December 2016

Financial Statements

Banrisul

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Press Release

This Press Release contains forward-looking statements, which not only relate to historic facts but also reflect the targets and expectations of the Company management. The terms "anticipate", "desire", "expect", "project", "plan", "intend" and similar words are intended to identify statements that necessarily involve known and unknown risks.

Known risks include uncertainties which are not limited to the impact of competitive services and pricing, acceptance of services by the market, Banrisul's and its competitors' service transactions, regulatory approval, currency fluctuations, changes in the mix of the portfolio of services and other risks described in the Company's reports. This Press Release is up to date and Banrisul may or may not update it with new information and/or future events.

TABLE 1: ECONOMIC AND FINANCIAL INDICATORS

Main Income Statement Accounts - R$ Million	2016	2015	4Q16	3Q16	2Q16	1Q16	4Q15	2016 / 2015	4Q16 / 3Q16
Financial Margin	5,169.2	4,414.0	1,341.0	1,290.3	1,269.4	1,268.4	1,192.9	17.1%	3.9%
Allowance for Loan Losses Expenses	1,667.6	1,551.4	402.6	530.7	309.0	425.4	426.9	7.5%	-24.1%
Gross Profit from Financial Operations	3,501.6	2,862.5	938.4	759.6	960.5	843.0	766.0	22.3%	23.5%
Financial Income	10,668.4	10,804.3	2,707.4	2,902.3	2,459.9	2,598.9	2,602.1	-1.3%	-6.7%
Financial Expenses	7,166.9	7,941.8	1,769.0	2,142.6	1,499.4	1,755.8	1,836.0	-9.8%	-17.4%
Income from Services and Fees	1,700.3	1,444.6	430.7	441.6	426.6	401.4	399.3	17.7%	-2.5%
Recurring Administrative Expenses (1)	3,461.8	3,032.3	951.8	876.6	860.2	773.2	827.3	14.2%	8.6%
Other Recurring Operational Expenses	635.7	433.4	189.2	131.6	158.5	156.4	116.7	46.7%	43.7%
Other Recurring Operational Income	406.0	612.9	100.1	115.5	95.6	94.8	73.6	-33.8%	-13.3%
Adjusted Net Income	652.3	758.5	157.6	105.0	201.5	188.1	148.9	-14.0%	50.1%
Net Income	659.7	848.8	165.0	105.0	201.5	188.1	149.5	-22.3%	57.2%
Main Balance Sheet Accounts - R$ Million	**Dec 2016**	**Dec 2015**	**Dec 2016**	**Sep 2016**	**Jun 2016**	**Mar 2016**	**Dec 2015**	**Dec 2016/ Dec 2015**	**Dec 2016/ Sep 2016**
Total Assets	69,038.5	66,937.8	69,038.5	67,888.1	67,864.8	65,965.4	66,937.8	3.1%	1.7%
Securities (2)	17,816.7	13,927.4	17,816.7	16,584.7	16,536.8	14,450.6	13,927.4	27.9%	7.4%
Total Credit Portfolio	30,337.4	32,013.3	30,337.4	30,146.7	29,799.9	31,373.5	32,013.3	-5.2%	0.6%
Allowance for Loan Losses	2,638.6	2,252.5	2,638.6	2,539.5	2,311.1	2,389.7	2,252.5	17.1%	3.9%
Past Due Loans > 60 Days	1,708.2	1,601.1	1,708.2	1,995.6	1,690.9	1,883.7	1,601.1	6.7%	-14.4%
Past Due Loans > 90 Days	1,516.7	1,382.4	1,516.7	1,638.1	1,433.1	1,530.7	1,382.4	9.7%	-7.4%
