

**Operator:**

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 3Q15 Results Conference Call. Today with us we have Ricardo Hingel, CFO and IRO; Werner Kohler, Head of Accounting and Alexandre Pedro Ponzi, Head of Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Banrisul's remarks are completed, there will be a question-and-answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach an operator.

The audio and slide show of this presentation are available through webcast at [www.banrisul.com.br/ir](http://www.banrisul.com.br/ir). The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banrisul's management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry condition and other operating factors could also affect the future results of Banrisul and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'd like to turn the conference over to Mr. Ricardo Hingel, CFO and IRO, who will start the presentation. Mr. Hingel, you may now begin the conference.

**Ricardo Richiniti Hingel:**

Yes. Good morning for all and thanks for your attention here. Now we will touch on the results of our 3Q. It's our 3Q results that we issued now, in fact that's for the adverse economic scenario that you are following in Brazil. We have problem since 2014 and 2015 in Brazil, the GDP must grow -3% or -3.2%, this is our forecast.

Next year, the GDP in Brazil will grow around -2%. And that scenario is what we are working in and think that the real impact is actually affecting our credit portfolio. Our credit portfolio, talking about the previous portfolio and especially the strategy that how we are talking and how we are handling the new strategy that we are working and with the bank is very – today it's very important – the bank today is very selective when we are doing new credit.

We are increasing, raising the interest rates. We just give fixed movements increasing interest rates in the whole portfolio, personal and corporate clients. And then we are selective when we talk about the guarantees of the operations with corporate, especially in corporate, we are working and demanding more guarantees, and we are charging more interest rates. And this is how we are preparing the new harvest of spreads.

The problems that we are collected today is impacted from the old harvest of spreads credits that we use today, we hired around two years ago, where the scenario in Brazil was more positive. Today they're negative, as I've said before. Today we are in recession in Brazil and this is impacting in the whole business of the bank and even the whole Brazilian system of banks.

I highlight the report of Moody's one month ago, when Moody's said they are putting the negative outlook in the whole Brazilian system of banks, especially because of the effect of the economy of Brazil. When Moody's said that, the forecast of Moody's, difficulty in Brazil will be better with respect to the economy before the end of 2016.

And in that scenario, we have been impacted in the current performance and impacting in the future strategies that we can't discuss or give more details during that stage that we are doing now.

Now first I will pass it to Alexandre to talk about the main results and then we will come back to discuss more details on strategies of the bank to ramping with that situation of the Brazilian economy. Please, Alexandre.

**Alexandre Pedro Ponzi:**

Thank you, Ricardo. With regard to the presentation, I am not intending to go through each and every one of the slides. I will capture in one of them, trying to explain those who have impacted or who are actually the outcome of the strategy of the Banrisul and the impacts that it has brought into our results.

First of all, NIM and NII. We have seen that we have grown NII more than 16% over the last 12 months and a slight reduction quarter-on-quarter. Margins in terms of NIMs, they have remained within the guidance, 7.6% over the aggregate amount for the 9M and 7.7% over the amount that we produced last quarter alone.

The relative stability of the NII produced in the first three quarters of this year is related to, first, the strategy of the pricing assets in which Banrisul has increased by 5x already our interest rate.

Secondly, the fact that the credit growth or asset growth has not been as huge as we were expecting in the beginning. And thirdly, most important, the fact that NPLs have gone upwards quite a lot, increased margin we were anticipating to the market eliminate parts of our asset credits from forming the revenues of the Bank.

This challenging environment has helped increase negatively the amount of provisions that we have to accrue and record each and every quarter and with the cost of credit has gone from 3.1% in 2011 to 4.3% at the 9M15 with a huge increase of more than 35% over the amount that we have booked during the 2Q15.

Total provisions vis-à-vis credit portfolio have increased from 5.6% in 2014 to 6.9%. This is due to the fact that the credit portfolio had deteriorated a little bit and from the fact that we had to roll over and reclassified our assets by risk levels and we have been much more selective in terms of the origination of credit. And we will be presenting the sectors that are impacting NPLs going further through the presentation.

