits	Banco Múltiple BHD León, S. A.	142,378	9.95 %	2018
Time deposits	Banco Múltiple Santa Cruz, S. A.	20,000	11.50 %	2018
Time deposits	Banescobanco Múltiple BDI, S. A.	8,137	9.30 %	2019
Time deposits	Scotiabank	80,613	5.48 %	2018
Time deposits	Banco Nacional de los Exportadores	10,270	6.30 %	2018
Quote of participation	Administradora de Fondos de Inversión Universal, S. A.	64,017		2018
Quote of participation	Administradora de Fondos de Inversión BHD, S. A. (corresponds to US\$4,796)	288,924	0.41 % until 5.36%	
Quote of participation	Fondo Mutuo Reservas Caoba (corresponds to US\$5)	249		
Quote of participation	Fondo Mutuo Educativo La Isabela	465		
Quote of participation	Fondo Mutuo Matrimonial	10,108	3.72%	
Quote of participation	Fondo Mutuo Larimar	100		
Quote of participation	Fondo Inmobiliario Excel (corresponds to US\$507)	25,243		
Restricted securities				
Reports	Various Corresponds to US\$5,987)	298,017		2018
Bonds Law No.260-15, 547-15, and 693-16 Profitability guarantee	Dominican Republic State Profitability guarantee of La Administradora de Fondos de Pensiones, Invested in different Institutions	2,363,200 1,235,881	8.83 % until 10.58 %	2025 until 2032

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6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
September 30, 2018				
Mortgage notes (c)	Banco Múltiple BHD León, S. A.	1,651	6.00 %	2019
Other investments (b)	Fideicomiso Viviendas Bajo Costo	78,002	12.00 %	2020
Electric Sector Factoring	Multivalores	<u>205,542</u>	18.21%	2018
		88,009,278		
	Interest receivable, (includes US\$2,459)	<u>1,521,308</u>		
		89,530,586		
	Provision for investment, (includes US\$154)	<u>(316,268)</u>		
		<u>89,214,318</u>		
December 31, 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
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

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Notes to the consolidated financial statements (continued)

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6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
September 30, 2018				
Bonds	Consortio 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
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

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6 Investments (continued)

<u>Type of Investment</u>	<u>Issuer</u>	<u>Amount in RD\$</u>	<u>Interest rate</u>	<u>Maturity</u>
December 31, 2017				
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 Excel (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 Profitability guarantee	Dominican Republic State Profitability guarantee of La Administradora de Fondos de Pensiones, Invested in different Institutions	1,985,000	7.0 % until 8.50 %	2023 until 2032
Mortgage notes (c)	Banco Múltiple BHD León, S. A.	1,106,388		
		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><u>90,694,177</u></u>		

- (a) As of September 30, 2018, Includes securities for the amount of RD\$38,292, 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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios

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

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Commercial loans</u>						
Advances on checking accounts	-	134,024	134,024	-	52,136	52,136
Loans (includes US\$1,368,666 in 2018 and US\$1,615,463 in 2017)	52,177,032	129,392,799	181,569,831	63,433,385	128,550,228	191,983,613
Discounted notes	-			-	101	101
Invoice discounting (include US\$1,721 in 2018 and US\$2,312 in 2017)	-	368,256	368,256	-	115,523	115,523
Financial leases	1,510,517	246	1,510,763	1,487,874	2,449	1,490,323
Advance on export notes (corresponds to US\$16 in 2018 and US\$23 in 2017)	-	786	786	-	1,124	1,124
Letters of credit	-	-	-	-	172	172
Other loans	-	3,825	3,825	-	5,267	5,267
	<u>53,687,549</u>	<u>129,899,936</u>	<u>183,587,485</u>	<u>64,921,259</u>	<u>128,727,000</u>	<u>193,648,259</u>
<u>Consumer loans</u>						
Credit cards (includes US\$23,389 and US\$20,593 in 2018 and 2017)	-	8,679,386	8,679,386	-	7,898,248	7,898,248
Consumer loans (includes US\$1,461 and US\$1,522 in 2018 and 2017)	-	52,306,396	52,306,396	-	43,816,587	43,816,587
	-	60,985,782	60,985,782	-	51,714,835	51,714,835
<u>Mortgage loans</u>						
Residential purchases (includes US\$1,699 and US\$1,770 in 2018 and 2017)	-	39,047,639	39,047,639	-	37,877,516	37,877,516
Construction, improvements, repairs, expansion and others	-	912,987	912,987	-	985,574	985,574
	-	39,960,626	39,960,626	-	38,863,090	38,863,090
	<u>53,687,549</u>	<u>230,846,344</u>	<u>284,533,893</u>	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</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)

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Interest receivable (includes US\$14,155 and US\$21,193 in 2018 and 2017)	1,016,764	6,615,312	7,632,076	495,494	6,834,707	7,330,201
Allowance for loan losses and interest receivable (includes US\$47,302 and US\$26,459 in 2018 and 2017)	-	(9,505,128)	(9,505,128)	-	(8,267,297)	(8,267,297)
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>

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

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Commercial loans						
Current (i) (includes US\$1,321,806 and US\$1,561,531 in 2018 and 2017)	53,687,400	120,581,657	174,269,057	64,921,112	119,117,004	184,038,116
Restructured (ii) (includes US\$38,531 and US\$46,659 in 2018 and 2017)	-	2,781,992	2,781,992	-	3,525,242	3,525,242
Past due:						
31 to 90 days (iii) (includes US\$456 and US\$588 in 2018 and 2017)	-	168,448	168,448	-	140,293	140,293
More than 90 days (iv) (includes US\$2,156 and US\$1,755 in 2018 and 2017)	149	1,157,667	1,157,816	147	1,179,620	1,179,767
Legal collections (v), (includes US\$7,114 and US\$7,193 in 2018 and 2017)	-	1,407,233	1,407,233	-	1,057,215	1,057,215
	<u>53,687,549</u>	<u>126,096,997</u>	<u>179,784,546</u>	<u>64,921,259</u>	<u>125,019,374</u>	<u>189,940,633</u>
Microcredits						
Current (i)	-	1,909	1,909	-	5,126	5,126
Past due:						
31 to 90 days (iii)	-	21	21	-	99	99
More than 90 days (iv)	-	-	-	-	281	281
Legal collections (v),	-	104	104	-	-	-
	<u>-</u>	<u>2,034</u>	<u>2,034</u>	<u>-</u>	<u>5,506</u>	<u>5,506</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)

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Microenterprises loans</u>						
Current (i) (includes US\$55 in 2017)	-	3,563,850	3,563,850	-	3,408,817	3,408,817
Restructured (ii) (includes US\$43 in 2018)	-	29,024	29,024	-	44,093	44,093
Past due:						
31 to 90 days (iii) (includes US\$29 and US\$4 in 2018 and 2017)	-	22,394	22,394	-	20,227	20,227
More than 90 days (iv) (includes US\$295 in 2018)	-	134,175	134,175	-	185,658	185,658
Legal collections (v) (include US\$15 in 2018 and 2017)	-	51,463	51,463	-	43,325	43,325
	-	<u>3,800,906</u>	<u>3,800,906</u>	-	<u>3,702,120</u>	<u>3,702,120</u>
<u>Consumer loans</u>						
Current (i) (includes US\$24,041 and US\$21,163 in 2018 and 2017)	-	59,181,460	59,181,460	-	49,884,199	49,884,199
Restructured (ii)	-	77,785	77,785	-	97,199	97,199
Past due:						
31 to 90 days (iii) (includes US\$1 in 2018)	-	259,694	259,694	-	261,841	261,841
More than 90 days (iv) (includes US\$808 and US\$950 in 2018 and 2017)	-	1,152,892	1,152,892	-	1,330,814	1,330,814
Legal collections (v)	-	313,951	313,951	-	140,782	140,782
	-	<u>60,985,782</u>	<u>60,985,782</u>	-	<u>51,714,835</u>	<u>51,714,835</u>
<u>Mortgage loans</u>						
Current (i) (includes US\$1,231 and US\$1,298 in 2018 and 2017)	-	39,045,009	39,045,009	-	37,850,688	37,850,688
Restructured (ii)	-	85,042	85,042	-	103,171	103,171
Past due:						
31 to 90 days (iii) (includes US\$1 in 2017)	-	11,851	11,851	-	7,933	7,933
More than 90 days (iv)	-	341,942	341,942	-	599,931	599,931
Legal collections (v) (includes US\$469 and US\$471 in 2018 and 2017)	-	476,781	476,781	-	301,367	301,367
	-	<u>39,960,625</u>	<u>39,960,625</u>	-	<u>38,863,090</u>	<u>38,863,090</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)