Funds Raised and Under Management	56,364.6	51,990.2	56,364.6	54,622.3	54,120.5	51,672.4	51,990.2	8.4%	3.2%
Shareholders' Equity	6,443.4	6,208.6	6,443.4	6,472.1	6,445.6	6,322.8	6,208.6	3.8%	-0.4%
Prudential Conglomerate Reference Equity	6,521.5	7,389.2	6,521.5	6,655.3	6,657.8	7,313.6	7,389.2	-11.7%	-2.0%
Average Shareholders' Equity	6,326.0	5,940.0	6,457.8	6,458.8	6,384.2	6,265.7	6,161.8	6.5%	0.0%
Average Total Assets	67,988.1	63,249.7	68,463.3	67,876.5	66,915.1	66,451.6	66,114.9	7.5%	0.9%
Average Profitable Assets	59,418.4	57,373.7	60,151.0	58,936.9	59,722.6	58,863.3	59,116.8	3.6%	2.1%
Stock Market Information - R$ Million	**2016**	**2015**	**4Q16**	**3Q16**	**2Q16**	**1Q16**	**4Q15**	**2016 / 2015**	**4Q16 / 3Q16**
Interest on Own Capital/Dividends (3)	264.8	356.4	30.1	78.1	80.4	76.2	101.5	-25.7%	-61.5%
Market Capitalization	4,220.6	2,396.6	4,220.6	4,277.9	3,492.6	3,271.8	2,396.6	76.1%	-1.3%
Book Value Per Share	15.76	15.18	15.76	15.83	15.76	15.46	15.18	3.8%	-0.4%
Average Price per Share (R$)	9.12	9.20	11.60	10.68	8.36	5.72	5.90	-0.9%	8.6%
Earnings per Share (R$)	1.61	2.08	0.40	0.26	0.49	0.46	0.37	-22.6%	53.8%
Financial Index	**2016**	**2015**	**4Q16**	**3Q16**	**2Q16**	**1Q16**	**4Q15**		
ROAA (pa.) (4)	1.0%	1.2%	0.9%	0.6%	1.2%	1.1%	0.9%		
ROAE (pa.) (5)	10.3%	12.8%	10.1%	6.7%	13.2%	12.6%	10.0%		
Efficiency Ratio (6)	52.1%	50.2%	52.1%	51.3%	49.9%	49.4%	50.2%		
Financial Margin (7)	8.70%	7.69%	9.22%	9.05%	8.78%	8.90%	8.32%		
Recurring Operating Cost	5.0%	4.5%	5.0%	4.9%	4.7%	4.7%	4.5%		
Default Rate > 60 Days (8)	5.63%	5.00%	5.63%	6.62%	5.67%	6.00%	5.00%		
Default Rate > 90 Days (9)	5.00%	4.32%	5.00%	5.43%	4.81%	4.88%	4.32%		
Cover Ratio 60 days (10)	154.5%	140.7%	154.5%	127.3%	136.7%	126.9%	140.7%		
Cover Ratio 90 days (11)	174.0%	162.9%	174.0%	155.0%	161.3%	156.1%	162.9%		
Provisioning Index (12)	8.7%	7.0%	8.7%	8.4%	7.8%	7.6%	7.0%		
Basel Ratio (Prudential Conglomerate)	16.9%	17.8%	16.9%	17.1%	16.8%	18.3%	17.8%		
Structural Indicators	**Dec 2016**	**Dec 2015**	**Dec 2016**	**Sep 2016**	**Jun 2016**	**Mar 2016**	**Dec 2015**		
Branches	536	536	536	536	536	536	536		
Service Stations	200	202	200	199	203	203	202		
Electronic Service Stations	501	541	501	499	511	519	541		
Employees	11,214	11,098	11,214	11,255	11,283	11,051	11,098		
Economic Indicator	**2016**	**2015**	**4Q16**	**3Q16**	**2Q16**	**1Q16**	**4Q15**		
Effective Selic Rate	14.02%	13.27%	3.24%	3.47%	3.36%	3.26%	3.36%		
Exchange Rate (R$/USD - end of period)	3.26	3.90	3.26	3.25	3.21	3.56	3.90		
Exchange Rate Variation (%)	-16.54%	47.01%	0.40%	1.13%	-9.81%	-8.86%	-1.71%		
IGP-M (General Market Price Index)	7.19%	10.54%	0.67%	0.53%	2.86%	2.97%	3.95%		
IPCA (Extended Consumer Price Index)	6.29%	10.67%	0.74%	1.04%	1.75%	2.62%	2.82%		

