

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

Consolidated Financial Statements

December 31, 2020

(With Independent Auditors' Report)

(Free Translation from the Original Spanish-Language Version)



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Independent Auditors' Report

To the Board of Directors of
Banco de Reservas de la República Dominicana,
Banco de Servicios Múltiples:

Opinion

We have audited the consolidated financial statements of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and Subsidiaries (the Bank), which comprise the consolidated balance sheets as at December 31, 2020, the consolidated statements of profit or loss, cash flow and changes in equity for the year then ended, and notes to the consolidated financial statements comprising significant accounting policies .

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco de Reservas de la República Dominicana, Banco de Servicios Múltiples and Subsidiaries as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with accounting practices established by the Superintendence of Banks of the Dominican Republic, as described in note 2 to the accompanying consolidated financial statements.

Basis for opinion

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

Emphasis of matter

We draw attention to notes 1 and 37 to the consolidated financial statements. As at December 31, 2020 and for the year then ended, for its condition of being the Bank of the Dominican Republic State, a significant proportion of assets and liabilities, as well as financial income and expenses, correspond to balances held and transactions performed with entities of the government sector. Our opinion is not modified in respect of this matter.

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Key audit matters

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

Estimation and accounting for the allowance of private loan portfolio

See notes 2.5.1, 7 and 14, to the accompanying consolidated financial statements.

The key audit matter

The estimation of allowance for private debtors within the loan portfolio is a key audit matter due to the nature of calculation, judgments and analysis of the management, the requirements of constitution of allowance that the Bank's management must comply with, in accordance with parameters established by the Monetary and Financial Authority and the importance of the result of this estimate in relation to the Bank's loan portfolio.

The loan portfolio of private debtors represents 37 % of Bank's total assets. The allowance of the portfolio of private debtors is determined following the criteria established by the Monetary and Financial Authority, mainly in the Asset Evaluation Regulations, as well as resolutions, circulars and other related documents, including those related to the effects of COVID-19 pandemic.

How the key issue was addressed in the audit

Our most relevant audit procedures in relation to estimation of allowance for loans portfolio of private debtors and their corresponding accounting, included the following:

- ◆ Obtaining an understanding and test the relevant controls that the Bank maintains regarding the design, implementation and operational efficiency for the approval and disbursement of credits related to private debtors.
- ◆ Obtaining an understanding and test the relevant controls related to the determination, accounting and disclosure of allowance for loan portfolio for private sector.
- ◆ Obtaining the reconciliation of the general ledger to the sub-ledger of loan portfolio, including private debtors and we observe the mathematical accuracy of the reconciliation.
- ◆ Using a sampling tool, we select a representative sample of the loan portfolio of private debtors for which we recalculate the required allowance based on the parameters established by current regulations. This recalculation includes the evaluation of the payment capacity of private debtors, the admissibility of the collateral provided, and the measures adopted during the period for the Monetary and Financial Authority as a result of the economic situation caused by global COVID-19 pandemic.

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

- ◆ Comparing the results obtained with the allowance reported in the self-assessment of the loan portfolio carried out by the Bank, sent to the Superintendence of Banks of the Dominican Republic and recognized in the consolidated financial statements.
- ◆ Recalculating the allowance for loan portfolio of private debtors based on their payment behavior, as stipulated in the Asset Evaluation Regulations, as well as resolutions, circulars and other related amendments.
- ◆ Recalculating the aging assigned by the Bank's system and reported to the Superintendence of Banks of the Dominican Republic for private debtors.
- ◆ Analyzing the methodology used by the Bank for the constitution of anti-cyclical allowance, in accordance with measures adopted by the Monetary and Financial Authority in resolutions, circulars and other related amendments as a result of the economic situation caused by global COVID-19 pandemic.
- ◆ Through the use of sampling techniques, we selected several written-off credits and observed that said write-offs have been carried out following the Bank's policy and the provisions of the Asset Evaluation Regulations.
- ◆ Noting, for the applicable cases, that the Bank has the approval from the Monetary and Financial Authority, to specific measures and provisions for the recognition of allowances and classification of some credits granted for specific sectors of the Dominican Republic economy.

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Technical reserves

See notes 2.24, 2.26 and 22 to the accompanying consolidated financial statements.

The key audit matter

The technical reserves correspond to the estimate of the reserves of insurance contracts, which is a key audit matter because it involves significant judgments and estimation by management and is determined on the basis of actuarial calculations, specific estimation of losses from reported claims and guidelines established in Law No. 146-02 on Insurance and Bonds of the Dominican Republic.

The calculation of these reserves is made on the basis of the net premiums for individual life insurance and on the basis of the survival probabilities for the pension plans according to the interest rate and the mortality tables used by the insurance company subsidiary. Specific reserves represent an important liability in the Bank's balance sheets, which are determined based on estimation of specific losses according to reported claims and following the guidelines of Law No. 146-02 on Insurance and Bonds of the Dominican Republic.

How the key issue was addressed in the audit

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

- ◆ Evaluating relevant controls related to the opening, recognition and payment of insurance claims.
- ◆ Using our specialists in actuarial calculations to evaluate the significant assumptions used by management to estimate disability and survivorship reserves.
- ◆ Using a sampling tool, select a representative sample of claims paid and with pending payment during the period, and observe the basis used to create the reserve, as well as approval and authorization from management.
- ◆ Observing subsequent payments made on the reserves with pending payments at the end of the year, in order to identify significant deviations between the liability created and payment.

Other matter

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

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

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

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

SB Registration No. A-006-0101

CPA Marisol González
ICPARD Registration No. 10355
Partner in charge of the audit

March 29, 2021

Santo Domingo,
Dominican Republic