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
<u>Interest receivable</u>						
Current (i) (includes US\$12,410 and US\$18,471 in 2018 and 2017)	1,016,420	5,964,832	6,981,252	495,325	6,191,497	6,686,822
Restructured (ii) (includes US\$561 and US\$1,551 in 2018 and 2017)		78,643	78,643	149	116,288	116,437
Past due:						
From 31 to 90 days (iii) (includes US\$70 and US\$65 in 2018 and 2017)	-	181,203	181,203	-	141,403	141,403
More than 90 days (iv) (includes US\$167 and US\$166 in 2018 and 2017)	83	223,687	223,770	20	250,170	250,190
Legal collections (v) (includes US\$947 and US\$940 in 2018 and 2017)	261	166,947	167,208	-	135,349	135,349
	<u>1,016,764</u>	<u>6,615,312</u>	<u>7,632,076</u>	<u>495,494</u>	<u>6,834,707</u>	<u>7,330,201</u>
Allowance for loans and interest receivable (includes US\$47,302 and US\$26,459 in 2018 and 2017)	-	(9,505,128)	(9,505,128)	-	(8,267,297)	(8,267,297)
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</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,
BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

c) By type of collateral:

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Multi-use collateral (i)	1,510,517	93,142,007	94,652,524	1,486,383	97,726,361	99,212,744
Specific use collateral (ii)	-	11,156,727	11,156,727	-	3,076,292	3,076,292
Without collateral (iii)	<u>52,177,032</u>	<u>126,547,610</u>	<u>178,724,642</u>	<u>63,434,876</u>	<u>118,502,272</u>	<u>181,937,148</u>
	<u>53,687,549</u>	<u>230,846,344</u>	<u>284,533,893</u>	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>
Interest receivable	1,016,764	6,615,312	7,632,076	495,494	6,834,707	7,330,201
Allowance for loan losses and interest receivable	<u>-</u>	<u>(9,505,128)</u>	<u>(9,505,128)</u>	<u>-</u>	<u>(8,267,297)</u>	<u>(8,267,297)</u>
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</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. As of September 30, 2018 and December 31, 2017, these collaterals are considered as follows:

<u>Type of collateral</u>	<u>Percentage of admittance (%)</u> <u>2017</u>
Debt securities issued or guaranteed by the Dominican State (Central Bank, Ministry of Finance)	100
Debt securities issued by financial intermediaries	95
Time deposits in domestic or foreign currency owned by the financial intermediary	100
Time deposits in domestic or foreign currency of other financial intermediaries	95
Sureties or guarantees, irrevocable letters of credit and letters of credit stand-by	95
Mutual guarantee certificates	80
Investment fund participation fees (a)	-
Plots or land	80
Plots or exclusive land for agricultural purposes	80
Residential buildings, property and apartments	80
Buildings and commercial space	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 (%) 2017</u>
Operating hotels (c)	80
Hotel projects under construction (c)	70
Industrial warehouses (c)	80
Aircraft	80
Motor vehicles with an aging of less than five years	50
Renewable energy equipment (c)	80
Industries of multiple use	70
Warrants of inventory	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
Other multi-use collateral	<u>-</u>

- (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 (%) 2017</u>
Heavy vehicles	50
Free trade zone	60
Specialized machines and equipment	50
Other non-multi-use collaterals	<u>-</u>

- (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:

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Own funds	53,687,549	230,821,097	284,508,646	64,921,259	219,279,678	284,200,937
Other domestic institutions	-	25,247	25,247	-	25,247	25,247
	<u>53,687,549</u>	<u>230,846,344</u>	<u>284,533,893</u>	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>
Interest receivable	1,016,764	6,615,312	7,632,076	495,494	6,834,707	7,330,201
Allowance for loan losses and interest receivable	-	(9,505,128)	(9,505,128)	-	(8,267,297)	(8,267,297)
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>

e) By term:

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Short-term (up to one year)	35,476,035	79,529,647	115,005,682	46,789,166	78,787,889	125,577,055
Medium-term (more than one year and up to three years)	9,164,746	113,707,068	122,871,814	8,769,376	104,103,599	112,872,975
Long-term (more than three years)	<u>9,046,768</u>	<u>37,609,629</u>	<u>46,656,397</u>	<u>9,362,717</u>	<u>36,413,437</u>	<u>45,776,154</u>
	<u>53,687,549</u>	<u>230,846,344</u>	<u>284,533,893</u>	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>
Interest receivable	1,016,764	6,615,312	7,632,076	495,494	6,834,707	7,330,201
Allowance for loan losses and interest receivable	-	(9,505,128)	(9,505,128)	-	(8,267,297)	(8,267,297)
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>

f) By economic sector:

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Government	51,313,805	-	51,313,805	62,919,774	-	62,919,774
Financial sector	2,373,744	4,409,479	6,783,223	2,001,485	2,944,049	4,945,534
Non-financial sector						
Agriculture, livestock and forestry	-	4,124,274	4,124,274	-	5,109,917	5,109,917
Fishing	-	5,920	5,920	-	5,920	5,920
Mining and quarries	-	415,547	415,547	-	450,699	450,699
Manufacturing industry	-	14,085,044	14,085,044	-	12,841,120	12,841,120
Electricity, gas and water	-	6,368,549	6,368,549	-	3,913,566	3,913,566
Construction wholesale and retail business	-	29,042,799	29,042,799	-	29,008,673	29,008,673
Hotels and restaurants	-	40,871,437	40,871,437	-	44,848,256	44,848,256
Transportation, warehousing and communication	-	16,103,502	16,103,502	-	15,291,667	15,291,667
	-	2,233,481	2,233,481	-	1,965,208	1,965,208

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

7 Loans portfolios (continued)

f) By economic sector (continued)

	2018			2017		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Real estate, and leasing activities	-	6,386,503	6,386,503	-	6,826,256	6,826,256
Education	-	281,649	281,649	-	276,649	276,649
Health and social services	-	127,112	127,112	-	127,112	127,112
Other social and personal services activities	-	97,643,524	97,643,524	-	87,748,415	87,748,415
Private household with local services	-	8,747,524	8,747,524	-	7,947,418	7,947,418
	<u>53,687,549</u>	<u>230,846,344</u>	<u>284,533,893</u>	<u>64,921,259</u>	<u>219,304,925</u>	<u>284,226,184</u>
Interest receivable	1,016,764	6,615,312	7,632,076	495,494	6,834,707	7,330,201
Allowance for loan losses and interest receivable	-	(9,505,128)	(9,505,128)	-	(8,267,297)	(8,267,297)
	<u>54,704,313</u>	<u>227,956,528</u>	<u>282,660,841</u>	<u>65,416,753</u>	<u>217,872,335</u>	<u>283,289,088</u>

As of September 30, 2018 and December 31, 2017, loans to the private sector include RD\$31,570 million and RD\$34,400 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.