(1) Includes Personnel Expenses and Other Administrative Expenses.
(2) Includes Interbank Deposits and deduces Repurchase Obligations.
(3) Interest on Own Capital and Dividends paid and/or provisioned (before retention of income tax).
(4) Net Income / Average Total Asset.
(5) Net Income / Average Shareholders' Equity.
(6) Efficiency Ratio for the last 12 months. Personnel Expenses + Other Administrative Expenses / Financial Margin + Income from Services and Fees + (Other Operational Income – Other Operational Expenses).
(7) Net Interest Income as a percentage of Average Profitable Assets.
(8) Past Due Loans > 60 days / Total Credit Portfolio.
(9) Past Due Loans > 90 days / Total Credit Portfolio.
(10) Allowance for Loan Losses / Past Due Loans > 60 days.
(11) Allowance for Loan Losses / Past Due Loans > 90 days.
(12) Allowance for loan losses / credit portfolio.

MATERIAL FACTS

In 2016, the acquisition of the **payroll of civil servants of the State of Rio Grande do Sul** was important to our market strategy, while preserving customers' portability rights. On June 17, 2016, Banrisul signed the contract for the tendering of services related to the payroll of State's civil servants with the Government of Rio Grande do Sul; the transaction amounted to R$1,250.6 million for a 10-year contract. On October 4, 2016, the Bank entered into similar agreement with the Judiciary Power of Rio Grande do Sul for the tendering of the payroll services to servants of the Court of Justice; the transaction amounted to R$64.0 million for a 5-year contract, in two installments due October 16 and April 17. Aimed at local communities, Banrisul's commercial strategy also focused at maintaining existing payroll rights and acquiring new ones. As of December 2016, 177 contracts were negotiated.

In the beginning of 2016, the **settlement of derivative hedging contracts** to the subordinated bond **and the hiring of new swap contracts** represented other important financial events**.** The new hedging agreements are based on the liability's updated notional value. This operation generated R$1.2 billion in treasury and produced a net positive effect of R$16.8 million in revenues in January 2016 revenue.

FINANCIAL HIGHLIGHTS

The summary of Banrisul's results in 2016 and fourth quarter 2016 are presented below. The Analysis of Performance, Management Report, Financial Statements and the Accompanying Notes are available at the Bank's website www.banrisul.com.

TABLE 2: KEY ITEMS OF THE INCOME STATEMENT

Result - R$ Million	2016	2015	4Q16	3Q16	2Q16	1Q16	4Q15	2016 / 2015	4Q16 / 3Q16
Net Interest Income	5,169.2	4,414.0	1,341.0	1,290.3	1,269.4	1,268.4	1,192.9	17.1%	3.9%
Allowance for Loan Losses	1,667.6	1,551.4	402.6	530.7	309.0	425.4	426.9	7.5%	-24.1%
Gross Profit from Financial Operations	3,501.6	2,862.5	938.4	759.6	960.5	843.0	766.0	22.3%	23.5%
Income from Services and Fees	1,700.3	1,444.6	430.7	441.6	426.6	401.4	399.3	17.7%	-2.5%
Recurring Administrative Expenses	3,461.8	3,032.3	951.8	876.6	860.2	773.2	827.3	14.2%	8.6%
Operating Income	1,104.9	1,038.3	233.8	203.7	355.0	312.3	197.0	6.4%	14.8%
Consolidated Net Income	659.7	848.8	165.0	105.0	201.5	188.1	149.5	-22.3%	57.2%
Net Income Adjusted for Non-Recurring Events	652.3	758.5	157.6	105.0	201.5	188.1	148.9	-14.0%	50.1%

Recurring net income reached R$652.3 million in 2016, 14.0% (R$106.2 million) lower than in 2015. In 2016, **consolidated net income** amounted R$659.7 million, 22.3% (R$189.1 million) lower than in 2015. Recurring net income of R$157.6 million increased 5.9% (R$8.8 million) from 4Q15 to 4Q16 and 50.1% (R$52.6 million) from 3Q16 to 4Q16. Recurring ROAE reached 10.3% on 2016.