The net results of the NII we will not talk, we will go actually through the funding base of Banrisul and the cost of the funding that we have been able to obtain from our customers mostly in which overall cost has increased from the 2Q to the 3Q, from 80.1% to 82.4%.

And in terms of time deposit amount, 85% to 86.6% increase. This increase has not been substantial in order to jeopardize the cost of funding, even though it has reduced slightly our overall spreads. But in terms of obtaining funds from customers, from branches, from the way of the franchise, the market share that we obtained and the risk that we do represent to our customers Banrisul has been very positive in terms of being able to maintain the funding, the retail funding and to preserve the cost of its fund.

Service fees, this is perhaps the most important highlight for the strategy that we have developed and tried to deliver over the last years. It has increased 21% in 12 months and more than 5% in one quarter alone. The most important drivers are these two, card business, in which our acquiring business has grown 15% in 12 months in terms of affiliate immersion to our acquiring network, which now has more than 178,000 affiliates so far. But more importantly, we have seen that business has grown in terms of total transactions by more than 30% and the amount that we have transitioned through the transactions that we have acquired increased by 37%.

The amount of transactions had a negative impact in terms of administrative expenses, which I will later explain. But the amount that we have capturing from the transactions made with the use of debit and credit cards, they are representatives of a huge growth, more than 40% in terms of the MDR fees that we have been collecting.

I was mentioning in terms of the other important area for the increase in deliver of fees is the insurance business, in which just by fee and commission and using our distribution channel to receives commissions from products that are being sold to our customers, we have had an amount of more than R\$100 million in terms of fees over the 9M of this year.

And this tends to be more positive given that now we have been able to build and to start operating with the JV together with Icatu for the production and the selling of the insurance products and pension plan products as well.

This will have a more positive impact going forward and it will make use of that we have. We are not planning to, at least not for the time being, to increase business towards other areas, but to increase market share and the cross selling of this product into our own customers.

Operating expenses or admin expenses, we have seen that they have grown overall 10.5% above inflation index in Brazil and 5.3% revenue in 12 months and 5.3% over the last quarter alone. This is the result of personnel expenses increasing 10% over the last 12 months in line with the wage increase that was negotiated last year in September 2014 impacting in the full 12 months and over the last quarter by the provisioning of the wage agreement that was settled by October and also by the fact that we are still being impacted by the number of head counts that from 2016 onwards will be reduced on account of employees who have enrolled our early retirement plan.

Other administrative expenses, which grew 11% year on year and 5.3% quarter on quarter, they have to be broken down into two different segments. But we follow fixed expenses related to the maintenance of the machines network, which grew 0.5% in one year and a little more than 5% on account in relation to adjustment of a few accounts or a few line items, but in line to whatever inflation line indexes in Brazil that as one matures.

All the very important expensive cost drivers are related to the acquiring business in which we grew expenses from 134% to 202% in 12 months. This is 45% increase, but we also have seen a similar increase in terms of the gross revenues that we are making out of the acquiring business, again, coming from MDR fees from making use of the acquiring networks that we have established and going to different types of businesses in order to try and make the most out of this company that Banrisul controls uniquely.

The other more important expense drivers for businesses is the fees debt and the commissions that we paid to originate payroll loans outside our branch network or through with the use of one company that is linked to Banrisul (15:11), with the banking correspondents in which the portfolio credit originated in this distribution channel increased 18% year on year, from 2.6% at 9M14 to a little more than R\$3 billion at the end of this September, and also we saw that the expenses related to this business increased by 25%, 141% in September last year to 175%, 176% this year.

But the revenues that we are making increased by 30%. The adjustment in fees and the adjustment in commissions that we pay, by the changing of the business model that was originated by the Central Bank of Brazil is starting to pay off now. So, these two items, when we exclude it, we could see that our administrative expenses apart personnel and the items that are driving the revenues and businesses, that they have remained stable.