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

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7 Loans portfolios (continued)

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

8 Debtors by acceptances

A summary of debtors by acceptances, is as follows:

<u>Correspondent Bank</u>	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Maturity Date</u>	<u>Amount</u>	<u>Maturity Date</u>
<u>Wells Fargo Bank (corresponds to US\$734 in 2018 and US\$7,604 in 2017)</u>	36,529	2018	366,461	2018
<u>Commerzbank (corresponds to US\$82 in US\$227 in 2017)</u>	4,077	2018	10,955	2018
<u>Societe Generale (corresponds to US\$8,748 in 2018 and US\$10,514 in 2017)</u>	435,429	2018	506,708	2018
<u>Deutsche Bank (corresponds to US\$4,410 in 2017)</u>	-	-	212,531	2018
<u>CoBank (corresponds to US\$10,000 in 2017)</u>	-	-	481,928	2018
<u>Citibank (corresponds (corresponds to US\$164 in 2017)</u>	-	-	7,878	2018
<u>Caixa Bank (corresponds to US\$453 in 2018)</u>	22,520	2018	-	-
<u>Sumitomo Mitsui Tokyo (corresponds to US\$296 in 2018)</u>	14,756	2018	-	-
<u>Rabobank, Netherlands (corresponds to US\$6,787 in 2018)</u>	337,805	2018	-	-
	<u>851,116</u>		<u>1,586,461</u>	

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9 Accounts receivable

A summary of accounts receivable is as follows:

	<u>2018</u>	<u>2017</u>
Commissions receivable (includes US\$660 in 2018 and US\$182 in 2017)	<u>405,371</u>	<u>221,536</u>
Other receivables:		
Advances to suppliers	572	260
Accounts receivable from employees	13,414	14,545
Recoverable expenses	6,072	6,571
Security deposits	48,403	46,461
Judicial and administrative deposits	-	2,014
Credit card claims	66,440	93,490
Accounts receivable for real estate and leasing operations (includes US\$85 in 2018 and US\$59 in 2017)	8,095	6,911
Management funds	35,612	410,374
Discounted notes receivable	43,817	91,458
Documents receivable from instruments with a re-sale agreement (includes US\$213 in 2018)	12,011	130,773
Returned checks (includes US\$4 in 2018 and US\$2 in 2017)	16,803	320
Accounts receivable - other (includes US\$493 in 2018 and US\$4,232 in 2017)	<u>662,071</u>	<u>784,492</u>
	<u>913,310</u>	<u>1,587,669</u>
Insurance premiums receivable:		
General insurances (includes US\$16,097 and US\$23,157 in 2018 and 2017)	2,334,942	2,182,192
Life insurance includes US\$50 and US\$500 in 2018 and 2017)	<u>202,407</u>	<u>56,148</u>
	<u>2,537,349</u>	<u>2,238,340</u>
Receivables from insurance and guarantees	<u>4,750</u>	<u>6,688</u>
	<u>3,860,780</u>	<u>4,054,233</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\$)

10 Assets received in loan settlements

A summary of assets received in loan settlements as of September 30, 2018 and December 31, 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	1,031,721	491,542
Real estate	<u>8,276,125</u>	<u>8,090,050</u>
	9,307,846	8,581,592
Allowance for losses on assets received in loan settlements	<u>(7,111,463)</u>	<u>(6,356,177)</u>
	<u>2,196,383</u>	<u>2,225,415</u>

Following is a description of assets received in loan settlements (by aging) as of September 30, 2018 and December 31, 2017:

	<u>Amount</u>	<u>Provision</u>
September 30, 2018		
Up to 40 months:		
Furniture and equipment	546,588	(135,146)
Real estate	3,317,820	(1,532,879)
More than 40 months:		
Furniture and equipment	485,133	(485,133)
Real estate	<u>4,958,305</u>	<u>(4,958,305)</u>
Total	<u>9,307,846</u>	<u>(7,111,463)</u>
December 31, 2017		
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>

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Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

11 Investments in shares

A summary of investments in shares 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>
September 30, 2018					
<u>Investments in associates:</u>					
704,792	24.53 %	Common	100	(a)	4,866,613
<u>323,555</u>	30.00 %	Common	1,000	(a)	161,888
<u>1,028,347</u>					
 <u>Investments in other entities:</u>					
42,732 (a)	0 %	Common	311	1,042	128,776
15,605 (b)	10 %	Common	100	(a)	156,048
<u>97,467 (b)</u>					
<u>155,804</u>					
1,184,151					
<u>(30,774) (c)</u>					
Total					
<u>1,153,377</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>					

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BANCO DE SERVICIOS MÚLTIPLES AND SUBSIDIARIES**

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, 2017					
<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>					

(a) In the Dominican Republic there is no active market where the Bank can obtain the market value of these local investments; however, for investments in shares of companies that are listed in active markets, which book value at September 30, 2018 and December 31, 2017 amounted to RD\$43 and RD\$41 million, respectively, the market value was RD\$134 and RD\$167 million, respectively.

(b) Corresponds to minor investments in several entities.

(c) Represents an allowance for investments in shares.

As of September 30, 2018 and December 31, 2017, investments in shares include US\$756 and US\$827 net of allowance for US\$102 and US\$31, respectively.

A movement of the investment, dividends received and equity shares in net income of the associates at September 30, 2018 and December 31, 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Investment balances at January 1 st	934,527	849,844
Reclassification due to change in Influence	60,694	-
Equity on earnings recognized	31,794	138,381
Acquisition of shares	116,178	-
Dividends received in cash	<u>(114,846)</u>	<u>(53,698)</u>
Investment balances at September 30, 2018 and December 31, 2017	<u>1,028,347</u>	<u>934,527</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 September 30, 2018 and December 31, 2017, a summary of property, furniture and equipment are as follows:

	Land and improvements	Buildings	Furniture and equipment	Leasehold improvements	Construction and acquisitions in process (a)	Total
September 30, 2018						
Balance at						
January 1 st , 2018	1,509,541	5,658,837	5,158,352	331,892	4,082,907	16,741,529
Acquisitions	-	8,381	57,623	-	673,300	739,304
Disposals	(164)	(105,328)	(558,104)	-	-	(663,596)
Transfers	<u>10,000</u>	<u>386,305</u>	<u>1,188,875</u>	<u>28,410</u>	<u>(1,609,930)</u>	<u>3,660</u>
Balance at September 30, 2018	<u>1,519,377</u>	<u>5,948,195</u>	<u>5,846,746</u>	<u>360,302</u>	<u>3,146,277</u>	<u>16,820,897</u>
Accumulated depreciation at January 1 st , 2018	-	(1,612,555)	(2,221,191)	(142,688)	-	(3,976,434)
Depreciation expenses (b)	-	(143,969)	(728,215)	(58,555)	-	(930,739)
Disposals	<u>-</u>	<u>-</u>	<u>541,279</u>	<u>-</u>	<u>-</u>	<u>541,279</u>
Balance at September 30, 2018	<u>-</u>	<u>(1,756,524)</u>	<u>(2,408,127)</u>	<u>(201,243)</u>	<u>-</u>	<u>(4,365,894)</u>
Property, furniture and equipment at September 30, 2018	<u><u>1,519,377</u></u>	<u><u>4,191,671</u></u>	<u><u>3,438,619</u></u>	<u><u>159,059</u></u>	<u><u>3,146,277</u></u>	<u><u>12,455,003</u></u>
December 31, 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><u>1,509,541</u></u>	<u><u>4,046,282</u></u>	<u><u>2,937,161</u></u>	<u><u>189,204</u></u>	<u><u>4,082,907</u></u>	<u><u>12,765,095</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\$)

12 Property, furniture and equipment (continued)

- (a) Corresponds mainly to acquisition of hardware, renovations and building of branches.
- (b) Expenses for this concept for the nine month periods ended September 30, 2018 and 2017, includes RD\$15,502 and RD\$15,203, 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>2018</u>	<u>2017</u>
Deferred charges:		
Commissions to insurance agents		
on unearned premiums	278,156	249,479
Prepaid insurances	126,907	218,711
Non-deferred proportional ceded reinsurance		
premium (a)	151,281	150,742
Prepaid income tax	1,785,835	1,378,319
Other prepaid payments (includes		
US\$4 in 2017)	1,727,684	1,230,646
Other deferred charges	<u>157,453</u>	<u>181,131</u>
	<u>4,227,316</u>	<u>3,409,028</u>
Intangibles:		
Software	202,967	180,253
Others	<u>2,200</u>	<u>2,200</u>
	205,167	182,453
Accumulated amortization	<u>(138,148)</u>	<u>(123,828)</u>
	<u>67,019</u>	<u>58,625</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>2018</u>	<u>2017</u>
Other assets:		
Assets acquired for financial leases	736,821	736,821
Stationery and office supplies	139,041	88,177
Plastic inventory of credit card	128,481	44,568
Libraries and artwork	25,052	24,547
Other miscellaneous assets (b)	3,443,428	3,000,236
Items pending for allocation (c), (includes US\$1,269 in 2018 and US\$3,040 in 2017)	261,160	540,898
Others (includes US\$30 in 2018)	<u>187,131</u>	<u>97,021</u>
	<u>4,921,114</u>	<u>4,532,268</u>
	<u>9,215,449</u>	<u>7,999,921</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>
September 30, 2018						
Balance at January 1 st , 2018	7,758,005	297,835	512,262	6,356,177	261,981	15,186,260
Constitution of allowances	2,562,353	41,099	431,502	602,611	57,000	3,694,565
Write-offs against allowances	(1,191,642)	-	(306,569)	-	-	(1,498,211)
Transfers of allowances	(300,901)	3,816	137,045	152,675	7,365	-
Reverse of allowances (e)	-	-	-	-	-	-
Effect of change in exchange rates and others	<u>(93,775)</u>	<u>308</u>	<u>832</u>	<u>-</u>	<u>4,646</u>	<u>(87,989)</u>
Balance at Septiembre 30, 2018	8,734,040	343,058	775,072	7,111,463	330,992	17,294,625
Minimum allowances required at September 30, 2018 (c)	<u>8,304,263</u>	<u>313,799</u>	<u>610,619</u>	<u>7,091,697</u>	<u>227,404</u>	<u>16,547,782</u>
Excess (deficit) in the minimum allowance required at September 30, 2018 (d)	<u>429,777</u>	<u>29,259</u>	<u>164,453</u>	<u>19,766</u>	<u>103,588</u>	<u>746,843</u>