From 2015 to 2016, Banrisul's recurring performance reflects the increase of the financial margin and the favorable performance of banking fees, the lower flow of other operating income/expenses, that were impacted in 2015 by additional revenue as the result of the partial repurchase of the subordinated bond and foreign exchange variation; the increase in administrative expenses (personnel included); and the increasing flow of loan losses provision, impacted by the rolling over of the credit portfolio and customers' risk ratings and also by the renegotiation of credit to companies that were already written-off, as well as higher income tax and social contribution expenses due to the increase of the social contribution tax rate.

From a **managerial** standpoint, 2016 net income increased 33.8% from 2015 due to recurring events that influenced the year's performance in different ways. In addition to the partial repurchase of the subordinated bond, already mentioned, which increased revenues in 2015 (and is the comparison basis for 2016), two other events are noteworthy: (*i*) the revenues in 2015 and the expenses in 2016 recorded from the volatility of the exchange rate (devaluation in 2015 and appreciation In 2016) incident on the equity of branches outside Brazil (Banrisul does not hedge those items; hence, it is subject to the FX fluctuation), and (*ii*) the contracts for the tendering of payroll services signed in the second half of 2016, generating amortization expenses as well as loss of financial income. Altogether, the events affected 2016 by producing additional expenses of R$155.8 million and of 2015 by producing additional revenues of R$154.7 million.

The performance in the l**ast quarter** was especially impacted by the decrease in expenses with loan losses provisions due to the decrease in non-performing loans and the renegotiation of operations, as well as the increase in administrative expenses due to the wage collective bargaining, and also by favorable net interest income due to reduction in financial expenses in a higher amount than the decrease in financial revenues.

Net interest income of R$5,169.2 million at the end of 2016 increased 17.1% (R$755.2 million) over last year. In 4Q16, net interest income reached R$1,341.0 million, increasing 3.9% (R$50.7 million) from 3Q16.

In 2016, **NII** expanded due to higher flow of treasury revenues, including compulsory deposits and higher credit revenues, partially offset by the increase in financial expenses. In 3Q16, the reduction of financial expenses had a positive impact on NII.

Provision for loan losses reached R$1,667.6 million in 2016, increasing 7.5% (R$116.2 million) from 2015 given the rolling of the credit portfolio by rating and, lately, by the recovery of written-off loans. In 4Q16, the flow of R$402.6 million in provision expenses was 24.1% (R$128.1 million) lower than 3Q16, especially impacted by the portfolio adjusted by risk rating in a context of falling NPLs.

Banking Fees totaled R$1,700.3 million in 2016, driven by the performance of Banrisul Cartões and insurance, pension plan and capitalization products. Of the increase of 17.7% (R$255.7 million) in fees, R$156.5 million were produced by the acquiring business and benefit cards, R$43.1 million from checking account fees and R$30.5 million in fees from insurance, pension plan and capitalization products. Banking fees reached R$430.7 million in 4Q16, reducing 2.5% (R$10.9 million) over 3Q16, especially on current accounts fees.

The favorable performance of banking fees helped improve the **personnel expenses coverage ratio**, which reached 93.6% in 2016, 5.3 pp. above 2015.

In 2016, **administrative expenses** totaled R$3,461.8 million, increasing 14.2% (R$429.5 million) since administrative recurring expenses in 2015. In the last quarter, recurring administrative expenses increased 8.6% (R$75.2 million).

In 2016, **personnel expenses** increased 11.1% (R$181.6 million) from personnel recurring expenses in 2015 due as the result of last year's wage agreement, impact offset by the reduction of headcount on account of the retirement severance plan offered to employees in the second half of 2015. From 2016 to 2016, personnel expenses increased 13.8% (R$63.2 million) influenced by this year's wage agreement.

Other administrative expenses increased 17.8% (R$247.9 million) from 2015 to 2016, especially impacted by the growth of the goodwill amortization expenses and the instalments of the payroll agreement and interchange expenses in connection to the cards business (acquiring and issuance). In the last quarter, other administrative expenses decreased 2.9% (R$12.0 million).

The **reconciliation between net income and recurring net income is presented below**, due to extraordinary events that were recorded throughout the years 2015 and 2016. The reconciliation demonstrates ROAE, ROAA and efficiency ratio with basis on the recurring net income.