Other recurred income and revenues, they have been impacted by two different reasons over the last quarter. First of all, the huge FX variations that we saw, almost 30% from June to September this year, impacted positively when we have to recognize equity gains coming from the equity of our two branches abroad, in Miami and the Cayman branch.

These two branch together represents about 5% of Banrisul's equity. So it's a tiny proportion that has not any type of higher hedge, and is subject them to the variation of foreign exchange, especially when there is a risk of overshooting the more impact in terms of positive for the Bank.

The second and most important item that impacted recurring income in this quarter was the gross revenues that were produced by the repurchase tender of the bond, US\$249 million that we bought at the end of September this quarter.

This produced more than R\$170 million in terms of gross impacts that when we adjust to the market, the market at this point to the dismantling of hedging and derivatives contracts has impacted net our income by R\$55 million.

And this is demonstrated in the very next slide when we present both our recorded and recurrent net income that were adjusted by the impacts of the increase of the CSL effects, by the extraordinary expenses related to the retirement plan and also by the impacts of the those two items that have impacted, and we can discuss going forward. I don't want to expand a little more than we already have.

Total assets increased almost 11%, reaching R\$65.3 billion. Our security portfolio reduced in this quarter by 14% in which Banrisul paid in full the two-year tranche of our bank notes that were due August this year. We paid the partial repurchase of the bond and also there has been an increase in terms of the reserve requirements that are due upon the increase of our time deposit funding.

Total credit portfolio, R\$31.4 billion, increase of 4.7% year on year, a little less than 1% over the last quarter, Banrisul again is not concerned with growing credit at all. We are concerned with maintaining and preserving asset quality. But it still reserves the participation of ear-market and directed – not ear-market and directed credit. Directed credit represents a little more than 30% of our total loan book.

Provision expense, again was mentioned that it has increased on account of the growing overall credit portfolio by raising levels and the impacts of the NPLs it has now increased the highest level ever at Banrisul, almost 7% of our total credit portfolio.

In terms of the credit portfolio, we believe that it's worth taking some time to explain the impacts or the potential negative impacts that we were trying to explain over the last quarters, coming from payroll loans with civil servants from the state of Grande do Sul.

Payroll loans represent 75% of our loans to individuals or 30% of our total loan book. Loans that we have produced with civil servants from the state of Grande do Sul, R\$2.9 billion, since 9% of our total loan book, 30% of our payroll loans book that we produced and 60% of the loans that we originate through our branches, they were not impacted in terms of increasing NPLs from the pay roll being paid by the state of Rio Grande do Sul to its civil servants in installments within the very next month. It had occurred in two different months since August, but it was not representative of the increasing NPLs, neither deteriorating credit portfolio. This will be represented further.

Our funding base distributed by the various products that we have, shareholders increasing almost 13% year-on-year, R\$6.1 million at the end of September. The main structural numbers for Banrisul, perhaps the one that we have highlighted the most is the negative increase that we saw in terms of the NPL increasing from 3.7% to 4.5% related to 90-day past due credits and from 4.3% to 5.3%, the 60-day past due credit. Coverage ratio etc, we can discuss if you want to, but more important I would take some time trying to explain is where the NPLs are coming from.

Our overall NPLs have increased from 3.5% in September last year to 4.5% this year. NPLs from the individuals segment have remained stable at 3.3% at the very last 12 months and with a slight increase of 20 b.p. over the last three months. But it has grown upwards the NPLs and default rate of Banrisul is the corporate sector.

In terms of Individuals, this 3.3% stable NPL rate was not impacted anyhow from these payroll loans that we originate with civil servants. We have seen that it has actually improved. It was 1.25% as of September last year to a little more than 1% in September this year, even considering the fact that this may take two different parts installments the payroll for public servants. It has not impacted, and I would like to our asset cost.reemphasize that, it has not impacted the formation of the NPLs and the deterioration

Company segment is a completely different story, that is coming from a more challenging environment in which the economic crisis will take longer than expected in previous years to solve. Mr. Hingel was just mentioning in his opening lecture, but we have seen that this has come from corporate sector, in which NPLs skyrocketed from 2.6% to 5.5% in only 12 months.

