

**Banrisul jumps on Rio Grande do Sul's economic bandwagon
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and Cover)**

A happy coincidence boosted the performance of **Banco do Estado do Rio Grande do Sul (Banrisul)** in 2008. Positive trends in Rio Grande do Sul's economy have led to an upturn in credit demand, a demand which can be fulfilled thanks to the R\$800 million raised at the IPO held by the Institution in late July last year, a few days prior to the outbreak of the subprime crisis that bittered the mood of the global financial market. If the transaction had taken a little longer, it might not have been accomplished, admitted **Banrisul's CEO, Fernando Lemos**, who heads the bank since 2003.

The two previous good harvests, favorable commodities prices and buoyant industrial activities, combined with the bank's readiness to take advantage of the auspicious scenario, led **Banrisul** to post an increase of 45% in its loan portfolio at the end of the first half-year, exceeding the results disclosed by the Brazilian major banks. Consequently, the bank ended the first six months of the year with a portfolio amounting to R\$10 billion, a sum that had been estimated for the end of December at the start of the year. Now the forecast calls for a year-end figure of R\$12 billion. The initial estimate on credit increase for the year was 30%. "Now we figure a percentage ranging between 37% and 40%", Lemos said. "This is partly due to Rio Grande do Sul's economy, whose growth exceeded that of the domestic economy. We became more aggressive and recovered market share. We hold 30% of bank businesses in the state, and 70% of Rio Grande do Sul's bank clients are our clients", added Lemos, who became CEO at the invitation of then governor Germano Rigotto (PMDB—Brazilian Democratic Movement Party) and was kept in the position by Rigotto's successor, governor Yeda Crusius (PSDB - Brazilian Social Democracy Party). In 2007, Brazil's GDP increased 5.4% while Rio Grande do Sul's grew by 7%.

Corporations were the star of Bank's credit performance in the semester. Demand grew 75% over June 2007 and reached R\$3.4 billion. Work capital lines alone grew 87.6%, amounting to R\$2.8 billion. "The bank does a lot of businesses with small and medium-sized companies. Banricompras, a corporate credit via consumption, is a competitive edge for us: it is the debit card used by all of our account holders. There are three million cards accredited at about 60,000 points of sale. We can grant credit securely since it means a receivable against Banrisul. We give credit to those who can't get it anywhere else. The locksmith who works at the corner owns this card", Lemos said.

Low delinquency

Despite the accelerated credit trend, the current delinquency rate is 3.2%, one of the market's lowest rates. According to Lemos, the secret lies with the management model that was implemented. "When I came to the bank, the Selic rate was high—close to 30%—but we knew it was going to decrease. Therefore, we prepared ourselves, designing the bank's business model for credit and pre-approved credit, as well as a variable compensation model for our employees. Delinquency is part of this process. Previously, our salesmen did not care about delinquency; they only cared about selling. Now that it generates cash, the salesmen are concerned about delinquency, managing their clients and portfolios. If client delinquency exceeds the bank's average, the salesman loses his bonus", explained Lemos, stressing that 85% of Banrisul's portfolio is within the top three ratings (from A to C).

2008 marks the bank's 80th anniversary, having been acknowledged as one of the best five Brazilian retail banks this year in a ranking by Austin Rating, which was published in Gazeta Mercantil's *Balanço Financeiro* magazine.

With a focus on the state, where 394 of its 423 branches are located, Banrisul is pursuing new growth opportunities. Although admitting it would somehow make sense to purchase the *Banco do Estado de Santa Catarina* (Besc), which is set to merge with *Banco do Brasil* (BB), Lemos denied that the bank intended to make acquisitions for reasons such as legal limitations. Still, the Company

pursues organic growth, especially in Santa Catarina, where the bank has 13 branches and will open another 10 by year-end. “Our growth will take place in our own base”, he affirmed. One of **Banrisul’s** targets is to move forward with credit cards. According to Lemos, the decision on whether to brand the cards—currently numbered at between 1.2 and 1.3 million—is in its final stage. “We will decide whether to select the brand or to let the client choose”, Lemos said, highlighting a migration taking place for the whole base to multifunctional smart cards, considered immune to fraud in Internet banking operations. Provided with a chip with the Multos operating system, the card combines debit/credit functions, internet banking and the ability to file income tax returns through the Federal Treasury’s website.

Another segment to be explored by Banrisul is municipal payroll-deductible loans. Lemos recalls that when the municipalities decided to auction their payrolls, the bank opted not to bid. Nevertheless, it was forced to enter into the dispute when payroll deductible channels started to be sold to large banks. “The municipal payroll-deductible segment has room for substantial growth. Currently, Banrisul holds 80% of payroll deductibles”, Lemos said. In order to guarantee exclusiveness in a large portion of this market, Banrisul entered into an agreement with the Federation of Municipal Associations of Rio Grande do Sul (Famurs) and disbursed R\$226 million to execute an agreement with approximately 350 Rio Grande do Sul cities over a five year period.

Housing Loans

Housing loans, meanwhile, increased 221% in funds released and 226% in units built. According to **Loan Officer Urbano Schmitt**, the growth in units is the result of demand for funding cheaper properties, costing approximately R\$70,000. Another highlight was the agreement executed this year with the Construction Cooperative of Rio Grande do Sul (Coopercon), an entity created by small and medium-sized companies from Rio Grande do Sul to gain a competitive edge over large groups. The bank plans to fund R\$320 million for the construction of properties by the associated companies.

Forecasts for an increased use of mobile phones in performing banking operations led Banrisul to take the forefront in Brazil's mobile banking technology. The bank's product, named *Banrisul Celular*, allows clients to make purchases through their mobiles—from a businessman, cab driver or even a street peddler—as if they were using a debit/credit card. The purchase operation is made by and between the mobiles belonging to the account holder and the salesman accredited with the Banricompras network. The client only needs to type his/her bank data and the transaction amount on his/her phone and, right after, the salesman receives the confirmation of the amount credited on his account via mobile. "The mobile will turn into a private ATM in five years, at most. It will perform all operations except for printing money."

The technology provides new sales possibilities for small-sized professionals who lack the financial resources to purchase the equipment currently used in the operations mentioned, thus contributing to attracting clientele to Banrisul. Technology innovation in Brazil is in the integration between bank functionalities (statements, transfers) and the debit card in the mobile phone. These possibilities already exist, although sparsely.

Another solution soon to be made available by Banrisul is a printer connected to the mobile network, allowing the account holder to make payments with the card. "In this case, cab drivers, street peddlers or deliverers do not need their clients to use the phone, just the card. The client uses the card, types the password and the receipt is immediately printed", explained Lemos, adding that the bank was approving the innovation to put it on the market at R\$10 per month for interested businesspeople.

(Caio Cigana and Marcello D'Angelo)