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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)

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><u>115,326</u></u>	<u><u>5,821</u></u>	<u><u>32,397</u></u>	<u><u>3,713</u></u>	<u><u>48,233</u></u>	<u><u>205,490</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 September 30, 2018 and December 31, 2017 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.

At September 30, 2018 and December 31, 2017, 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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Notes to the consolidated financial statements (continued)

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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 September 30, 2018 and December 31, 2017 the amount of the debt under this program amounts to approximately RD\$31,600,000 and RD\$34,400,000 and the decrease in the required provision originated by this exemption was approximately RD\$316,000 and RD\$344,000, 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>
September 30, 2018					
Checking	60,328,633	0.73	-	-	60,328,633
Savings	83,373,102	0.80	58,409,522	0.95	141,782,624
Time	2,412	4.14	39,613,146	2.22	39,615,558
Interest	<u>127,515</u>	-	<u>139,460</u>	-	<u>266,975</u>
	<u>143,831,662</u>	<u>0.77</u>	<u>98,162,128</u>	<u>1.46</u>	<u>241,993,790</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>

**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\$)

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>
September 30, 2018					
Non-financial public sector	30,684,320	0.73	18,413,277	1.22	49,097,597
Non-financial private sector	112,986,302	0.78	79,535,082	1.52	192,521,384
Non-resident	33,525	0.76	74,309	1.02	107,834
Interest	<u>127,515</u>	<u>-</u>	<u>139,460</u>	<u>-</u>	<u>266,975</u>
	<u>143,831,662</u>	<u>0.77</u>	<u>98,162,128</u>	<u>1.46</u>	<u>241,993,790</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>

c) By maturity date

September 30, 2018

0 to 15 days	143,702,759	0.77	58,517,511	0.95	202,220,270
16 to 30 days	-	-	111,326	1.72	111,326
31 to 60 days	84	2.72	5,302,948	1.83	5,303,032
61 to 90 days	251	2.78	5,554,356	2.02	5,554,607
91 to 180 days	696	2.74	6,845,728	2.12	6,846,424
181 to 360 days	357	2.88	11,327,340	2.55	11,327,697
More than 1 year	-	-	10,363,459	2.24	10,363,459
Interest	<u>127,515</u>	<u>-</u>	<u>139,460</u>	<u>-</u>	<u>266,975</u>
	<u>143,831,662</u>	<u>0.77</u>	<u>98,162,128</u>	<u>1.46</u>	<u>241,993,790</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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15 Customers' deposits (continued)

	Annual Local currency	weighted average rate (%)	Annual Foreign currency	weighted average rate (%)	Total RD\$
December 31, 2017					
0 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	994	6.01	6,676,120	1.94	6,677,114
	<u>135,727,125</u>	<u>0.95</u>	<u>88,905,820</u>	<u>1.47</u>	<u>224,632,945</u>

At September 30, 2018 and December 31, 2017, customers' deposits include restricted amounts for the following concepts:

	Inactive accounts	Foreclosed funds	Deceased customers	Security deposits	Total RD\$
September 30, 2018					
Customers' deposits:					
Checking	88,307	587,932	31,618	-	707,857
Savings	372,576	530,060	1,290,619	-	2,193,255
Time	-	274,027	110,633	2,332,281	2,716,941
	<u>460,883</u>	<u>1,392,019</u>	<u>1,432,870</u>	<u>2,332,281</u>	<u>5,618,053</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	-	173,676	182,736	2,633,808	2,990,220
	<u>817,867</u>	<u>1,474,714</u>	<u>1,040,914</u>	<u>2,633,808</u>	<u>5,967,303</u>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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15 Customers' deposits (continued)

At September 30, 2018 and December 31, 2017, 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>
September 30, 2018			
Customer deposits:			
Checking	84,820	3,487	88,307
Savings	<u>340,705</u>	<u>31,871</u>	<u>372,576</u>
	<u>425,525</u>	<u>35,358</u>	<u>460,883</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>

16 Deposits from domestic and foreign financial institutions

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

a) By type and currency

	<u>Local currency</u>	Annual weighted average rate (%)	<u>Foreign currency</u>	Annual weighted average rate (%)	<u>Total RD\$</u>
September 30, 2018					
Checking	5,843,050	0.73	-	-	5,843,050
Savings	224,337	0.80	1,442,345	0.95	1,666,682
Time	106	3.21	1,504,772	1.78	1,504,878
Interest	<u>516</u>	-	<u>3,092</u>	-	<u>3,608</u>
	<u>6,068,009</u>	<u>0.73</u>	<u>2,950,209</u>	<u>1.37</u>	<u>9,018,218</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\$)

16 Deposits from domestic and foreign financial institutions (continued)

	<u>Local currency</u>	Annual weighted average rate (%)	<u>Foreign 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>

b) By maturity date

September 30, 2018					
0 to 15 days	6,037,389	0.73	1,442,345	0.95	7,509,734
31 to 60 days	73	3.32	643,549	1.36	643,622
61 to 90 days	31	2.75	384,692	1.29	384,723
91 to 180 days	-	-	74,284	2.23	74,284
181 to 360 days	-	-	321,150	2.83	321,150
More than a year	-	-	81,097	2.82	81,097
Interest	<u>516</u>	<u>-</u>	<u>3,092</u>	<u>-</u>	<u>3,608</u>
	<u>6,068,009</u>	<u>0.73</u>	<u>2,950,209</u>	<u>1.37</u>	<u>9,018,218</u>

December 31, 2017					
0 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>

At September 30, 2018 and December 31, 2017, 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\$181,849 and RD\$206,229, respectively.

At September 30, 2018 and December 31, 2017, the estatus of the inactive and/or dormant accounts of the deposits in domestic financial institutions with three to ten year term is RD\$921 and RD\$464, respectively.

**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\$)

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>
September 30, 2018					
Domestic financial institutions:					
Banco Central de la República Dominicana S. A.	Loan	Secured	2.25 %	2018 until 2024	<u>21,552</u>
Banco Popular Dominicano, S. A.	Line of credit	Secured	9.25 %	2019	700,000
Scotiabank	Line of credit	Secured	7.50 %	2018	298,000
Asociación Popular de Ahorros y Préstamos	Line of credit	Secured	8.50 %	2018	1,000,000
Banco Multiple Lafise, S.A (corresponds to US\$499)	Line of credit	Secured	5.00 %	2019	<u>24,851</u>
					<u>2,022,851</u>
Foreign financial institutions:					
Banco Latinoamericano de Comercio Exterior, S. A. (corresponds to US\$95,000)	Loan	Unsecured	3.70 % until 3.76	2018 until 2019	4,728,539
Citibank, N. A. (corresponds to US\$70,000)	Loan	Unsecured	2.87 % until 4.33%	2018	3,484,187
Bac Florida Bank (corresponds US\$15,000)	Loan	Unsecured	2.56 % until	2018	746,612
Eximbank, Republic of China - Taiwán (corresponds to US\$495)	Loan	Unsecured	2.20 % until 3.25 %	2018 until 2019	24,648
Bank of America (corresponds to US\$20,000)	Loan	Unsecured	3.29%	2018	995,482
Banco Centroamericano de Integración Económica (corresponds to US\$25,000)	Loan	Unsecured	4.27 %	2019	1,244,352
Sumitomo Mithsui Banking Corp. (corresponds to US\$49,000)	Loan	Unsecured	3.72 %	2019	2,438,931
Wells Fargo Bank (corresponds to US\$49,691)	Loan	Unsecured	3.70 %	2019	2,473,308

