

## NOTES TO THE FINANCIAL STATEMENTS

### A) Consideration by Shareholders' Meeting

These financial statements have been approved by Board of Directors Resolution dated March 16th, 2016. No shareholders' meetings are held because Banco de la República Oriental del Uruguay (BROU) is a government-owned financial institution.

### B) Basic information on the financial intermediation company

#### B.1) Legal status

The BROU is a government-owned financial institution incorporated by Law dated August 4, 1896.

As an Autonomous Entity, it is governed by the provisions of Sections

XI, XIII and XIV of the Constitution of Uruguay, and by Law No. 18,716 (Bank Charter). As a financial intermediation services provider, the Bank operates under the legal regime set by Law No. 15,322 as amended.

#### B.2) Basis for the preparation of the Financial Statements

The financial statements presented above have been prepared according to the accounting standards, and the valuation and risk classification criteria established by the Central Bank of Uruguay (B.C.U.).

In 2015, the financial statements have been restated per inflation in accordance with B.C.U. Communication No. 2010/021 of January 21, 2010.

#### B.3) Branches and investments in other companies

The following table shows the participation in other entities equity as of December 31st, 2015:

Entity	Condition	Currency	Amount	%
República AFAP S.A.	Controlled	\$	750.979	51%
República AFISA	Controlled	\$	623.142	100%
República Microfinanzas S.A	Controlled	\$	1.117.000	100%
República Negocios Fiduciarios S.A.	Controlled	\$	10.692	100%
Corporación Nacional para el Desarrollo (CND)	Associated	\$	59.861	1,66% (1)
Comp. Uruguaya de Medios de Procesamiento S.A. (Visanet)	Associated	\$	1.833	11,99% (2)
Sistarbanc S.R.L.	Associated	\$	1.235	40%
Bolsa Electrónica de Valores S.A. (BEVSA)	Associated	\$	272	3,84%
SWIFT	Associated	Euros	35	0,01%
Banco Latinoamericano de Exportaciones (BLADEX)	Associated	USD	1.046	0,43%

Figures in thousands in the original currency. (1) Percentage as of 12/31/2014. On the 8th of may 2015 the Bank provided capital of UYU 44,072,700 increasing its share to 6,03%. At that date a contribution from the Ministry of Economy was still pending. (2) Percentage as of 12.31.2013.



Norte Beach, Cabo Polonio - Rocha



A detail of the Equity of the international branches of the Bank as of December 31st, 2015 is exposed in the following table:

Branch	Currency	Amount
New York	USD	69.878
Buenos Aires	ARG.\$	61.151
Sao Paulo	R\$	58.057

Figures in thousands in the original currency.

BROU separately prepared a consolidated balance sheet with its international branches and subsidiaries, as required by Uruguayan Regulation.

#### B.4) Capital

The total Equity amounts to USD 1,232,892 thousand, comprising: Paid-in capital USD 777,956 thousand, Adjustments to Equity USD 169,803 thousand, Reserves USD 120,245 thousand, Retained Earnings USD 13,703 thousand, Profit in advanced USD (46,634) thousand, and Net Income for the year USD 197,818 thousand.

### C) Information concerning Assets and Liabilities

#### C.1) Balances in foreign currencies

Assets and liabilities in foreign currencies are translated into US dollars using the exchange rates of the Forex Trading Desk of the B.C.U. at year end. The amounts in US dollars so determined are stated in local currency by applying the exchange rate as at December 31, 2015 (USD 1 = UYU 29.873).

#### C.2) Position in foreign currencies

At year end, the Bank has a long position in foreign currency that converted into US dollars amounts to USD 702,554 thousands.

#### C.3) Limitations to the free disposition of assets or equity and restrictions to property

Zero Coupon Bonds of the U.S. Government -available for sale for USD 16,535 thousand (face value) thousands are deposited as guarantee for Visa International transactions.

International Bonds - available for sale for USD 246,500 thousand (face value) as guarantee for Citicorp's Loan (USD 200,000 thousand).

Treasury Notes for UI 2,500 (equivalent to USD 271) thousand in order to comply with the guarantee required by the regulation to act as fiduciary.

Deposit that amount to UI 1,856 (equivalent to USD 201) thousand in B.C.U. in order to comply with the guarantee required by the regulation to act as financial fiduciary.

#### C.4) Guarantees concerning liabilities

No guarantees granted by the Bank to secure liabilities.

#### C.5) Breakdown of credits and liabilities per maturity date

MATURITY TERMS				
Concept	Less than 1 year	1 to 3 years	More than 3 years	Total
Outstanding Credits - Financial Sector (1)	3,887,838	1,390,675	739,483	6,017,996
Outstanding Credits - Non-Financial Sector (2)	1,887,161	1,279,181	1,911,057	5,077,400
Outstanding Credits - Forward contracts	59,114	-	-	59,114
<b>Total of Current Loans</b>	<b>5,834,113</b>	<b>2,669,856</b>	<b>2,650,540</b>	<b>11,154,509</b>
Liabilities - Financial Sector (2)	44,133	100	246,189	290,422
Liabilities - Non-Financial Sector (2)	12,435,561	706,020	39,423	13,181,003
Liabilities - Forward Contracts	58,621	-	-	58,621
<b>Total Liabilities</b>	<b>12,538,315</b>	<b>706,120</b>	<b>285,612</b>	<b>13,530,046</b>

Figures in thousands of US Dollars.

(1) Demand deposits included; sundry accounts and investment securities issued by the BCU, not included.

(2) Sundry accounts not included.

### C.6) Other material events

**C.6.1)** As it was explained in note B.2, as from January, 2014, inflation adjustment is accounted for. According to the methodology stipulated by the regulation (Communication 94/156), said adjustment involves the following: equity accounts have been assessed at their historical cost, except for the "Adjustments to Equity - Inflation Results" account which is a global monetary correction of Equity as of December 31st, 2015; and the income for the year has been globally adjusted in a single line, because of the Uruguayan currency inflation effects.

Based on the Bank's assets and liabilities structure, the application of this simplified monetary correction methodology does not create material distortions in the determination of the net equity and the income for the year, in terms of the application of a comprehensive monetary correction, but it does affect the equity's internal composition and the different elements of the income statement.

Following the above mentioned methodology, the net loss due to inflation registered during fiscal year ended in December 31st, 2015 amounted to \$ 2,900,417 (equivalent to USD 97,092) thousand.

**C.6.2)** In order to adapt to the new demands of the business, and also to contribute to a better productivity, efficiency and competitiveness, the Bank is going through a renewal process of its Core banking system, which started in 2012.

The first implementation stage continued during 2015, for which IT equipment and software licenses were acquired for a significant amount.

In November 10th, 2014, according to the provisions of Article 1 of Act N° 16.906, the Executive Branch approved BROU's investment project consisting in the implementation, deployment and go live of the Core Project.

This Decree provides for a credit of up to \$ 250,000 (equivalent to USD 8,369) thousand to be granted for the Value Added Tax (VAT) paid on the acquisition of goods and services which make up the cost of the above mentioned Core Project's investments, as well as an Equity Tax exemption for said investments during their life span.

The right for the VAT included in the implementation services and central IT equipment acquired during this fiscal year amounts to \$ 71,197 (equivalent to USD 2,383) thousand and was registered under "Tax Credits".

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