It has, again coming from a more challenging environment and also from the fact that in these segments, we have seen an increase in terms of judicial recovery protection, factors impact out of Chapter 11 impacting the NPL and more importantly, the cost of the credit coming from this sector.

Chapter 11 issues in Brazil, they had a number of total demands or total request by companies. As of September this year, they are more than what was produced in Brazil over 2014 as a whole. So, this has had a huge impact, not only in terms of increasing and deteriorating our asset quality, but require that Banrisul provision accordingly to what has happened.

The last few slides of our presentation is related to the adjustments to our guidance that were corrected by reflect the new level of cost of credit that we are now expecting. We have changed the range from at least the top end of the range from 3.5% to 4.5% to try and reflect a more, again, difficult, harsh environment.

I don't know if Mr. Hingel would like to make any remarks before we go to Q&A. If not, we can start Q&A immediately.

**Ricardo Richiniti Hingel:**

OK. We can start it.

**Alexandre Pedro Ponzi:**

OK. Let us go then to Q&A session, please.

**Guilherme Costa, Itau:**

Good morning, guys. So, my first question is about the NPL ratio of the individual segment. Do you expect a further deterioration going forward? And moreover, regarding the NPL ratio of the payroll loans, do you expect this NPL ratio to continue to flat going forward?

We saw that the NPL ratio of payroll loans was flat in this quarter and improved in comparison with the same period of last year, and I want to know if you expect the NPL ratio of payroll loans to continue flat looking for the next quarters?

And my second question is about the JV with Icatu. Could you give us some color on how much do you believe this JV will contribute to 2016 results? Thank you.

**Alexandre Pedro Ponzi:**

As a matter of fact, we are not concerned at all with the fact that the payroll loans would be further impacted in terms of provision causing some rather secluded safe type of portfolio, because we only originate payroll loans to civil servants, regardless of the distribution channel, from our branches only to customers of Banrisul, which are most civil servants from the state of Grande do Sul or local municipalities that are existing within the state with a correspondent bank called "Bem" we originate through INSS retire retirees and pensioners and to civil servants from the federal government.

We have not been operating with segments in terms of payroll loans that could be impacting both by compressing spreads and secondly most by increasing NPLs.

In terms of payroll loans, it's not a point of concern. Neither coming from those – these installments that we are serving the payroll loan of the employees of the state government themselves, they were not impacted. Overall credit to individuals. It is a point of concern because part of our customers, a huge part of customers is not related

to civil servants. We do operate with the private companies' employees or to other individuals that are not any way connected to the state.

But for this, our credit system using behavior in credit perimeters, it limits our exposure. It tends to increase a little bit going further. If unemployment rates in Brazil spikes, of course, this could be a trend. But then there is a limited exposure individually in terms of the credit that we established for each and every individual as a whole. And second, in this segment, the spread that we charged, they actually serve quite as a buffer that will compensate and offset part of any increase that will eventually come from a more difficult environment in Brazil, in terms of increasing NPLs with individuals alone. But we have to separate two different types of portfolio.

Payroll loans is slightly that it will not increase as much as we already have impacted the NPL. Other customers, other individual customers, eventually, yes, it could increase, but then we are more comfortable because we are not too expose to leverage in this segment, as we could have been in terms of credit reporting, especially for this.

The other question is, you wanted some colors on the JV with Icatu, isn't it?

**Guilherme Costa:**

Yes, that's correct.

**Alexandre Pedro Ponzi:**

Well, Icatu has been a partner for more than ten years currently. This partnership has helped increase the fees that we receive in terms of the commission that we receive from just promoting and approaching insurance companies with our customer base

At the end of September, we had more than R\$100 million in fees coming from this segment alone. For 2016, going further, what's the strategy for the business? It is now that we would take advantage of having a huge number of customers that are not still cross sold as it could in order to offer together with Icatu now for a company that we have stated it, to not only receive fees, but also to obtain the gains that will be produced by the company in relation to our shareholding, 49.9%.