**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\$)

17 Borrowed funds (continued)

<u>Borrower</u>	<u>Type</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
September 30, 2018					
Mercantil Commerce Bank (corresponds to US\$10,000)	Loan	Unsecured	2.81 %	2018	497,741
U. S. Century Bank (corresponds to US\$11,000)	Loan	Unsecured	2.99 %	2018	547,515
Banco de Crédito e Inversiones (corresponds to US\$15,000)	Loan	Unsecured	2.92 %	2018	746,612
Cargill Financial Services (corresponds to US\$10,000)	Loan	Unsecured	4.91 %	2019	497,741
Cost per debt commission (a)					<u>(9,793)</u>
					<u>18,415,875</u>
Other: Various (includes US\$9,094)		Sale of Secured investments with re-purchase agreement	1.37 % until 9.48 %	2018 until 2019	<u>8,124,412</u>
Interest payable (includes US\$3,818)					<u>242,689</u>
					<u>28,827,379</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 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\$)

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 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 Mitsui 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 % until 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	963,860
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>
					<u>22,974,647</u>
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>

(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.

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

18 Outstanding securities

A summary of outstanding securities, is as follows:

a) By type

	Local currency <u>RD\$</u>	Annual weighted average rate (%)
September 30, 2018		
Time certificates	<u>115,574,599</u>	<u>6.08</u>
December 31, 2017		
Time certificates	<u>109,694,488</u>	<u>5.90</u>

b) By sector

September 30, 2018		
Non-financial public sector	23,798,002	6.23
Non-financial private sector	74,282,356	5.53
Financial sector	<u>17,494,241</u>	<u>8.12</u>
	<u>115,574,599</u>	<u>6.08</u>
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>109,694,488</u>	<u>5.90</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

18 Outstanding securities (continued)

	Annual Local currency RD\$	weighted average rate (%)
December 31, 2017		
c) By maturity date		
September 30, 2018		
0 to 15 days	2,216,725	7.59
16 to 30 days	533,299	4.97
31 to 60 days	20,788,046	6.71
61 to 90 days	10,451,178	6.14
91 to 180 days	31,502,435	6.26
181 to 360 days	24,835,172	5.72
More than a year	<u>25,247,744</u>	<u>5.55</u>
	<u>115,574,599</u>	<u>6.08</u>
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>109,694,488</u>	<u>5.90</u>

As of September 30, 2018 and December 31, 2017, outstanding securities include restricted amounts, as follows:

	<u>Deceased clients</u>	<u>Received in collateral</u>	<u>Total</u>
September 30, 2018			
Outstanding securities - time certificates	<u>387,135</u>	<u>8,660,506</u>	<u>9,047,641</u>

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

Notes to the consolidated financial statements (continued)

Amounts in thousands of Dominican Pesos (RD\$)

18 Outstanding securities (continued)

December 31, 2017

Outstanding securities - time certificates	<u>324,733</u>	<u>8,605,139</u>	<u>8,929,872</u>
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19 Other liabilities

A summary of other liabilities is as follows:

	<u>2018</u>	<u>2017</u>
Demand obligations (includes US\$1,607 in 2018 and US\$12,423 in 2017) (a)	1,464,024	1,793,758
Term obligations (includes US\$1,441 in 2018 and US\$22,300 in 2017) (b)	272,608	1,386,266
Differential by position of future contracts	37	37
Unclaimed third party balances (includes US\$655 in 2018 and US\$467 in 2017)	32,582	22,501
Sundry creditors:		
Commissions payable	24,735	19,621
Accounts payables to suppliers (includes US\$290 in 2018 and US\$62 in 2017)	400,215	246,653
Withheld tax payable	377,225	163,509
Retained payable insurance premium	152,260	38,412
Other sundry creditors (c) (includes US\$234 in 2018 and US\$3,339 in 2017) (c)	777,512	1,606,323
Reserves for contingent operations (includes US\$3,131 in 2018) (d)	330,992	261,981
Other provisions:		
Income tax	480,539	134,757
Provision for litigation (note 27)	79,104	83,743
Bonus and other employee's benefits	2,248,263	2,827,900
Systemic risk prevention program	158,353	154,388
Contingency fund	60,214	86,264
Credit card and electronic transactions	245,981	159,044
Extraordinary contributions to pension plans	20,194	20,194
Other reserves (includes US\$57 in 2018 and US\$62 in 2017)	1,468,889	816,059
Items pending for allocation (includes US\$688 in 2018 and US\$554 in 2017) (e)	212,717	172,146
Administration fund of the public sector	32,806	205,094

**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)

	<u>2018</u>	<u>2017</u>
Commissions to agents on premiums pending collection (includes US\$954 in 2018 and US\$1,271 in 2017)	191,163	175,544
Tax on outstanding premium	255,720	263,056
Withholding tax to reinsurers	3,858	9,782
Payments received in advance (includes US\$72 in 2018 and US\$37 in 2017)	83,240	71,185
Others	<u>1,263,077</u>	<u>1,057,141</u>
	<u>10,636,308</u>	<u>11,775,358</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.
- (c) As of September 30, 2018 and December 31, 2017, includes RD\$37,937 and RD\$1,029,452, 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.

**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

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>
September 30, 2018				
Subordinated debts (corresponds to US\$300,000 nominal value (a))	14,932,230	7.12 %	Dollar	10 years
Subordinated debts nominal value (b)	9,999,000	8.17 %	Peso	10 years
Debt issuance costs (c)	(126,730)	-	-	-
Discount on the issuance of debt (corresponds to (US\$1,367) (d))	<u>(68,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	24,736,482			
Interest payable (corresponds to US\$3,500)	<u>384,615</u>			
	<u>25,121,097</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)

- 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.

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.

**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\$)

21 Technical reserves

The subsidiaries Seguros Reservas, S. A. and Administradora de Riesgos de Salud Reservas, Inc. maintain ongoing specific mathematical risk reserves to meet commitments arising from the current insurance policies, which amounted to RD\$4,090,279 and RD\$3,434,545 as of September 30, 2018 and December 31, 2017, 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>
September 30, 2018			
Balance at January 1 st , 2018	164,903	3,269,642	3,434,545
Plus: reserve increase	144,001	3,970,830	4,114,831
Less: reserve decrease	<u>(138,019)</u>	<u>(2,321,078)</u>	<u>(3,459,097)</u>
Balance at September 30, 2018	<u>170,885</u>	<u>3,919,394</u>	<u>4,090,279</u>
December 31, 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>

22 Income tax

In accordance with the Organic Law, the Bank is exempt from income tax. However, the Bank performs the computation and voluntarily pays income tax by following some guidelines of the Tax Code and special criteria after considering that the final beneficiary is the Dominican Republic State. The consolidated companies declare and pay their income tax individually and separately. Consolidated companies determine their net taxable income based on accounting practices to comply with existing legislation. Income tax expense for the nine month periods ended as of September 30, 2018 and 2017, is composed of the following:

	<u>2018</u>	<u>2017</u>
Current income tax	RD\$ 462,016	426,995
Deferred	31,050	31,491
Tax withheld on payment of dividends	<u>-</u>	<u>1,000</u>
	<u>493,066</u>	<u>459,486</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\$)

23 Responsibilities

In addition to the obligation balances of insured risks retained, as of September 30, 2018 and December 31, 2017 for RD\$688,194,160 and RD\$790,293,517, respectively, the subsidiaries Seguros Reservas, S. A. and Administradora de Riesgo de Salud Reservas, Inc. recognize memorandum accounts for salvages warehouse amounting to RD\$19,189 and RD\$20,429 in september 2018 and december 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Responsibilities for insurance businesses and bonds taken directly	688,194,160	790,293,517
Surrendered and retracted insurance responsibilities	<u>(515,835,865)</u>	<u>(495,213,853)</u>
	<u>172,358,295</u>	<u>295,079,664</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>September 30, 2018</u>			<u>December 31, 2017</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 65 until 100	Suiza	Surplus Quota share	12.5 60 until 100
Korean GC	Surplus Quota share	5 until 6 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 5 until 70
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	30 until 35 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

**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\$)

24 Reinsurance (continued)

Navigators-BMS	Surplus	3.00	Navigators-BMS	Surplus	3.00
	Quota share	8.00		Quota share	8.00
Arch Re.	Quota share	15 until 80	Arch Re.	Quota share	15 until 80
Awac-BMS	Surplus	2 until 3	Awac-BMS	Surplus	2 until 3
Siruis-BMS	Surplus	3.5 until 5	Siruis-BMS	Surplus	3.5 until 5

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 September 30, 2018	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>
Balance at December 31, 2017	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>

As of September 30, 2018, 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, 2018, the Board of Directors approved the distribution of dividends, taking into account the guidelines for the distribution of dividends to shareholders set forth in Resolution 7-2002, issued by the Superintendence of Banks on March 8, 2002, and in accordance with the provisions of Law No. 99-01 on the distribution of dividends from the Bank. The total amount of dividends to be distributed was RD\$6,313,917, as detailed below:

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

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.

