



Message from  
the President





## MESSAGE FROM THE PRESIDENT

I am very pleased to submit the Annual Report of the 120th year of the Banco de la República Oriental del Uruguay (BROU), for the period from January 1 to December 31, 2015.

During this period the results achieved by our Bank were highly satisfactory, confirming the success of the strategy adopted, driven by the decision to promote organizational change in our Bank.

The economic performance —after deducting the significantly increased inflation adjustment and income tax— showed a profit equivalent to USD 198 million, representing a return on equity (ROE) of 17.2% and a return on assets (ROA) of 1.45%. In sectoral comparison, once again, the indicators of BROU are at the highest level of the banking system.

Solvency - measured by the Tier 1 indicator (Tier 1 Capital to risk-weighted assets) amounted to 11.1%, well above the 8% minimum regulatory requirement. This high solvency levels are supplemented by a high level of provisioning (66% of gross non-performing loans), a result of implementing a policy to create reserves higher than those required during years of high return. This was a way to reduce the increasing risks associated with the uncertainty of the global and regional economy.

It is also important to note that the delinquency rate stood at 3.3%. Although it was somewhat higher than the delinquency rate of 2014, this increase is not a result of systematic deterioration in the behavior of debtors; on the contrary, such percentage is explained by payment difficulties faced by a few customers. Finally, an efficiency ratio of 57.6% stands out, which not only remained significantly below average in the banking system (67%), but was the best indicator across all banks operating in our country.

Once the rating agency Moody's Investor Service Inc., had carried out the corresponding assessment, this agency maintained a baseline credit assessment (BCA) of Baa3, based on a "significant market share and its well-established franchise, which benefits from depositors' confidence, and sound asset quality, which has been maintained in recent years. Moody's also acknowledged its adequate capitalization and reserves coverage, which proved resilient in light of Moody's stress tests."

In the same sense, the investment grade of the Bank's global refund capacity was maintained for both local currency deposits (Baa2/P-2) and foreign currency deposits (Baa2/P-2). As a result, the national scale local currency deposit rating and the national scale foreign currency deposit rating were both Aaa.uy.

The outlook on all ratings is stable.

All of the above led our Bank to receive two important awards. Indeed, BROU received the award of "Best Bank of Uruguay in 2015" from The Banker Magazine. Similarly, Factum, a leading consulting firm of Uruguay specialized in conducting public opinion surveys, for the first time in twenty-five years ranked BROU as the best State company in terms of image for the inhabitants of our country.

In relation to the compliance with our Bank's mission which aims to provide financial services accessible to the entire population, encourage savings and foster the production of goods and services, contributing to the productive, economic and social development of Uruguay, the results have also been clearly encouraging.

If the number of depositors is used as an indicator of financial depth, the fact that the scope of BROU is extremely far-reaching can be confirmed. Our Bank depositors in 2015 were more than one million (1,084,765), equivalent to 52% of the customers of the banking system coming from the non-financial sector, and to 31% of the population of Uruguay.





It should be added that BROU is regarded by most Uruguayans as the best bank in Uruguay, and considering elements such as security, number of branches, benefits and other attributes, it is reasonable to conclude that the services provided are high-quality, accessible to the public, and this is the perception of our target market segment.

Total deposits of private sector residents in the banking system amounted to USD 23,671 million; of them, USD 11,104 million were with BROU, accounting for 47% of the total. The dollarization level of deposits reached 78%, an increase over the end of the previous year.

With regard to financial inclusion, our Bank maintains a leading role in this process promoted by the Government. For this, our Bank has the largest physical network in the system, multiple alternative channels and appropriate product and service packages designed for each population segment. Correspondent agreements signed have expanded the wide geographical coverage of BROU. Our Bank is now better positioned to reach the least populated villages of the country.

With our medium and long term approach, our Bank made the decision to carry out the Core project, allowing us to be at the forefront of the use of banking applications. This is a project that raises major technical and organizational challenges, but will enable our Bank to achieve a strong position in a highly competitive market. By implementing this initiative, BROU faces an investment of approximately USD 93 million.

With the development of its implementation, our Bank will obtain the tax exemption provided under the Investment Promotion Act (Law No. 16.906 of January 7, 1998), administered by the Application Commission (COMAP).

In terms of promoting the production of goods and services through the financing of investment, responsiveness to our Bank in the past year has been outstanding. In the 10th

Public Bidding Process for Projects, closed in May 2015, 51 applications totaling an investment of USD 417 million were submitted. Of these, 24 projects were selected, involving investments worth USD 94 million, which resulted in funding by our Bank worth USD 46 million.

The aggregate amount of this type of long-term financing designed by our Bank shows that investments totaling USD 2,820 million have been supported during the ten years of implementation of this system, with funding for USD 1,205 million. This means that BROU financing equaled 43% of the total investment approved.

Using funds obtained through a loan granted by the IDB, our Bank invited to a bidding process for irrigation projects, with the purpose of providing financial support to the implementation of a sectoral policy promoted by the Ministry of Livestock, Agriculture and Fisheries. To this aim, during fiscal year 2015 loans for USD 28 million were granted, with repayment periods ranging from 10 to 25 years.

Counter facade of BROU Head Office







In line with the promotion of productive capacities, our Bank has been concerned with reducing the problem of maturity mismatch between funding and lending, which is characteristic of the Uruguayan financial system. For this purpose, agreements on long-term credit lines were maintained with the Inter-American Development Bank and Citibank, for periods between 15 and 25 years.

Before concluding, it is worth noting that based on the good economic performance, and pursuant to the Bank's Charter, a significant contribution to General Revenue has been made, amounting to USD 56 million Income Tax, USD 41 million Net Worth Tax and USD 21 million

Value Added Tax paid, as well as other taxes levied on banking. To this total of USD 118 million corresponding to the tax burden absorbed by BROU,

around USD 92 million must be added, an amount to be delivered to the Executive Branch for profit distribution. Thus, the total contribution of our Bank to public finances amounted to USD 210 million.

Finally, it is only fair to repeat my appreciation to all those who contributed to achieving the proposed objectives and, in particular, to our Bank staff who have once again demonstrated their ability and commitment to serving the Bank, seeking to further the economic and social development of Uruguay.

Julio César Porteiro

CHAIRMAN

Partial view of the vault,  
Main Hall, BROU Head Office