At 10.3% in 2016, 2.5 pp. below 2015, adjusted **ROAE** was the result of the strong performance of NII and banking fees highly impacted by the lower flow of other operating income/expenses, the increase in administrative expenses and the growth of provisions for loan losses.

TABLE 3: ACCOUNTING NET INCOME STATEMENT X ADJUSTED NET INCOME

Extraordinary Events - R$ Million	2016	2015	4Q16	3Q16	2Q16	1Q16	4Q15
Adjusted Net Income	652.3	758.5	157.6	105.0	201.5	188.1	148.9
Extraordinary Events	7.4	90.3	7.4	-	-	-	0.6
Retirement Plan (1)	-	(48.5)	-	-	-	-	3.2
Insurance Distribution Agreement (2)	13.5	22.5	13.5	-	-	-	-
Tax Effects (3)	(6.1)	10.7	(6.1)	-	-	-	(2.5)
Tax Credits – CSLL Law No. 13169/15 (4)	-	105.5	-	-	-	-	-
Accounting Net Income	659.7	848.8	165.0	105.0	201.5	188.1	149.5
Adjusted ROAA	1.0%	1.2%	0.9%	0.6%	1.2%	1.1%	0.9%
Adjusted ROAE	10.3%	12.8%	10.1%	6.7%	13.2%	12.6%	10.0%
Adjusted Efficiency Ratio	52.1%	50.2%	52.1%	51.3%	49.9%	49.4%	50.2%

(1) Retirement Severance Plan, implemented in 2H15.
(2) Complement to the amount paid in 2014 related to the agreement for the distribution of life insurance and pension plans products of Icatu Seguros in Banrisul channels. In 2015, the establishment of the holding company Banrisul Icatu Participações S.A. was completed, in which Banrisul holds 49.9% of the capital.
(3) Tax benefit related to the Retirement Severance Plan and the Insurance Distribution Agreement.
(4) Application of Provisional Measure No. 675/15, converted into Law No. 13169/15, which establishes the increase to 20% from 15% of the social contribution (CSLL), effective until December 2018.

Based on recurring events, **efficiency ratio** reached 52.1% at the end of 2016, comparing to the 50.2% of 2015. The efficiency ratio trend reflects the basis of comparison, as (numbers in 2015 benefited from the results of the partial settlement of the subordinated bond and the FX rate variation), the purchase agreement of the payroll of State's civil servants affecting administrative expenses, the NII performance and the growth of banking fees.

OPERATIONAL HIGHLIGHTS

TABLE 4: ASSET EVOLUTION STATEMENT

Asset Evolution Statement - R$ Million	Dec 2016	Sep 2016	Jun 2016	Mar 2016	Dec 2015	Dec 2016/ Dec 2015	Dec 2016/ Sep 2016
Total Assets	69,038.5	67,888.1	67,864.8	65,965.4	66,937.8	3.1%	1.7%
Credit Operations	30,337.4	30,146.7	29,799.9	31,373.5	32,013.3	-5.2%	0.6%
Securities + Interbank Transactions - Repurchase Obligations	17,816.7	16,584.7	16,536.8	14,450.6	13,927.4	27.9%	7.4%
Funds Raised and Under Management	56,364.6	54,622.3	54,120.5	51,672.4	51,990.2	8.4%	3.2%
Shareholders' Equity	6,443.4	6,472.1	6,445.6	6,322.8	6,208.6	3.8%	-0.4%

At the end of December 2016, **total assets** reached R$69,038.5 million, growing 3.1% (R$2,100.7 million) from December 2015 and increasing 1.7% (R$1,150.3 million) from September 2016. The year-on-year increase in assets reflected the growth of funding sources, mostly related to the R$3,841.3 million in deposits, partially compensated by the R$1,735.4 million reduction in open market funding. As to asset allocation, it is worth pointing out the growth of R$2,154.0 million in securities and interbank investments, increasing participation of compulsory resources, whose balance increased R$1,535.1 million, the increase of R$1,292.3 million in intangible assets due to the acquisition of the payroll of state employees, and the reduction of the loan portfolio of R$1,675.8 million in over the last twelve months. From 3Q16 to 4Q16, assets growth were due to the increase of R$1,722.1 million in deposits, minimized by reduction of R$482.2 million in interbranch and interbank investments. As to asset composition, securities and interbank investments increased R$1,357.5 million.