**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)

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, the Bank segregated equity reserves for the amount of RD\$2,264,425.

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, the amortized amount corresponding to these revalued assets, amounted to RD\$11,140.

26 Information segments

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

<u>Segment</u>	<u>Company</u>	<u>Jurisdiction</u>	<u>Functional currency</u>	<u>Equity shares</u>	Percentage of voting rights direct and <u>Indirect</u>
September 30, 2018					
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)

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>	

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

<u>Company</u>	<u>At September 30, 2018</u>		<u>Nine month period ended at September 30, 2018</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	454,043,359	420,429,324	41,215,054	35,631,443	5,583,611
Tenedora Reservas, S. A. and Subsidiaries	28,153,938	19,119,608	8,639,735	7,696,815	942,920
Administradora de Riesgos de Salud Reservas, Inc.	<u>601,916</u>	<u>148,925</u>	<u>651,601</u>	<u>583,193</u>	<u>68,408</u>
	482,799,213	439,697,857	50,506,390	43,911,451	6,594,939
Elimination adjustments in consolidation	<u>(11,263,084)</u>	<u>(2,014,386)</u>	<u>(2,422,598)</u>	<u>(1,438,530)</u>	<u>(984,068)</u>
	<u>471,536,129</u>	<u>437,683,471</u>	<u>48,083,792</u>	<u>42,472,921</u>	<u>5,610,871</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>At December 31, 2017</u>	<u>Nine month period ended at September 30, 2017</u>			
<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Income</u>	<u>Expenses</u>	<u>Net income</u>
Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples	453,765,935	421,686,019	39,433,194	34,548,430	4,884,764
Tenedora Reservas, S. A. and Subsidiaries	19,192,316	11,091,328	7,955,534	6,991,760	963,774
Administradora de Riesgos de Salud Reservas, Inc.	<u>504,501</u>	<u>119,918</u>	<u>577,739</u>	<u>528,460</u>	<u>49,279</u>
	473,462,752	432,897,265	47,966,467	42,068,650	5,897,817
Elimination adjustments in consolidation	<u>(10,037,460)</u>	<u>(1,773,658)</u>	<u>(2,495,833)</u>	<u>(1,510,643)</u>	<u>(985,190)</u>
	<u>463,425,292</u>	<u>431,123,607</u>	<u>45,470,634</u>	<u>40,558,007</u>	<u>4,912,627</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:

	September 30, <u>2018</u>	December 31, <u>2017</u>
Collaterals granted:		
Endorsements	3,318,453	3,469,441
Other collaterals granted	112,036	166,983
Non-negotiable letters of credit issued	2,061,240	282,253
Credit lines of automatic use	<u>29,173,752</u>	<u>21,285,932</u>
	<u>34,665,481</u>	<u>25,204,609</u>

As of September 30, 2018 and December 31, 2017, the Bank has reserves to cover possible losses from these operations for the amounts of RD\$330,992 and RD\$261,981 respectively, which are included in other liabilities in the consolidated balance sheets at those dates.

**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\$)

27 Commitments and contingencies (continued)

(a) Contingent operations (continued)

As of September 30, 2018 and December 31, 2017, the Insurance subsidiary and the Administradora de Riesgos de Salud Reservas, Inc. had contingent liabilities for retained risk, estimated as follows:

	<u>2018</u>	<u>2017</u>
General risks	584,179,698	723,200,574
Individual life insurance	17,424,782	774,801
Collective life insurance	<u>86,589,680</u>	<u>66,318,142</u>
	<u>688,194,160</u>	<u>790,293,517</u>

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

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

The Bank has leasing contracts for the premises where some of its administrative offices, branches, business centers and ATM are located. For the nine month periods ended September 30, 2018 and 2017, expenses for this concept amounted to RD\$573,645 and RD\$553,033, respectively, which are recognized in other operating expenses in the accompanying consolidated income statements.

(c) Superintendence of Bank fees

The Monetary Board of the Dominican Republic requires that financial entities make contributions in order to cover inspection services provided by the Superintendence of Banks of the Dominican Republic. The expense for this concept for the nine month periods ended September 30, 2018 and 2017, was approximately RD\$675,821 and RD\$593,411 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.

**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)**(d) Contingent fund (continued)**

Expenses for this concept for the nine month periods ended September 30, 2018 and 2017, were RD\$166,818 and RD\$244,227 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 nine month periods ended September 30, 2018 and 2017, was approximately RD\$467,859 and RD\$451,209 respectively, and are recognized as part of other operating expenses in the accompanying consolidated income statements.

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

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

Visa credit cards

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

(g) Lawsuits

As of September 30, 2018 and December 31, 2017, there are several lawsuits and claims originated in the normal course of the Bank's operations. The Bank believes together with its legal advisors that the resolution of these claims will not result in an adverse material effect. As of September 30, 2018 and December 31, 2017, the amount reserved to meet these claims increased to RD\$79,104 and RD\$83,743, respectively, and is recognized in other liabilities in the accompanying consolidated balance sheet.

**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)

(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 September 30, 2018 and December 31, 2017, 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 Superintendencia of Pensions, the *Administradora* would have a payment commitment with the fund.

28 Memorandum accounts

As of September 30, 2018 and December 31, 2017, Memorandum accounts presented in the Bank's consolidated balance sheet consist of:

	<u>2018</u>	<u>2017</u>
Funds under management by the Bank:		
PROMIPYME Resources	3,256,133	2,880,448
PROMIPYME - PROCREA	230	252
SEH - PETROCARIBE Resources	61	61
PROMICENTRAL	93,681	100,904
PROMIPYME - Fonper funds	49,167	60,405
PROMIPYME - PRÉSAAC loans	893	939
MI PRIMER PROGRESO loans	12,653	12,952
MI PRODEMICO loans	364,675	318,709
Solidarity Bank	2,210,481	2,071,525
D and E loans from BNV	296,554	296,554
	<u>6,284,528</u>	<u>5,742,749</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\$)

28 Memorandum accounts (continued)

Funds managed by the subsidiary -
Pension Fund Management:

Mandatory individual capitalization pension plan (Pension Fund T-1)	79,401,806	70,618,664
Pension fund of officers and employees of Banco de Reservas of the Dominican Republic (Pension Fund T-4)	13,587,397	12,643,232
Social solidary fund (Pension Fund T-5)	<u>31,726,434</u>	<u>28,265,987</u>
	<u>124,715,637</u>	<u>111,527,883</u>
	<u>131,000,165</u>	<u>117,270,632</u>

29 Financial income and expenses

A summary of financial income and expenses is as follows:

	Nine month periods ended at September 30,	
	<u>2018</u>	<u>2017</u>
Financial income:		
Loans portfolio:		
Commercial	13,880,873	15,356,094
Consumers	8,611,862	7,596,527
Mortgage	<u>2,844,825</u>	<u>2,610,040</u>
	<u>25,337,560</u>	<u>25,562,661</u>
Investments:		
Other debt securities	6,159,533	5,946,814
Gain on sale of investments	1,483,301	1,629,182
Insurance premiums net of returns and cancelations	<u>5,210,585</u>	<u>4,838,348</u>
Total	<u>38,190,979</u>	<u>37,977,005</u>
Financial expenses-on deposits:		
Customer deposits	(1,861,564)	(2,015,330)
Securities	(4,927,223)	(7,186,871)
Subordinated debts	<u>(1,470,385)</u>	<u>(1,584,559)</u>
	<u>(8,259,172)</u>	<u>(10,786,760)</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\$)

