



BANCO CENTRAL DEL URUGUAY

Financial System Annual Report - 2016

Banking system

The solvency of financial institutions established in Uruguay remains stable, with the average capital of banks 62% above the regulatory minimum capital requirements, which includes credit, market, operational and systemic risks.

In order to analyze the status of the banking system, the Superintendency of Financial Services (SFS in Spanish) performs stress tests that have satisfactory results from the impact of predetermined adverse scenarios. In terms of system average, regulatory capital of banks would be close to the regulatory minimum if there is a severe stress scenario, while in a less severe scenario the impact would be of low significance.

In 2016 there was a significant appreciation of the dollar against most currencies in the region until the beginning of March, and then started a downward trend that ended with a price similar to that at the beginning of the year, which resulted in the banking results in Uruguay being significantly lower than those of last year. In a context of slower economic growth banks saw credit stagnate, which led them to invest their surplus funds in foreign sovereign bonds.

In 2016 loans in national currency rose \$ 13.925 million (+7,5%), and foreign currency loans had a small increase of USD 40 million (0,5%). After adjustment for measuring the increase in credit without delinquency distortions and different exchange rates, we see that credit to the resident private sector grew by USD 311 million during the year, representing an annual net increase of 2,2%, showing a slowdown in growth compared to the previous year (7,0%). Debt in Uruguayan families remained stable at 26% with regards to annual income when bank debt is recorded (including the Banco Hipotecario del Uruguay BHU) and debt with credit management companies.

Delinquency increased throughout 2016 closing at 3.2%, a value that is reasonable given the performance of the Uruguayan economy. Delinquency of consumer loans was 4.1% and 3.2% for companies at the end of 2016, while mortgage loan delinquency remained stable at 1.9% during the year.

Deposits of the private non-financial sector in local currency increased strongly by \$ 28.209 million (17,7%). Foreign currency deposits of residents rose by USD 223 million (1,2%). This shows an annual growth rate in dollars of USD 167 million (0,6%). Local currency demand deposits and savings accounts are approximately 72% of total deposits, while for foreign currency it remains stable at 90%.

Bank results were positive and measured in pesos amounted to \$ 2,799 million, significantly lower than 2015 (74%). The main reason being the drop in profitability of the open position (in dollars) of the institutions compared to what happened in the previous year, given the different evolution of the exchange rate. For private institutions, the result was practically nil (\$ 187 million), but if profitability is observed along with that obtained by the companies that are owned by banking groups dedicated to consumer loans, the result improves significantly with a high profitability for these business units (\$ 2,466 million)

Pension Savings

In the pension savings system, total accumulated funds reached \$ 363.198 million (approximately 23% of the product), higher than the one million three hundred thousand affiliates as of December 31, 2016, and has a projected net profitability in "Unidades Reajustables UR" that when calculated based on the historical profitability of the last 5 years is null. This same result is equal to a return measured in real terms (CPI) of 3.1% per year.



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Stock Market

The volume traded in the stock market reached USD 27,090 million and had a 13% fall with regards to 2015 due to the decrease in the placement of Monetary Regulation Bills (LRM in Spanish) issued by the Central Bank of Uruguay, and certificates of deposit by private banks.

New funding included: negotiable bonds USD 26 million, financial trusts USD 778 million of which USD 221 million were integrated, and shares USD 45 million; figures that show a 40% decrease with respect to the amounts integrated the previous year. Observing the contribution of the stock market to medium and long-term company financing, in 2016 it represents approximately one seventh of total funding, which although it decreased with regards to previous years, it continues to show the important role of the stock market in funding.

Insurance

Insurance companies' sales grew 2,1% on average in real terms over the previous year, reaching a net premium earned of \$ 35.145 million, which is approximately 2.2% of GDP. A significant contribution to this growth came from life insurance policies, which amounted to 29% in real terms as a result of the growth dynamics of the Individual pension savings system. The market structure changed as a result of this growth with the largest volumes of premiums accrued from vehicle insurance (27% premium), followed by anticipated life insurance policies (25%) and in third place workplace accident insurance (19%).