Total **credit assets** (expanded concept) reached R$31,242.9 million, decreasing 6.5% in twelve months. Deducted of sureties and endorsements, loan book decreased 5.2% (R$1,675.8 million) year-on-year, especially driven by the reduction of R$1,860.3 million in non-earmarked credit for companies and of R$686.1 million in long-term finance, partially minimized by the growth of R$809.3 million in non-earmarked credit to individuals due to reclassification of credit and debit card transactions still to be invoiced. Loan book increased R$190.8 million from September 2016 to December 2016, especially due to the increase in non-earmarked credit to individuals originated from the reclassification of card purchases to be invoiced.

TABLE 5: STATEMENT OF THE CREDIT PORTFOLIO

Credit Operations - R$ Million	Dec 2016	% Total Credit	Sep 2016	Jun 2016	Mar 2016	Dec 2015	Dec 2016/ Dec 2015	Dec 2016/ Sep 2016
Foreign Exchange	780.8	2.6%	792.6	848.0	862.5	910.3	-14.2%	-1.5%
Commercial	20,295.0	66.9%	20,028.1	19,554.8	21,034.7	21,346.1	-4.9%	1.3%
Individuals	12,688.1	41.8%	11,936.5	11,216.6	12,208.6	11,878.9	6.8%	6.3%
Payroll	8,568.3	28.2%	8,194.7	8,208.2	8,254.7	8,309.8	3.1%	4.6%
Other	4,119.8	13.6%	3,741.8	3,008.4	3,953.8	3,569.0	15.4%	10.1%
Companies	7,606.9	25.1%	8,091.6	8,338.3	8,826.2	9,467.2	-19.6%	-6.0%
Working Capital	5,330.1	17.6%	5,788.3	6,101.9	6,396.6	6,970.4	-23.5%	-7.9%
Other	2,276.8	7.5%	2,303.3	2,236.4	2,429.6	2,496.8	-8.8%	-1.2%
Long-term Financing	1,652.3	5.4%	1,766.8	1,941.4	2,164.7	2,338.4	-29.3%	-6.5%
Real Estate Financing	3,873.1	12.8%	3,880.3	3,860.3	3,836.4	3,829.1	1.1%	-0.2%
Agricultural Financing (1)	2,564.5	8.5%	2,446.7	2,421.4	2,696.7	2,724.8	-5.9%	4.8%
Other (2)	1,171.7	3.9%	1,232.1	1,173.9	778.5	864.6	35.5%	-4.9%
Total of Credit-like Transactions	**30,337.4**	**100.0%**	**30,146.7**	**29,799.9**	**31,373.5**	**32,013.3**	**-5.2%**	**0.6%**

(1) Includes securitization credits.
(2) Includes leasing, credits linked to acquired portfolio and public sector.

Securities and interbank investments totaled R$23,270.1 million, increasing 27.9% (R$3,889.3 million) year-on-year, with net balance of R$17,816.7 million at the end of December 2016 (repurchase transactions deducted). Quarter-on-quarter, the balance of securities and interbank investments (net of repos operations) increased 7.4% (R$1,232.0 million). The trend of the treasury portfolio in twelve months was influenced by the expansion of deposits, the reduction of credit assets, the increase of intangible assets and the growth of reserve requirements. In the last three months, the increase in deposits and reserve requirements influenced the trajectory of the treasury balance.

Funds raised and under management, composed by deposits, bank notes, subordinated bonds and investment funds, totaled R$56,364.6 million, increasing 8.4% (R$4,374.4 million) in twelve months, especially driven by the increase of R$3,841.3 million in time deposits and of R$1,062.2 in funds under management. From September 2016 to December 2016, funds raised and under management increased R$1,742.3 million, especially because of the growth of R$1,722.1 million in time deposits.

