

Loyal clients and a new management plan (*Valor Financeiro* magazine / São Paulo - Ed: July 2009 - Pages 40, 41 and 42)

Even though there is a historical affinity – and even an affectionate relationship – between the population of the state of Rio Grande do Sul and the octogenarian Banco do Estado do Rio Grande do Sul (**Banrisul**), this alone does not explain the fact that the Bank has recently become a model of efficiency among Brazilian state-owned banks. Profitable, using state-of-the-art information technology, respected worldwide, and apparently immune to maladies from which several of its peers have suffered, **Banrisul** is far from being considered an old-fashioned bank.

Today 70% of all banking clients living in the Rio Grande do Sul State are **Banrisul's** clients, totaling 3 million people who find branches in 80% of the State's 496 cities. **Banrisul** also relies on dozens of branches in other Brazilian states, the major capitals and the state of Santa Catarina – a market that the bank considers an area of natural expansion. The fact that **Banrisul** sponsors the two most important soccer teams of the state of Rio Grande do Sul – Internacional and Grêmio – is not merely a marketing plan that lacks meaning. It is about concretizing through the shirts of soccer players the historical identity of the people from Rio Grande do Sul as “their” bank. **Banrisul's CEO Fernando Guerreiro de Lemos** likes to use a word that, in his opinion, brings together the whole transformation and good results: “management”. With a law degree from the University of Brasília (UnB) and 49 years old, he became the Bank's CEO in 2003, after working with Pedro Simon (PMDB) at the Senate and state government, who appointed Lemos to the position.

In July 2007, **Banrisul** carried out a successful fund-raising operation on the São Paulo Stock Exchange (Bovespa) and strengthened its cash position – and consequently, the cash position of the government of the state of Rio Grande do Sul, the Bank's controlling shareholder – with R\$2 billion, in the “largest IPO performed by a bank in all Latin America,” as written in the report celebrating the 80th anniversary of the Bank. The capitalization could not have taken place at a better time: the following year the world would suffer the effects of a global financial crisis that lingers until today.

The succession of important events like this is not something totally new to **Banrisul's** history. In August 1928 – a year before the Great American Depression caused markets all over the world to crash – the Brazilian government authorized

the operation of the newly-created bank (fulfilling the demand of ranchers in the state of Rio Grande do Sul), which the following year already counted on 29 branches, and it did not stop growing, in spite of the fear atmosphere generated by the New York Stock Exchange crash. After only three years in operation **Banrisul** grew to 65 branches in the interior of the state of Rio Grande do Sul. Surrounded by renowned financial institutions going out of business, such as Banco Popular and Banco Pelotense, **Banrisul** continued its trajectory of success and conquered the hearts of the people of Rio Grande do Sul. In the first quarter of 2009, the Bank's income totaled R\$106.5 million, with a 33.6% increase in loan operations (totaling R\$11.8 billion).

Lemos says that the management model that was implemented under his leadership "prepared the bank to continue growing safely." And this safety includes a certain protection of the institution's most sensitive areas, preparing them for a possible change in its senior positions, so that these areas may undergo changes without discontinuing the Bank's business activities. "It is possible to replace the CEO and executive officers without altering the planning," he explains.

According to **Lemos**, in the beginning, this seemed like an impossible task, something similar to changing an airplane's turbines while flying. The goal – which was finally achieved – was to establish a managerial process based on the strengthening and specialization of the committees, composed of technicians, increasing the safety level during the decision-making process.

The key operating decisions, such as loan granting, do not depend on the Bank's CEO or executive officers. Thus, despite the state government stake and the CEO position being appointed by a politician, the Bank is insulated from state interference. Since all decisions are made by "credit committees" and those who are involved in them are technicians, professionalism prevails. This management model has allowed, for instance, despite the growth in loan operations (42.7% in 2008, totaling R\$11.5 billion), the non-performing loan ratio to remain at 3%.

To **Banrisul's** CEO, another important fact is that the variable compensation is calculated over the actual result, in other words, "only over the bottom line amount." This would be the secret to the Bank's profitability and everybody's commitment to the best results and to a low non-performing loan ratio.

Today **Lemos** can say that the turbines have been changed and the airplane is still flying, as **Banrisul's** restructuring was unique among state-owned and private banks. Important challenges were overcome, such as the fact that state-owned banks are required to follow certain rules to which private banks are not subject – for example tender bidding for purchases and public examination for hiring professionals. “To a certain extent, this compromises agility, but, on the other hand, it forces us to plan and be prepared for unexpected changes in the market.”

Fortunately, these regulations by governmental agencies, which sometimes are used to justify poor management, did not prevent **Banrisul** from attaining its targets; even the most audacious ones, which makes **Lemos** proudly declare, “We have cutting-edge technology in the banking sector. Everything is online, and we have the safest Internet Banking system in Brazil.”

The facts support the CEO's enthusiasm. **Banrisul** has been recently chosen to compose, together with 21 organizations, the Board of Advisors of the Payment Card Industry (PCI) Security Standards Council to serve a two-year term, being the only Brazilian representative. In May 2008, the bank received the “Outstanding Smart Card Achievement - Latin America” award from Smart Card Alliance Latin America for **Banrisul's** Internet Chip Card, deemed by the entity as “the most audacious and emerging project” in Latin America. Also in 2008, in England, **Banrisul** received international acknowledgement for the MULTOS system, the best card project that combines electronic government and banking system into a single card. With their 36 k chip-bearing cards, **Banrisul** clients are not exposed to the same risks as the clients of other banks when accessing their accounts from a computer. This is due to the fact that the authentication is directly made between the chip (that makes encoded calculations to validate the card's password) and the Bank's system. However, in order for this to be possible it is necessary that a chip reader be connected to a USB output. Another audacious action – which may serve to show the Bank's trust in its clients' loyalty and its brand's power – is the maintenance of a purchase card of its own flag, the Banricompras. Across the states of Rio Grande do Sul and Santa Catarina there are more than 66,000 commercial establishments that accept this card for debit or credit operations. It is the largest card flag owned by a bank in Brazil. And, in terms of state-of-the-art technology – of which **Banrisul's** CEO is so proud – it is possible for small business owners and self-employed workers (such as taxi drivers, for example), to transact by using a regular cell phone and two small peripherals, with dual function of chip card reader and printer. Even the most common service of Internet Banking –

checking balance inquiries – may provide a different experience for **Banrisul** clients: it is possible to “see” any check that is on the account; and not only the data, but the image of the check. This visualization of checks by the client has been available since 2006. The inclusion of other checks is a new service that has been provided since 2009.