So, it has a strong potential to just by benefiting from the number of customers that we have, through now, the more effective power distributions, only insurance and pension plan products.

Other types of insurance, Banrisul operates with different partners, and they are parts of our strategy of originating fees. But in terms of paying equity gains, will come from this JV alone. But the potential is increasing.

**Guilherme Costa:**

Perfect. Thank you.

**Carlos Gomez, HSBC:**

Hi, good morning. I wonder if you could give us some long-term deal for where things are going? Specifically after growth recovers after things start improving, what are the aspirations of the current management by, let's say, at the end of the current term?

Where can, under normal circumstances, Banrisul be in terms of growth and in terms of returns? What do you aspire to be in the Bank? Thank you.

**Alexandre Pedro Ponzi:**

The strategy today is growing credit. When we see the Brazilian economy in recession, and the recession will continue at least for one more year, what can we do? We need to protect our portfolio of spreads and the way of business not going.

We know the strategy of the bank today is not to grow in the credit, even we are sacrificing parts of the results in the future, because it's very easy for us try to grow in credit, we will collect revenues in the short term, but we know the quality of that trend might not be good in the future.

That's why we prefer trying to be very conservative through hiring new credits, we are raising the spreads of the bank that you can realize this in our results and we are readily growing in the revenues from credits and the spreads for the merging of the credit operations are growing because we are reclassifying the cost of credit as important highlights, we did six movements in 2015, growing the cost of the credit. But we need to renew the portfolio to collect those benefits.

We believe the strategy is to be conservative, very conservative in credit, even, I highlight again, not growing in credits in Brazil today is not good growing credit. The demand for growing credit is good today, if the bank wanted to grow in credit with the conditions, that the demand that exists, but the quality of that demand is not good. That's why we are very conservative in our strategy to build a new credit portfolio.

And that too with the evolution of credit you will notice in the future, we will not grow, we will grow at around the average of the markets, not more than that, I am talking about Itaú, Bradesco, even Santander that will not grow in the next month and due to the situation in Brazilian economy getting better, because today, in our view the scenarios will not be recuperated until the end of next year, I'm talking about the last quarter of 2016, that is until we will go with the bad conditions in the market and we prefer, to not grow in credit, keep charging more in interest rates that we are working, recuperative margins, changing margins for growth in credit.

And this is the strategy that we are working with. That said, we will not surprise the market in a different strategy. We are telling the world today about the quality of the current portfolio of credit that we have, because we are realizing the problems of the provision, the level of provision the NPLs of the bank and even the write-off that we need to do.

This is, luckily we are lending now, but we will not change, this is important. Before that meeting I was reading the reports of Banco do Brasil, it's not very different, what happened in Banco do Brasil and here in the Bank.

The control of the credit here and we believe we are more conservative than Banco do Brasil in credit. But the way of the bank is to continually try to increase revenues from insurance and the card and the payment of our credit card.

And that is the ways of the bank, but we assume today we will not grow in credit. Even certain parts of the revenues of the bank from the credit because we believe that if we grow in credit much more than we were doing, the future effect should be very negative. That actually summarizes the strategy.

**Carlos Gomez:**

And if I can ask, has the competitive environment in the payroll loans business changed at some point, one of the public funds have entered very aggressively. Your market has that behavior, the strategy change or it remains the same?

**Alexandre Pedro Ponzi:**

No, the payroll is, in part, what we understand is a positive segment that we can continue working. The payroll having problems until today and it's important, when we're talking about the negative response of the economy, one problem that we have to assume in the future is the level of employment, and employment must grow in the future.

And then in that segment of the private pay rolls is where we can have some problems. Now, the concentration of the payroll is the public pay roll, where we have the stability of that employees, and we continue working on this because they have no significant problems in NPLs of that pay roll from the public servants.

We concentrate in public servants in this state and INSS is a very important participation that we have in our portfolio, even the federal employees and the

municipalities' employees. And that's why the table is different than we have today, it is not significant, our preoccupation about the debt segment.