Shareholders' equity reached R$6,443.4 million at the end of December 2016, increasing 3.8% (R$234.9 million) from December 2015 and R$28.7 million below September 2016 from the incorporation of results after the payments of dividends and interest on own capital and the reassessment of actuarial liabilities on post-employment benefits adjusted to tax effects, as per accounting procedures set forth by CPC 33 (R1).

Banrisul paid and provisioned R$1,045.4 million in **taxes and contributions** in 2016. Tax withholding totaled R$897.7 million, levied directly on financial intermediation and other payments.

TABLE 6: OTHER INDICATORS

Indicators - %	2016	2015	4Q16	3Q16	2Q16	1Q16	4Q15
Net Interest Margin	8.70%	7.69%	9.22%	9.05%	8.78%	8.90%	8.32%
Basel Ratio (Prudential Conglomerate)	16.9%	17.8%	16.9%	17.1%	16.8%	18.3%	17.8%
Loan Portfolio Normal Risk/Total Credit	87.0%	90.0%	87.0%	87.0%	88.5%	88.5%	90.0%
Loan Portfolio Risks 1 and 2/Total Credit	13.0%	10.0%	13.0%	13.0%	11.5%	11.5%	10.0%
Default Rate > 60 Days	5.63%	5.00%	5.63%	6.62%	5.67%	6.00%	5.00%
Default Rate > 90 Days	5.00%	4.32%	5.00%	5.43%	4.81%	4.88%	4.32%
Cover Ratio > 60 Days	154.5%	140.7%	154.5%	127.3%	136.7%	126.9%	140.7%
Cover Ratio > 90 Days	174.0%	162.9%	174.0%	155.0%	161.3%	156.1%	162.9%
Provision Ratio	8.7%	7.0%	8.7%	8.4%	7.8%	7.6%	7.0%

From 2015 to 2016, **NII** expansion reflects the repricing of the credit portfolio as well as the structure of interest-earning assets and interest-bearing liabilities. The reduction of revenues and expenses linked to the variations of the interest rates, impacted by the replacing of swap contracts and the partial repurchase of the subordinated bond in 2015, combined with balance variations arising in earning assets, helped increase the margin on earning assets in an environment of decreasing credit assets. Quarter-on-quarter, NII increased especially due to the decrease of financial expenses.

The **60-day default rate** reached 5.63% in December 2016, an increase of 0.63 pp. in the last twelve months and decrease of 0.99 pp. in the last three months. 60-day past due loans totaled R$1,708.2 million in December 2016, an increase of R$107.1 million over December 2015. The **90-day default rate** reached 5.00%, totaling R$1,516.7 million in loans overdue. The 90-day delinquency ratio increased 0.68 pp. year-on-year and reduction of 0.62 pp. quarter-on-quarter.

Coverage ratio of loans 60-days past due reached 154.5% in December 2016, lower than the 140.7% in December 2015 and the 127.3% in September 2016. The 90-day coverage ratio reached 174.0%, comparing to the 162.9% of December 2015 and to the 155.0% of September 2016. In the last twelve months, coverage ratios were influenced by the increase of defaulted loans and by the volume of cost of credit accounted to the credit portfolio. In the last quarter, the decrease in defaulted loans helped improve the coverage ratio.

Total provisions reached 8.7% of the outstanding credit portfolio in December 2016, 1.7 pp. above December 2015 and 0.3 pp. higher than September 2016. The balance of credit provisions increased R$386.1 million in twelve months due to growth in NPL, in a context of increase in write-offs and of reduction of the credit portfolio. The portfolio of normal risk loans b reduced 3.0 pp. in relation to the levels of September 2015. In the last quarter, the balance of provision expenses increased R$99.2 million, while and the representativeness of the normal risk loan portfolio in relation to the total loan book was flat.

GUIDANCE

The persistently low economic activity levels in 2016 in the country hugely influenced the financial capacity of companies and the income of households, thus reflected in the reduction of credit and the increase in provisions for loan losses. Political and economic risks remain high for 2017, although a slow economic recovery is already expected from the reduction of inflation and interest rates.

Released in February last year, business and performance goals established for 2016 were revised twice, in June and September. Of the ten items composing the guidance, Banrisul delivered six, two were above expected ranges and two were below their expected performance.

