

**COMMONWEALTH OF PUERTO RICO**  
**COMMISSIONER OF FINANCIAL INSTITUTIONS**  
**International Financial Entities- Legal Reserve Report**

**Item**

**Instructions**

**AUTHORITY**

The Commissioner of Financial Institutions referred to as the “Commissioner” has been granted the authority to regulate, supervise and examine banks in Puerto Rico for compliance with current banking laws and regulations as stated in Sections 16 and 28(b) of the Banking Law: Act no. 55 of May 12, 1933, as amended.

Puerto Rico Banking Law and Regulations, as amended, establish the norms and procedures for the computation of the Legal Reserve to be maintained by banks and depository institutions in Puerto Rico.

These instructions are applicable to International Financial Entities in Puerto Rico that receive deposits (as defined herein on Part I) from customers and other third parties.

The following instructions are intended to provide a general understanding of the rules for the computation and reporting of the Legal Reserve. The Commissioner may issue additional regulations and circular letters to provide detailed guidance or address specific requirements. Questions on any particular matter may be addressed to the Commissioner for assistance in the interpretation and understanding of the requirements.

**Reserves - General introduction**

The reserves are assets that a financial institution must deposit and keep in the Bank as a guarantee of its liabilities. The amount of the reserve varies according to the current legislation and are usually of a percentage applied to a particular concept. If a bank cannot face its obligations because of its liabilities, the legal reserve amounts to a safe-conduct for bank depositors can access their money.

Legal reserves are items created and required by law. They do not depend on the will of the banking institution since the mechanism is governed by specific rules.

Banks will follow those instructions, and complete those forms, having from time to time by the Commissioner for the computation and reporting of the Legal reserve.

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Definitions

"Commissioner" means the Commissioner of financial institutions of Puerto Rico.

"Obligations or acceptable instruments"

Those that comply with the following requirements:

1. Payable in the same day or before the next working day. ("overnight funds" y / o "T+1");
2. The issuer is classified by Credit Rating Agencies" as secure rating for short and long term and the instrument is within the highest four categories of Credit Rating Agencies;
3. The reporting institution must have clear title or sufficient rights over the obligations or instruments that are part of the legal reserve for them to be included in the Legal Reserve report.
4. The obligations or instruments cannot be subject to regulatory restrictions or of any other kind that impairs their immediate liquidation.

"Reserve Fund" shall mean a fund formed or increased by the total of the premiums obtained in the sale of shares, or by transfer of the liquid benefits or profits without distributing Bank, whose Fund cannot be used to cover the losses of operation of the Bank as long as any balance available in account of benefits distributing. The reserve fund not be used for the payment of dividends without the prior approval of the Commissioner.

"Legal reserve" means the minimum amount of securities or liquid assets than any bank subject to the provisions of this law shall be obliged to always be available.

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**GENERAL INSTRUCTIONS**

**Who Must Report**

Every bank or depository institution (Domestic, U.S. or International) that held operations in Puerto Rico, including, but not limited to the following:

1. Any federally insured commercial or savings bank, or any commercial or savings bank that is eligible to be insured by the Federal Deposit Insurance Corporation (FDIC)
2. Any mutual or stock savings bank
3. Any savings and loan association that is a member of a Federal Home Loan Bank and that is insured by, or is eligible to apply for insurance with, the FDIC
4. Any credit union that is insured by, or is eligible to apply for insurance with, the National Credit Union Administration Board
5. United States branches and agencies of foreign banks that are eligible to apply for FDIC insurance;
6. Edge Act and agreement corporations (12 CFR 204.1(c))
7. International Financial Entities that receives bank deposits as defined herein after.

**Frequency of Reporting**

The legal reserve must be calculated on a daily basis, except for Saturdays, Sundays and any other weekday for which the bank has not operated. The legal reserve report is required to be submitted by all institutions, under the authority of the Commissioner, as indicated below.

**Submission of the Report**

***Method***

The institution must complete its report in the provided template and should submit it electronically directly to the Commissioner by the submission date (as stated below). The institution is responsible for the accuracy of the data in its report and for its timely submission. Failure to comply with the established datelines may result in the imposition of penalties for late submission.

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***Date***

The legal reserve report must be received by the Commissioner no later than five (5) calendar days immediately after the last day of the reporting week.

