



BANCO CENTRAL DEL URUGUAY

Instruments issued by the Central Bank of Uruguay

Information on the characteristics of the instruments issued by the Central Bank of Uruguay is given in order to regulate the medium and long term liquidity of the financial system.

1. Monetary Regulation Bills (LRM in Spanish)

1.1. Characteristics

The Central Bank of Uruguay (CBU) issues Monetary Regulation Bills (LRM) with the aim of regulating the structural liquidity of the financial system. To fulfill this purpose it currently has two essential tools, LRM in Uruguayan pesos and LRM in indexed units (UI in Spanish). The latter offer a hedge against inflation.

LRM in national currency are issued with maturity terms of about 30, 60, 90, 120, 180, 270, 360 and 720 days, while those denominated in indexed units are issued with maturities of 1 and 2 years. For the latter maturity terms, both in national currency and in UI, the investor has the option to integrate placements not only in nominal pesos but also in US dollars. The conversion rate is the average rate of the prior business day to the integration, set by the BCU. In all cases the services of depreciation and interest are paid in Uruguayan pesos.

According to the Primary Dealer Program Regulations for instruments issued by the CBU, as of December 2012 the bank only issues instruments in the competitive tranche to banks that are Primary Dealers. They are responsible for distributing the securities to other market players. There is also a non-competitive tranche where the amount is a percentage of the competitive tranche amount and it is available to institutions that are not primary Dealers and the price is determined by competitive bidding.

It is important to note that LRM up to 2-year terms are zero coupon, and the value to be debited from the institutions' current accounts at the time of integration is determined by the following formulas:

For values in nominal pesos:

$$VA = \frac{VN}{(1+i)^{t/365}}$$

For values in indexed units:

$$VA = \frac{VN \times 365}{365 + (i \times t)}$$

Where:

VN represents the nominal value

VA represents the present value

t is the time period expressed in days

i is the annual interest rate expressed as a percentage



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1.2 Bidding mechanism

LRM are allocated to primary Dealers through a Dutch bidding mechanism (uniform price) with sealed envelopes. The primary Dealers submit their proposals in the auction system (amount and rate) before the deadline without knowing the bids of other participants. The institutions that access the non-competitive tranche only submit the amount to the extent that the allocated rate is determined in the competitive tranche.

In each competitive bidding the institutions may submit as many proposals as they wish up to an amount equal to 200% of the total of the original tender. Because they are primary Dealers they have bonds as stipulated in the Regulations. In the non-competitive tranche, they will submit a bid for each integration currency, not exceeding 200% of the amount tendered in the non competitive tranche. When the deadline is reached all proposals are disclosed without giving out the names of the institutions. The minimum amount allowed by the system for the proposals is 100,000 both in Indexed Units and in Pesos, and above this amount proposals must be multiples of 10,000 in both currencies.

In a Dutch auction each successful tender is paid the highest accepted rate (the cut-off rate), thus encouraging competition. The CBU reserves the right to accept a lower bid in cases in which institutions offer rates that are too high. Moreover, the CBU may, if deemed appropriate, in the competitive tranche allocate up to 200% of the amount originally tendered. This option is not available for the non-competitive tranche where the CBU cannot award a higher amount than tendered. If demand exceeds the latter, the relevant proposals will be prorated.

Every Friday the CBU publishes on its website (www.bcu.gub.uy) the calendar for the following week's placements, which includes the tender date for each instrument, the modality (competitive and non competitive), the date of integration, maturity, currency, term, amount and deadline. The results of the tenders are * on the website through the following links:

LRM national currency

<http://www.bcu.gub.uy/Politica-Economica-y-Mercados/Emisiones%20BCU/LRM%20MN%202014.xls>

LRM indexed units

<http://www.bcu.gub.uy/Politica-Economica-y-Mercados/Emisiones%20BCU/LRM%20UI%202014.xls>

1.3 Institutions authorized to participate in tenders

Authorized to participate in the competitive tranche of the CBU's LRM tenders are the Primary Dealers appointed in accordance with the provisions of the Primary Dealer Program Regulations.

Also, according to this Program in the non competitive tranche, the following institutions can participate:

- a. Aspiring Primary Dealers
- b. Banks that choose not to join the scheme
- c. Montevideo Stock Exchange (BVM in Spanish) on behalf of its active members -



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- d. Stockbrokers - optionally) Active members - stockbrokers - of the BVM or individually as an option.
- e. Finance Houses
- f. External Financial Institutions
- g. Financial Intermediation Cooperatives
- h. Savings Associations
- i. Pension Fund management companies (AFAPs in Spanish)
- j. Banco de Seguros del Estado (Uruguay state-owned insurance company) and other insurance companies that engage in pension insurance
- k. Investment Fund Management companies that manage funds under the regulation of Act No. 16.774 or manage Financial Trusts with public offering
- l. Banking Retirement and Pension Fund
- m. Retirement and Pension Fund of University Professionals
- n. Notaries Retirement and Pension Fund
- o. Bank Savings Protection Corporation (COPAB).