Banrisul lowered its credit growth forecast in early June 2016. At the end of the year, average balances were 3.1% down and year-end balances 2.6% down in relation to 2015, figures that would have been more negative if not by the reclassification of transactions utilizing credit and debit card that were added to the credit portfolio throughout 2H16. The credit line for the anticipation of 2015 Year-End Bonus offered to employees of the State of Rio Grande do Sul (commencing at the end of 2015 and settled in June 2016), is not included in the previous information, neither average terms nor closing balances.

The growth of 13.4% (average balances) and 17.2% (closing balances) presented by non-earmarked credit for individuals was above the guidance due to the reclassification of transactions utilizing credit and debit cards and the effort to increase payroll loan portfolios. Conversely, the reduction of 16.9% (average balances) and of 19.6% (closing balances) registered in corporate credit was, 0.6 pp. higher the top guidance for the year (between 15% and 19%), reflecting adjustments made to the risk exposure policy which marked the year. The increase of 1.1% in real estate loans was within the expected range for the year, as published in June 2016.

As to the allowance for loan losses, reviewed in 2Q16 and 3Q16, the provision expenses in proportion to the credit portfolio converged to the ceiling of the range (5.5%), while the provision balance in proportion to the credit portfolio reached 8.7%, 0.2 pp. above the expected range for the year. In the last quarter, the provision balance reflected the rollover of the credit portfolio by rating levels, because of decreasing defaulted loans.

Funding guidance was delivered. Banrisul holds significant, privileged local market share in time deposits, which permits to maintain a sustainable retail funding base, mostly from customers.

Spreads preserved with the repricing of the portfolio and the credit recovery policy contributed to positives ROAE and NIM: ROAE within the guidance range and NIM above the range expected for 2016. Within expected range, the efficiency ratio was especially impacted by additional amortization expenses upon intangible assets arising from the acquisition of the payroll of state civil servants.

The beginning year signals a slow recovery of the credit offer, after prolonged stagnant period that implied a severe increase in risks. 2017 business goals are based on a selective easing of exposure adjustment to credit risk, a policy that should imply in the convergence of the provisioning ratios to expected levels. Funding growth should confirm its historical evolution. Performance indicators such as ROAE, efficiency ratio and NIM are expected to improve, due to the strategy of credit diversification per client, with emphasis on shorter term and payroll credit operations.

TABLE 7: GUIDANCE

Guidance	2016				2017
	Expected [1]	1H16 Revised	9M16 Revised	Performed	Expected
Credit Portfolio	0% to 4%	-4% to 0%	-4% to 0%	-2.6%	3% to 7%
Non-direct Lending - Individuals	0% to 4%	4% to 8%	4% to 8%	17.2%	5% to 9%
Non-direct Lending - Companies	0% to 4%	-19% to -15%	-19% to -15%	-19.6%	-2% to 2%
Real Estate Loans	4% to 8%	1% to 5%	1% to 5%	1.1%	1% to 5%
Allowance for Loan Losses Expenses/Credit Portfolio	3.5% to 4.5%	3.5% to 4.5%	4.5% to 5.5%	5.5%	4.5% to 5.5%
Allowance for Loan Losses Balance/Credit Portfolio	6.5% to 7.5%	7.5% to 8.5%	7.5% to 8.5%	8.7%	8.5% to 9.5%
Funding	10% to 14%	10% to 14%	10% to 14%	10.3%	10% to 14%
Recurring Return on Average Shareholders' Equity	14% to 17%	11% to 15%	9% to 12%	10.3%	9% to 12%
Efficiency Ratio	49% to 53%	49% to 53%	49% to 53%	52.1%	49% to 53%
Net Financial Margin / Interest-Earning Assets	7.5% to 8.5%	7.5% to 8.5%	7.5% to 8.5%	8.7%	7.5% to 8.5%

(1) Published in 4Q15 and maintained in 1Q16.

Porto Alegre, February 9, 2017.

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DO RIO GRANDE DO SUL

Secretaria da Fazenda

Banco do Estado do Rio Grande do Sul

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Accountant CRCRS 38,534

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