And it's important and individuals is a very important participation, around 70% is payrolls. Yet it's not where we are, actually today is basically in the corporate segment. The corporate segment is where we are collecting high NPLs and provisions.

**Carlos Gomez:**

Thank you very much.

**Alexandre Pedro Ponzi:**

Carlos, just a remark in terms of your question.

**Carlos Gomez:**

Yes.

**Alexandre Pedro Ponzi:**

All this has not changed in the competitive environment that we have seen also in terms of our payroll loans over the last two years. It has been a very competitive market, but it's been brought some discussion over fees on our case that this was the position that it would be recorded by that is still coming from the payments install of the payroll of the state.

Apart from that it's a very important strategy for the industry to keep on growing. We have not changed our credit policy to payroll loans as a whole. There is a potential positive impact coming from the fact that commissions have now been adjusted to a new environment and also from the new rates that could be charged from October onwards in terms of the production of payroll loans from INSS and banking

correspondents as well. They will have to wait until the portfolio is reprised and redeemed.

**Ricardo Richiniti Hingel:**

And the good news very recently, the INSS, the Brazilian pension fund increased interest rates.

No, not SELIC. Because they are working within the limit to 2.14% and now it's 2.34% and it's important to establish the strategy of that portfolio, because when they defined 2.14%, the SELIC rate in Brazil or CDI was around 7.25. Today is the SELIC or the CDI is close to 14.25 and they are sacrificing the spread of that portfolio, and now we believe that the renewal of that portfolio will give some benefits.

**Alexandre Pedro Ponzi:**

And this perhaps we did not explain as we should have, but it's demonstrated on slide – just let me go back to that one – it's slide 12, in which we present that the portfolio of credit that is originated with this specific distribution channel increased by 18% year on year.

The revenues or the gross revenues that Banrisul received increased by 30% and the commissions or at the total expenses only 25%. Now there has been an adjustment in terms of different types of spreads that we can charge. We have to wait until the portfolio is renewed in order to benefit from new interest rate, but also that would now seize the expenses that we get to support this business has seen adjusted with the new environment.

**Carlos Gomez:**

My original question was more decent and we realized that on INSS you are charging at the limit or what is authorized. It was more in the areas where you do compete where you are charging less than the maximum you could compete whether the behavior of other public funds has changed or not, do you feel less competitive pressure than you have in the past?

**Alexandre Pedro Ponzi:**

Carlos, it's unlikely that each and every bank would be operating at the very end of the range, but we are operating with the same rates or similar rates than what we have seen other banks offering to INSS retirees.

It's closer to the top range of the guidance, but not actually 2.14%. But regardless of the interest rate themselves, what we have seen that they are now being changed in turn to entering a new range and we will be benefiting accordingly. But in terms of competing with other banks as well in order keep on producing at the other interest rates and better spreads.

**Ricardo Richiniti Hingel:**

But I believe the market will work very close to the top of the interest, because demand of the several banks that were working in the bank in that market were asking around 2.48%, the new interest rate, and the INSS gets only 2.34%. And I believe that the banks will try to recompose the spreads that are lost, remembering that we banks, we lost 7 p.p. in this spread,s since the beginning when the INSS defined it 2.40%, the

SELIC rate was 7.25, today it's 14.25 that is a 7 b.p. in the difference, and the recognitions that INSS has done is not the 7 b.p.

But that's why talking about the demand of the bank and what INSS allows, it's not enough to recompose the whole spread that the market was working in the beginning. We believe all of the banks will work very close to the top of the interest rate. We will continue following the market and we continue try to gap or keep the competition.

**Operator:**

As there are no further questions at this time, this ends the Q&A session. And I would like to turn the floor back over to Mr. Hingel for his final remarks. Please go ahead.

**Ricardo Richiniti Hingel:**

Okay. Well, thank you very much for your patience, and now we are available for other information, or other details about our presentation and our area is always open to arrange new calls or new presentations to answer your doubts. Thank you very much.

**Operator:**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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