**Exception** - If at the end of any given week during the course of a month a deficiency is observed in the required legal reserve, the institution must immediately offset the deficiency and provide written notice to the Commissioner no later than three (3) calendar days after the last day of the week for which the deficiency occurred. The communication sent to the Commissioner should also include the legal reserve report for that same week.

**Signature**

An authorized bank official shall sign a declaration on the report attesting to the correctness of the legal reserve report that the institution has filed to the Commissioner.

**Rounding**

All dollar amounts must be reported in thousands, with the figures rounded to the nearest thousand. Items less than \$500 will be reported as zero. Rounding may result in details not adding to their stated totals. The only permissible differences between totals and the sums of their components are those attributable to the mechanics of rounding.

Continues....

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Item Instructions

Part I. Legal Reserve Report

General definition of bank deposits:

Bank deposits are money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, including but not limited to savings accounts, checking accounts and money market accounts.

The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited.

1. Demand Deposit Accounts (excluding public funds and other liabilities reported as deposits).

Report in the appropriate line, all demand deposits held in open deposits or checking accounts, bank deposits, and all other demand deposits, i.e. all certified and official checks, matured time or savings deposits without automatic renewal provisions as required in items 1.a., a.b., and 1.c., below.

1.a. Open deposits or checking accounts

Report all checking accounts balances that are available for withdrawals (payments) immediately on demand, or that are issued with an original maturity or required notice period of less than three days, or that represent funds for which the depository institution does not reserve the right to require at least three days' written notice of an intended withdrawal.

*For combined accounts-* that provide more than one banking service under the same account number and usually offer a checking section, a savings section and a reserve line of credit.

Funds (balances) held in the checking or transactional section of combined accounts must be included in the calculation of the legal reserve and reported in this item. Depository institutions are not required to maintain a legal reserve for the funds held in the savings section on which the institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account.

*Note: If the checking account section on any combined account maintains a zero balance and the balance on the savings section is available at any time to cover checks drawn in payment to third parties, the reporting institution must include the full balance of the savings section as demand deposits.*

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Instructions

Part I. Legal Reserve Report - Continued:

1.a. Open deposits or checking accounts

Exclude in Open deposits or checking accounts:

1. Escrow accounts, that are held for individuals but not eligible for consumer transacting, saving, or investing.
2. Trust funds withholdings made from employee's compensation, tax withholdings on payments of interest or dividends and any other withholdings in which the institution acts as an intermediary to collect and remit the amounts withheld to a third party.
3. Public funds made by or for the account of the United States, Puerto Rico and their political subdivisions or departments, bureau or official thereof, and that are considered collateralized funds, such as:
  - a) Government deposit accounts
  - b) Municipal deposit accounts
  - c) State agencies and instrumentalities deposit accounts
4. Transaction accounts, include but not limited to accounts such as:
  - a) NOW Accounts - Interest-bearing deposits (i) on which the depository institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account and (ii) that can be withdrawn or transferred to third parties by issuance of a negotiable or transferable instrument.
  - b) ATS accounts - Deposits or accounts of individuals or sole proprietorships on which the depository institution has reserved the right to require at least three days' written notice prior to withdrawal or transfer of any funds in the account and from which, pursuant to written agreement arranged in advance between the reporting institution and the depositor, withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to, such other accounts.
  - c) Telephone or preauthorized transfer accounts - the bank reserve the right to require at least three days written notice.

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Part I.	Legal Reserve Report - Continued:
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1.a.	<u>Open deposits or checking accounts</u>
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Exclude in Open deposits or checking accounts:

5. Non-transaction accounts, such as:
  - a) Savings deposits - deposits with respect to which the depositor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than three days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit.
  - b) Money market deposit accounts - deposits or accounts that meet the above definition of a savings deposit and that permit up to (but no more than six allowable transfers to be made by check, draft, debit card or similar order made by the depositor and payable to third parties.
  - c) Time deposits - deposits that the depositor does not have a right, and is not permitted, to make withdrawals from within six days after the date of deposit unless the deposit is subject to an early withdrawal penalty of at least three days' simple interest on amounts withdrawn within the first six days after deposit.

***Important note: Transaction and non-transaction accounts can be excluded only if the bank enforces the restrictions set forth in the contract.***

1.b.	<b>Bank deposits</b>
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Banks are required to hold an adequate amount of liquid assets, such as cash, to manage any potential bank runs by clients.

