

## MATERIAL FACT

Banco do Estado do Rio Grande do Sul S.A., a publicly held company, in observance of Paragraph 4 of Article 157 of Law 6,404/76 and Instruction 358/02 issued by Brazil's Securities and Exchange Commission (*Comissão de Valores Mobiliários – CVM*), hereby informs its shareholders and the general market of the following:

1. As informed to the market through the “Material Fact” notice dated February 13, 2007, when the elaboration of alternatives for a capital increase of Banrisul were determined, a conclusion was made that the option that would best serve the interests of Banrisul and of its controlling shareholder was the realization of a capital increase through the public subscription of shares.
2. Banrisul's management considers the capital increase of the Bank, which includes the raising of additional funds, an essential step in the implementation of the business plan for the coming years, in particular for its loan portfolio, and would contribute significantly to the expansion in operations and the strengthening of the institution's financial situation.
3. The state of Rio Grande do Sul announced its plans to sell part of the preferred shares issued by the bank that it holds, with no change in its interest in the voting capital, with the sale of common shares prohibited. The sale will occur concomitantly with the capital increase of the Bank.
4. Bearing in mind that the studies of the matter are still preliminary and do not support final conclusions, the main characteristics of the operation are as follows:
  - (a) The option will consist of (i) a primary public offering, with a capital increase through a public subscription carried out by Banrisul itself, through the issue of new preferred shares, and (ii) a secondary public offering, through which the State will sell part of the preferred shares issued by Banrisul that it holds.
  - (b) Both the primary and the secondary issue will consider only preferred shares in Banrisul. No common shares will be issued or sold, and the state of Rio Grande do Sul will maintain control of the Bank and its current interest in the common shares, with the Bank remaining a company with both state-owned and privately-owned components, with control remaining in the hands of the State.
  - (c) Although the amount involved in the operation has not yet been determined, preliminary estimates indicate that 8.5 billion new preferred shares may be issued by the Bank, and 12.8 billion preferred shares held by the State may be sold, in addition to the distribution of the over-allotment option, as described in Article 24 of CVM Instruction 400/03. These numbers are merely indicative, and may be changed before the conclusion of the operation.
  - (d) In line with market practices, Banrisul plans to adhere to the Level 1 corporate governance segment of the São Paulo Stock Exchange (Bovespa).



5. The realization of the operation described above is subject to advance analysis and approval by the CVM and to approval by the Brazilian Central Bank.
6. Any relevant subsequent information will be published in “Material Fact” notices, pursuant to the applicable legislation, observing the non-disclosure provided for by law.

Porto Alegre, April 23, 2007

**Banco do Estado do Rio Grande do Sul**

(original signed by)  
Ricardo Richiniti Hingel  
Chief Financial and Investor Relations Officer