

COMMERCIAL BANKING

FINANCE AREA

The Finance Area is oriented towards the management of cash on hand and other assets that make up the set of financial investments, so as to maximize the contribution margin within the metrics of risk set by our Bank.

The actions of this Area are directed to provide support in the administration of assets and liabilities and third party funds, in a business and decision making field consolidated in terms of operations, risk management and human resources.

At year-end 2015 financial investments, including cash on hand, amounted to USD 9,657 million, up nearly USD 400 million (4%) with figures similar to the previous year.

FINANCIAL INVESTMENTS						
Balance in USD millions						
	2013	2014	2015	Breakdown by currency		
				Pesos	I.U.	For. Curr.
Cash on Hand	3.425	3.964	3.521	781	0	2.740
Financial Investments	5.463	5.304	6.136	181	285	5.670
Total	8.888	9.268	9.657	962	285	8.410

Del Barco Beach, La Pedrera - Rocha



As in 2014, the increase corresponded to foreign currency assets (11%) while those in local currency decreased (-25%). The downward trend in domestic currency deposits and the increasing foreign currency position of 2014 continued in the year under review, expanding the prevalence of financial assets in foreign currency, that amounted to 82% at the end of 2014 and reached 87% on Dec. 31, 2015. It should be also mentioned that in 2015, the local currency depreciated 22.8% (higher depreciation than the 13.8% of 2014), causing a downward bias in the values of assets in local currency expressed in US dollars.

In net terms, financial investments were 65% of the uses of funds in 2015 while general investments, coupled with external financing, were the main sources for the period (89%). Differentiated by currency, financial assets in foreign currency prevailed in terms of use, while such assets in national currency were the main source, together with the net decline in general investment, as opposed to the change of portfolio of depositors.

Liquidity ratios for 30 days and 91 days (Source BCU) at Dec. 31, 2015, were similar in our Bank and in the private financial system, the 30-day ratio decreasing, and the 91-day ratio increasing, as compared to the previous year. The figures for BROU were 52% and 58% respectively this year (58% and 56% for 2014). For the private financial system, the ratios stood at 51% and 60% respectively.

During 2015 two financial transactions with foreign entities were completed (one with a multilateral development institution and one with an international private financial institution) to strengthen the financing structure by periods of the balance sheet, which is backed primarily by 95% of deposits with maturities concentrated on the short term.

The assets abroad amounted to USD 4,993 million, representing 59% of financial lending in foreign currency; their growth was approximately USD 900 million compared to 2014 (23%). About half of

Main Hall, BROU Head Office



this increase was due to the change in the regulatory reserve policy announced by the monetary authority in May 2015. This enabled a gradual release of foreign currency funds deposited with the Central Bank of Uruguay. They were allocated to assets abroad, changing accordingly the percentage of internal allocation of assets in the total financial lending. In particular, the structure by instruments of foreign assets shows at year-end 2015 a 40% allocation of these funds to investment securities, similar to the percentage of funds in the New York Branch (41%), and the balance invested with other international financial institutions. In this period, the securities portfolio management was strengthened –with an increase of approximately USD 450 million in the year– and setting target allocation for the sub-portfolios. Each one is managed considering the limits established in terms of amount, duration and value at risk, with the corresponding levels of risk appetite and tolerance, consistent with the cross-cutting ceilings by counterparty risk, country risk, group of countries and by ratings.

Within the management of these investments, credit quality, assessing the counterparty risk, and the degree of liquidity continue to be a priority. Geographical diversification, as well as diversification in terms of instruments and issuers are all to be maintained within the conservative profile of our domestic rules.



Wind farm - San José

FINANCIAL INVESTMENTS BY TYPE			
Balance in USD millions			
	2013	2014	2015
Foreign currency	6.632	7.595	8.410
Cash	2.439	3.041	2.740
Central Bank of Uruguay	0	0	0
Overseas Branches	2.056	1.967	2.022
Investment Securities	1.505	2.031	2.657
Foreign Sector	560	491	910
Other	71	64	82
National Currency and Inflation-Indexed Units	2.256	1.673	1.247
Total	8.888	9.268	9.657

BROU is active in the electronic interbank market of foreign exchange, money and securities. The total transaction volume of this market in 2015 was USD 65,934 million, around 6.5% corresponding to BROU. The amount of transactions in both the system and BROU decreased by 11% compared to 2014. The foreign exchange market is where BROU share is higher, concentrating 11% of all transactions. In the money market, BROU increased its relative share, reaching 10.5% versus 7% in the previous year.

During 2015, purchase, underwriting and sale of securities to customers reached the dollar equivalent to USD 540 million, which translates into a reduction of about 30% relative to the total value traded in the previous year. This decrease is mainly explained by the decline in transactions with local currency bills, still prevailing in terms of composition by instrument, as a consequence of the sharp increase of the US dollar value during the year, determining a change in the preference of depositors by instrument and currency. The above mentioned domestic currency depreciation accentuated the percentage drop in volume compared to 2014, when stating the US dollar value of securities traded in national currency.

The transactions with the remaining instruments (USD 103 million) –excluding bills– had an increase of 62% over the previous year.

In turn, to the selection of instruments available, new issues were added in 2015. Within government bonds, the new series of Global bond notes maturing in 2027, worth USD 1.7 billion and at a coupon rate of 4.375% stands out. While, in the market of Negotiable Bonds, the issuance by Conaprole with a face value of nearly USD 16 million, at terms and rates that were of interest to the retail market are to be highlighted. Additionally, the first Share Certificates of Financial Trusts were issued as variable income

instruments to be publicly traded in the retail market. The Financial Trusts were Pampa and Arias (wind power generation projects of the State-owned power entity UTE), each for a nominal value of USD 15 million.

In transactions with customers, specialized platforms (Executive Investment Banking) continued their consolidation as a delivery channel. These platforms operate in five branches (Bvar. España, Montevideo Shopping, Ciudad Vieja, Punta del Este and Colonia) and are served by executives trained both in investment products and sales, who have obtained the certifications required by the regulations of the Central Bank. Through these platforms and through comprehensive service, our Bank offers customers a portfolio of traditional products in addition to other investment alternatives.

The process of the Payments System Reform promoted by the Central Bank continued during 2015, and our relevant corporate project continued to make progress. In the course of the year, almost all banks of the domestic market gradually joined the local interbank fund transfer automation system. In August, a resolution of the Central Bank officially authorized the operation as Automated Clearing House, with a common policy becoming effective for all participating institutions. Also, consistent with progress in the implementation of Law 19.210 –Financial Inclusion Act–, our Bank and local private banks agreed on a common policy of charges for services to be provided to certain segments through this distribution channel. Since April 2015, customers may send and receive online transfers 24/7 to other banks integrated to the system.

Also, the strengthening of financial operation risk analysis and control has continued, with process reviews and greater systematization of support information within the framework of change and implementation of core applications currently carried out by our Bank.