29 Financial income and expenses (continued)

	<u>2018</u>	<u>2017</u>
Investments:		
Amortization of premiums from investments in debt securities	(368,598)	(318,225)
Loss on sale of investments	<u>(6,875)</u>	<u>(17)</u>
	<u>(375,473)</u>	<u>(318,242)</u>
Financing-borrowed funds	<u>(657,560)</u>	<u>(690,661)</u>
Reinsurance:		
Reinsurance costs	(1,496,927)	(1,503,453)
Contratual losses and obligations	<u>(2,263,374)</u>	<u>(1,946,599)</u>
	<u>(3,760,301)</u>	<u>(3,450,052)</u>
Expenses for technical adjustment to reserves	<u>(112,850)</u>	<u>(182,086)</u>
Acquisition expense, conservation and premium collection - commission and other acquisition costs of the insurance company	<u>(535,470)</u>	<u>(492,997)</u>
Total	<u><u>(13,700,826)</u></u>	<u><u>(15,920,798)</u></u>

30 Income (expense) for exchange differences

A summary of the main income and expenses due to exchange differences were recognized for the nine month periods ended as of September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Income due to foreign exchange:		
Loan portfolio	3,143,520	3,910,259
Investments	1,116,629	864,500
Available funds	5,335,972	7,277,267
Accounts receivable	9,196	6,960
Forward contracts	-	25
Non-financial investments	1,693	2003
Other assets	36,533	145,921
Adjustments for exchange rate differences	<u>2,277,655</u>	<u>4,228,711</u>
Subtotal	<u>11,921,198</u>	<u>16,435,646</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\$)

30 Income (expense) for exchange differences (continued)

	<u>2018</u>	<u>2017</u>
Expenses due to foreign exchange:		
Customer deposits	(4,566,678)	(5,178,443)
Borrowed funds	(1,464,465)	(1,284,159)
Financial obligations	(154,558)	(221,820)
Subordinated debts	(587,747)	(694,599)
Creditors and various provisions	(17,447)	(8,141)
Future foreign exchange rate forward contract	-	(18)
Other liabilities	(52,579)	(110,431)
Adjustments for exchange rate differences	<u>(5,519,985)</u>	<u>(9,055,237)</u>
Subtotal	<u>(12,363,459)</u>	<u>(16,552,848)</u>
	<u>(442,261)</u>	<u>(117,202)</u>

31 Other operating income (expense)

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

	<u>2018</u>	<u>2017</u>
Other operating income:		
Credit Cards	<u>1,568,021</u>	<u>1,173,281</u>
Service fees:		
Drafts and wire transfers	163,680	209,277
Certification and sales of bank's checks	34,391	20,703
Collections	37,062	34,427
Other commissions collected	4,397,444	3,110,157
Letters of credit	32,560	34,481
Collaterals granted	<u>36,482</u>	<u>30,253</u>
	<u>4,701,619</u>	<u>3,439,298</u>
Exchange commissions:		
Gains on foreign exchange	832,820	798,614
Premium for future foreign exchange contracts	<u>312,547</u>	<u>219,731</u>
	<u>1,145,367</u>	<u>1,018,345</u>

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

Amounts in thousands of Dominican Pesos (RD\$)

31 Other operating income (expense) (continued)

	<u>2018</u>	<u>2017</u>
Income on available funds	196,236	122,091
Other miscellaneous operating expenses:		
Claims for medical services	271,845	241,454
Other services and contingencies	<u>1,107,377</u>	<u>998,995</u>
	<u>1,575,458</u>	<u>1,362,540</u>
Total of other operating income	<u>8,990,465</u>	<u>6,993,464</u>
Other operating expenses:		
Services fees:		
Correspondents	(53,475)	(42,359)
Other services	<u>(629,543)</u>	<u>(272,023)</u>
	<u>(683,018)</u>	<u>(314,382)</u>
Miscellaneous expenses:		
Exchange commission	(236,361)	(93,904)
Other operating expenses	(937,146)	(769,128)
Commissions and sales of property	(2,674)	(1,899)
Claims for medical services	<u>(545,472)</u>	<u>(504,317)</u>
	<u>(1,721,653)</u>	<u>(1,369,248)</u>
Total of other operating expenses	<u>(2,404,671)</u>	<u>(1,683,630)</u>

32 Other income (expenses)

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

	<u>2018</u>	<u>2017</u>
Other income:		
Recovery of written off assets	551,300	297,680
Non-financial investments	119,314	94,869
Gain on sale of property, furniture and equipment	8,283	8,235
Gain on sales of assets received in loan settlement	33,775	19,420
Leases of property	17,352	13,420
Others	<u>200,825</u>	<u>103,263</u>
	<u>930,849</u>	<u>536,887</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\$)

32 Other income (expenses) (continued)

	<u>2018</u>	<u>2017</u>
Other expenses:		
Assets received in loan settlements	(51,393)	(53,942)
Loss on sale of property, furniture and equipment	(1,842)	(4,101)
Loss on sales of assets received in loan settlement	(24,075)	(6,904)
Other expenses:		
Accounts receivable	(493,976)	(60,801)
Penalty for breach	(570)	(1,614)
Donations	(59,461)	(107,581)
Losses from thefts, assaults and frauds	(33,689)	(29,485)
Acquisition of parts for ATM - others	<u>(909,723)</u>	<u>(773,327)</u>
	<u>(1,574,729)</u>	<u>(1,037,755)</u>
Other income, net	<u>(643,880)</u>	<u>(500,868)</u>

33 Salaries and compensations to personnel

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

	Nine month periods ended at September 30,	
	<u>2018</u>	<u>2017</u>
Wages, salaries and benefits to employees	7,425,820	6,911,342
Social security	700,218	654,516
Contributions to the pension plan	936,763	859,219
Other personnel expenses	<u>3,427,502</u>	<u>3,373,724</u>
	<u>12,490,303</u>	<u>11,798,801</u>

As of September 30, 2018 and 2017, compensations to personnel include approximately RD\$1,194,824 and RD\$1,428,448, respectively, that corresponds to the executive management of the Bank which are defined as directors and above.

As of September 30, 2018 and 2017, the Bank has 12,259 and 11,999 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 September 30, 2018 and December 31, 2017, is as follows:

Interest rate risk

	At September 30, 2018		December 31, 2017	
	<u>Local currency</u>	<u>Foreign currency</u>	<u>Local currency</u>	<u>Foreign currency</u>
Assets sensitive to interest rate	234,861,619	80,515,772	227,981,288	86,994,310
Liabilities sensitive to interest rate	<u>(274,160,376)</u>	<u>(135,014,964)</u>	<u>(259,621,638)</u>	<u>(149,836,943)</u>
Net position	<u>(39,298,757)</u>	<u>(54,499,192)</u>	<u>(31,640,350)</u>	<u>(62,842,633)</u>
Interest rate exposure	<u>986,101</u>	<u>385,035</u>	<u>162,410</u>	<u>437,283</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 September 30, 2018 and December 31, 2017, 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>
September 30, 2018						
Assets:						
Available funds	69,106,586	-	-	-	-	69,106,586
Investments	1,454,891	3,014,254	34,307,561	23,753,569	26,820,602	89,350,877
Loans portfolio	30,039,945	45,185,635	81,966,177	70,692,635	64,461,286	292,345,678
Debtors by acceptances	169,230	171,418	510,468	-	-	851,116
Accounts receivable	3,407,006	-	-	-	453,774	3,860,780
Investments in shares	-	-	-	-	1,184,151	1,184,151
Other assets (i)	<u>997,980</u>	<u>3,706,317</u>	<u>-</u>	<u>-</u>	<u>216,817</u>	<u>4,921,114</u>
Total assets	<u>105,175,638</u>	<u>52,077,624</u>	<u>116,784,206</u>	<u>94,446,204</u>	<u>93,136,630</u>	<u>461,620,302</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\$)