If a bank cannot meet these liquidity requirements, it will need to borrow money in the interbank market to cover the shortfall. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. These banks will lend money in the interbank market, receiving interest on the assets.

The interbank lending market is a market in which banks extend loans to one another for a specified term. Most interbank loans are for maturities of one week or less, the majority being overnight.

Report in this line item all banks deposits that are required to be repaid overnight.

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Item	Instructions
<b>Part I.</b>	<b>Legal Reserve Report - Continued:</b>
1.c.	<b>Other demand deposits (Provide detail) - Report in the appropriate lines below:</b>
1.c.1	<b>Certified and official checks</b> Include in this line all the balances related to: <ol style="list-style-type: none"><li>a. Unpaid depositors' checks that have been certified.</li><li>b. Cashiers' checks, money orders, and other officers' checks issued for any purpose.</li><li>c. Funds received or held in connection with checks or drafts drawn by the reporting bank and drawn on, or payable at or through, another depository institution either on a zero-balance account or on an account that is not routinely maintained with sufficient balances to cover checks drawn in the normal course of business,</li><li>d. Funds received or held in connection with traveler's checks and money orders sold (but not drawn) by the reporting bank, until the proceeds of the sale or the amount of the checks is remitted to another party.</li><li>e. Checks drawn by the reporting bank on, or payable at or through, a Federal Reserve Bank, Federal Home Loan Bank or any other similar institution.</li></ol>
1.c.2.	<b>Matured time deposits without automatic renewal provisions,</b> (Unless the deposit agreement provides for the funds to be transferred at maturity to another type of account).
1.c.3.	<b>Text. Add text to describe other types of demand deposits or demand loans.</b> This line item may include funds borrowed that are required to be paid at any time upon request. Examples are: <ol style="list-style-type: none"><li>1. Federal funds purchased which are immediately available funds borrowed under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract,</li><li>2. Funds borrowed in the form of securities sold under agreements to repurchase,</li><li>3. Federal Home Loan Bank advances.</li><li>4. Other similar transactions.</li></ol>
1.c.4. and 1.c.5.	<b>Text lines. Add text to describe other types of demand deposits or demand loans.</b> Also use these lines to report any other category of open deposits, demand deposit accounts <u>and/or</u> loans not included in previous lines items above them.
1.d.	<b>Total-</b> Report the total of lines 1.a to 1.c.5., on every day (column) of the reporting week. Calculation of the average for the week must be presented in the last column to the right. Example: If the bank operates from monday through Saturday the average is calculated for the six (6) days of operations.



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Item	Instructions
Part I.	Legal Reserve Report - Continued:
2.	<b><u>Legal Currency.</u></b> Report in the appropriate line item the <u>legal currency</u> held by the institution.
2.a.	Cash on hand that is owned and held in offices of the reporting institution. The amounts must be unrestricted and is to be reported in <u>U.S. currency only</u> . Any cash balances held in foreign currency must be converted to U.S currency. Complete <b>Part III.A</b> and <b>Part IV Memoranda</b> , of the report.
2.b.	Checks from banks or trust funds in payable the following day after its presentation. Includes checks or drafts in process of collection that are drawn on another institution and that are payable immediately on presentation.
2.c.	Cash held in other banks or deposit institutions, authorized by the Commissioner, available immediately upon presentation or in the following day. Report funds payable to the reporting bank on demand. Complete <b>Part III.B</b>
2.d.	<b>Federal funds that have an original maturity of one business day.</b> Includes federal funds sold in domestic offices of immediately available funds under agreements or contracts that have an original maturity of one business day or roll over under a continuing contract. However, funds lent in the form of securities resale agreements are excluded from this line, it should be included in line item 2.e. as Securities purchased under agreements to resell, if the maturity condition is met. Complete <b>Part III-C</b> .
2.e.	<b>Securities purchased under agreements to resell that have an original maturity of one business day.</b> Includes securities resale agreements where the agreement requires the bank to resell the identical security purchased or a security that meets the definition of substantially the same, in the case of a dollar roll. Complete <b>Part III-D</b> .
2.f.	<b>Other eligible assets</b> Includes assets, obligations or securities, included in Section 16 of the bank law, Act no. 55 of May 12, 1933, as amended, Regulations and Circular Letters issued by the Commissioner of Financial Institutions. Complete <b>Part III-E</b> .
2.g.	<b>Total.</b> Report the total of lines 2.a to 2.f., on every day (column) of the reporting week. Calculation of the average for the week must be presented in the last column to the right.

