BANCO CENTRAL DEL URUGUAY

FINANCIAL STABILITY REPORT DECEMBER 2009

EXECUTIVE SUMMARY

The main impact of the international financial crisis on the local financial system has been the diminishing returns that banks have received from their financial investments abroad due to low international interest rates. This was partially offsetted by increases in loans to domestic sector at higher interest rates and by the effect of exchange rate appreciation over currency conversion results.

The solvency of financial institutions based in Uruguay has two characteristics that are worth mentioning: first, the high level of capital that is twice above the minimum required by the prudential regulation and second, the prudential regime of statistical provisions established by the Superintendence of Financial Services. This has forced banks to assume portfolio losses at the up phase of the economic cycle, enabling them to cope with the rising delinquencies in the down phase of the cycle without requiring additional capital.

In order to evaluate the banking system soundness, the Superintendence of Financial Services performs stress tests which show very satisfactory results under the defined adverse scenarios. Under a severe crisis scenario, banks capital would be, on average, 90% above the minimum regulatory requirement, while under a less severe scenario the system would hardly be affected.

Credits to local private sector experienced a significant growth during 2009's fourth quarter. The increase of lending in domestic currency was $ 2,838 million while the growth of that denominated in foreign currency was U$S 253 million, resulting in a total growth of U$S 406 million, equivalent to an annualized rate of 35%. During the year 2009, credits to the local private sector in domestic currency rose $ 5,130 million, while that denominated in foreign currency increased by U$S 32 million, leading to a total credit growth rate of approximately 6%.

In December 2009, the average interest rate of loans denominated in foreign currency reached its historically lowest value of 5.6%. On the other hand, average interest rates for loans to companies and households in domestic currency were 16.7% and 32.3% respectively. Although the tendency has partially been reverted by the time this report is being published, these rates presented a significant increase compared to September 2008.

Loan delinquency rates remained stable at historically low levels, recording levels of approximately 1% (2.9% in the case of credit to households in domestic currency).

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On the other hand, deposits of non-financial private sector (NFS) continued growing both in local and foreign currency, showing at the end of the year an increase of U$S 1,981 million, which represented an annual growth rate of 16% (depurated from the exchange rate effect). During 2009's fourth quarter, the increase of deposits was U$S 441 million, which is equivalent to an annualized growth rate of approximately 13%. Demand deposits and savings accounts represented just about 78% of total deposits which is explained mainly to the low levels of interest rates offered for time deposits.

In December 2009, interest rates paid for time deposits in foreign currency were on average 0.55%, very near to the level of international reference rates. The rate for fixed-term deposits in local currency (mostly concentrated between 30 and 180 days) decreased 30 basis points compared to September 2009, registering an average level of 4.9% which reflects the high liquidity of the market.

The system's liquidity remained high, with 30 and 91 days liquidity ratios near 70%. On the other hand, the solvency of financial institutions (compared to the capital requirement for credit and market risks) represented approximately 2.1 times the minimum regulatory requirement on average.

Finally, banks' results measured in foreign currency showed a loss of $ 1,009 million, equivalent to approximately U$S 53 million. A significant portion of these losses is represented by exchange rate appreciation.EscucharLeer fonéticamente