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
September 30, 2018						
Liabilities:						
Customers' deposits	205,526,670	12,439,711	17,082,256	4,116,765	2,828,388	241,993,790
Deposits from domestic and foreign financial institutions	8,442,354	103,491	357,286	42,362	72,725	9,018,218
Borrowed funds	2,062,694	4,651,751	13,469,389	8,643,545	-	28,827,379
Outstanding acceptances	169,230	171,418	510,468	-	-	851,116
Outstanding securities	27,757,855	30,697,598	47,877,680	9,241,466	-	115,574,599
Other liabilities (ii)	3,261,490	37	3,065,707	77,140	4,231,934	10,636,308
Subordinated debt	-	-	384,615	14,864,212	9,872,270	25,121,097
Total liabilities	<u>247,220,293</u>	<u>48,064,006</u>	<u>82,747,401</u>	<u>36,985,490</u>	<u>17,005,317</u>	<u>432,022,507</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)	614,237	-	-	-	114,098	728,335
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>
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>

**BANCO DE RESERVAS DE LA REPÚBLICA DOMINICANA,
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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 September 30, 2018 and December 31, 2017, is as follows:

	<u>As of September 30, 2018</u>		<u>As of December 31, 2017</u>	
	<u>In local currency</u>	<u>In foreign currency</u>	<u>In local currency</u>	<u>In foreign currency</u>
Liquidity ratio:				
15 days adjusted	90.97 %	149.98 %	126.60 %	214.72 %
30 days adjusted	139.37 %	119.16 %	148.45 %	177.31 %
60 days adjusted	166.11 %	122.87 %	127.74 %	207.97 %
90 days adjusted	<u>239.37 %</u>	<u>234.77 %</u>	<u>138.73 %</u>	<u>163.05 %</u>
Position:				
15 days adjusted	(1,628,741)	257,704	5,380,047	447,777
30 days adjusted	6,007,612	365,418	10,068,776	379,919
60 days adjusted	13,243,140	361,101	7,932,733	587,183
90 days adjusted	30,926,943	364,513	11,711,008	463,095
Global (months)	<u>(25.71) %</u>	<u>(21.65) %</u>	<u>(29.83) %</u>	<u>(22.89) %</u>

Liquidity Risk Regulations requires that financial institutions must provide adjusted liquidity ratios in local and foreign currencies at 15 and 30 days no lower than 80 %, and at 60 and 90 days no lower than 70 %. As of September 30, 2018 and December 31, 2017, the liquidity ratios maintained by the Bank are higher than required.

35 Fair value of financial instruments

A summary of the fair value of financial instruments as of September 30, 2018 and December 31, 2017, is as follows:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets				
Available funds	69,106,586	69,106,586	58,854,519	58,854,519
Investments, net (a)	89,214,318	N/D	90,694,177	N/D
Loans portfolio, net (a)	282,660,841	N/D	283,289,088	N/D
Investments in shares, net (b)	<u>1,184,151</u>	<u>N/D</u>	<u>1,061,178</u>	<u>N/D</u>
	<u>442,165,896</u>	<u>69,106,586</u>	<u>433,898,962</u>	<u>58,854,519</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\$)

35 Fair value of financial instruments (continued)

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Liabilities				
Customer deposits	241,993,790	N/D	224,632,945	N/D
Deposits from domestic and foreign financial institutions	9,018,218	N/D	26,445,805	N/D
Borrowed funds (a)	28,827,379	N/D	27,682,967	N/D
Outstanding securities (a)	115,574,599	N/D	109,694,488	N/D
Subordinated debt	<u>25,121,097</u>	<u>25,033,397</u>	<u>24,663,717</u>	<u>25,347,061</u>
	<u>420,535,083</u>	<u>25,033,397</u>	<u>413,119,922</u>	<u>25,347,061</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 September 30, 2018 and December 31, 2017, are as follows:

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>	<u>Collaterals</u>
September 30, 2018				
Related to ownership	53,687,549	-	53,687,549	1,510,517
Related to management	<u>14,422,815</u>	<u>171,546</u>	<u>14,594,361</u>	<u>8,761,598</u>

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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, 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>

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

As of September 30, 2018 and December 31, 2017, there are credits granted to contractors and suppliers of the Dominican State for approximately RD\$31,600 and RD\$34,400 respectively, which are guaranteed by the Dominican State and are classified as loans provided to the private sector.

As of September 30, 2018 and December 31, 2017 loans related to the management of the Bank includes RD\$14,594 and RD\$12,181 million, 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 periods ended September 30, 2018 and December 31, 2017, include:

	<u>Balance</u>		<u>Effects on Revenues (Expenses)</u>	
	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>Nine month periods ended at September 30, 2018</u>	<u>September 30, 2017</u>
Available funds	50,616,786	40,670,203	-	-
Other investments in debt securities	61,143,661	78,350,626	4,653,478	3,424,996
Loans portfolio	53,687,549	64,921,259	3,682,311	3,870,407
Interest receivable	2,106,866	1,745,578	-	-
Customers' deposits - checking	30,956,056	26,450,418	191,179	92,449
Customers' deposits - saving	13,794,664	9,101,625	-	-
Outstanding securities	28,801,163	21,017,494	(1,349,468)	(1,602,043)
Other liabilities	<u>205,648</u>	<u>171,930</u>	<u>-</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 September 30, 2018 and December 31, 2017 include:

	<u>Balance</u>		<u>Effects on Revenues (Expenses)</u>	
	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>Nine month periods ended at September 30, 2018</u>	<u>September 30, 2017</u>
Loans portfolio	14,594,361	12,328,006	393,930	440,288
Accounts receivable to officers and employees	12,876	13,809	-	-
Deferred officers and employees	541,000	-	-	-
Officers and employees deposits	<u>5,934,588</u>	<u>5,160,534</u>	<u>(231,915)</u>	<u>(172,191)</u>

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:

	<u>2018</u>	<u>2017</u>
Present value of obligations for past services	(12,462,850)	(12,462,850)
Net assets of the plan	<u>12,733,010</u>	<u>12,733,010</u>
Net position of the plan	<u>(270,160)</u>	<u>(270,160)</u>

The expense recognized during the periods of nine month ended at September 30, 2018 and 2017 amounted to RD\$838,297 and RD\$798,313, respectively, including extraordinary contributions of RD\$181,745 for both periods, with the purpose to cover the deficit until 2019, as authorized by the Superintendence of Banks.

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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 September 30, 2018 and December 31, 2017, the principal actuarial assumptions and other basic information of the plan used in determining the actuarial liabilities, are as follows:

	<u>2018</u>	<u>2017</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 %	8.00 %
Long-term annual inflation rate	<u>4.50 %</u>	<u>4.50 %</u>

A summary of the number and amount of current pensions as of September 30, 2018 and December 31, 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Number of members	1,791	1,791
Average retirement age	48	48
Average monthly salary	<u>91</u>	<u>91</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:

	September 30, <u>2018</u>	December 31, <u>2017</u>
Write-off of loan portfolio and interest receivable	1,498,211	2,208,231
Release of provision for assets received in loan settlements	-	155,000
Assets received in loan settlements	917,353	926,901
Transfer between allowance for risky assets:		
Loan portfolio	(300,901)	(186,457)
Investments	3,816	(2,686)
Interest receivable	137,045	(22,869)
Assets received in loan settlements	152,675	253,507
Contingencies	7,365	(41,495)
Sales of assets received in loan settlements by new credit facilities	42,584	70,638
Transfer of accounts receivable of Torre Atiemar to assets received in loan settlements	-	36,192
Equity on earnings in associated companies	119,314	138,381
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	1,500	2,250
Transfers of net income of the period to other equity reserves	-	2,264,425
Dividends paid by offsetting the debt of the Dominican Republic State's institutions:		
Equity-retained earnings from prior periods	<u>972,992</u>	<u>919,041</u>

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Amounts in thousands of Dominican Pesos (RD\$)

39 Notes required from the Superintendence of Banks of the Dominican Republic

Resolution No. 13-94 of the Superintendence of Banks of the Dominican Republic and its amendments sets the minimum disclosure requirements that the consolidated financial statements of financial institutions should include. As of September 30, 2018, the following notes are not included because they are not applicable:

- ◆ Changes in accounting policies.
- ◆ Earnings per shares.
- ◆ Significant discontinued operations.
- ◆ Changes in share ownership.
- ◆ Regular reclassification of significant liabilities.
- ◆ Gains or loss on disposal of fixed assets or other assets in subsidiaries, branches or offices abroad.
- ◆ Losses caused by disasters.
- ◆ Effect of changes in the fair value over the carrying amount of investments in securities.