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**Part I. Legal Reserve Report - Continued:**

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| 3.   | <p><u><b>Legal Reserve calculation.</b></u><br/>This part uses the data provided on Part 1 and Part II., for the calculation of the surplus or deficiency in the reserve.</p>  |
| 3.a. | <p><b>Daily and Weekly Average Demand Deposit Accounts.</b><br/>Input from amounts reported on Part I, line 1.d., for every day of the week and the week average.</p>  |
| 3.b. | <p><b>Regal reserve percentage required for the institution.</b><br/>The minimum reserve fund required is twenty percent (20%). Multiply the percentage required by the Commissioner by the amounts reported in 3.a., (above) for each day of the week and the week average) and report in this line, the resulting amount for each day in the corresponding column.</p> |
| 3.c. | <p><b>Daily and weekly average Legal Currency (as reported in line item 2.f.)</b><br/>Input from amounts reported on Part I, line 2.f., for every day of the week and the week average.</p>  |
| 3.d. | <p><b>Legal reserve surplus (deficiency)</b><br/>Report the sum of line 3.c., minus 3.b., above. Th resulting number may be positive or surplus or negative (a deficiency).</p>  |

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**Instructions**

**Part II. Report certification.**

Provide the name of the responsible bank officer, the date and his signature on the report.

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**Part III. Report Details**

**General instructions:**

The reporting institution may add as many lines needed to the form to provide all necessary details.

There are lines labeled as "Text" for the instituton to specicy additional information as it may be necessary for better understanding.

**Part III.A Cash on hand and at a related or affiliated banks available the following day.**

1. Cash on hand.

Report in this line only the cash available at the reporting entity in U.S. dolars.

2.to 5. Related or affiliated bank name: Text.

Use these lines to include the name and amounts of cash available, for every day (column) at another institution related or affiliated to the bank. In US dollars.

Total. Report in this line, and for every day, the total in lines 1 to 5 above.

**Part III.B Cash held in other banks or deposit institutions, authorized by the Commissioner, available immediately upon request or in the following day.**

1.to 5. Bank name: Text.

Use these lines to include the name and amounts of cash available, at another institution. In US dollars and for every day (column).

Total. Report in this line, and for every day, the total in lines 1 to 5 above.

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<b>Part III.C</b>	<p><b>Federal funds sold that have an original maturity of one business day.</b></p> <p>Provide any information considered necessary in lines 1.,2. and 3., for every day of the week.</p> <p>Total. Report in this line, for every day, the total of lines 1 to 3 above.</p>
<b>Part III.D</b>	<p><b>Securities purchased under agreements to resell that have an original maturity of one business day.</b></p> <p>Provide any information considered necessary in lines 1.,2. and 3. Total Report in this line, for every day, the total in lines 1 to 3 above.</p>
<b>Part III.E</b>	<p><b>Other eligible assets.</b></p> <p>Include in this line a description of Eligible assets and the dollar amounts, for every day of the week. Refer to the "Eligible assets" under Section 16 of the Law, as amended, the Regulation 5793 and circular letters for the list of additional assets approved by the Commissioner and under Section IV of CIS-CC-15-10 or any other Circular letter, in the lines below.</p> <ol style="list-style-type: none"><li>1. "TEXT"</li><li>2. "TEXT"</li><li>3. "TEXT"</li><li>4. "TEXT"</li><li>5. "TEXT"</li></ol> <p>Total. Report in this line, for every day, the total of lines 1 to 5 above.</p>
<b>Part IV</b>	<p><b>Memoranda information on Cash on hand</b></p> <p>All amounts must be expressed in U.S. dollars. For example in Part IV, line 2 Euro's the total amount held in euro's must be expressed in U.S. dollars based on the euro's ending quote in U.S. at the particular day.</p> <p>The same applies for line 3 to 10, for every other currency listed.</p> <ol style="list-style-type: none"><li>1. Report in this line, for every day, the total held by the reporting institution in U.S. legal currency.</li><li>2. Other currencies " EURO'S " - Report in this line, for every day, the total amount held by the reporting institution in EURO'S.</li><li>3 to 10. Other currencies "Text" - Report in this line, for every day, the currency held and the total held by the reporting institution in the currency stated.</li></ol> <p>Total Report in this line, and for every day, the total in lines 1 to 10 above. This total must agree with Part III, line A.1.</p>