

**Operator:**

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 4Q15 Results Conference Call. Today with us we have Ricardo Hingel, CFO and IRO; Werner Kohler, Head of Accounting; and Alexandre 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 conference call, please press \*0 to reach the operator.

The audio and slide show of this presentation are available through a live webcast at <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 and 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 conditions 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. Please note this event is being recorded.

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

**Ricardo Hingel:**

Good morning for all. Thanks for your attention. And soon we will make the presentation about the results of the Bank, but there are some considerations that I would like to do.

The last year was a very difficult year to work in Brazil. The economic and political environment was a very hard environment to work. The problems in our economy have a very huge impact in the business of the Bank and the whole system of banks in Brazil.

The main characteristic of that field is the low demand of credit and the quality of credit. The recession and the duration of that recession in Brazil impacted the quality of the credit and the quality of the demand of spread in Brazil. The whole banks are showing the results and the result is bad, the deterioration of the quality of the credit, and they are forecasting the continuation of the deterioration of the credit.

If you analyze the main banks that just issued the results or guidance, it will be very similar to what we have here. We are continuously concerned with our strategy, we try to set a very hard strategy for 2015 and 2016, because we understand the recession in Brazil will continue in 2016.

When we compare the results of 2015 and 2016 in the performance of the GDP, the Brazilian GDP, we will be close to 7% of the reduction of the GDP of Brazil, it will be close to 7%. Of course, that impacts the results of the cash flow of all companies in Brazil or even the population of Brazil.

And that impact we collected in the NPL at the level of provisions that we had last year, and the strategy and the policy of the Bank for 2016 consider exactly the same environment that we had last year.

We have a new decision of the state to sell or to charge for the rights to explore the payroll of the state employees, that is new. We are now allowed, the state just sent for us the letter informing if we are - interested in opening a negotiation about this, we have 15 days to say if we want or not. Of course, we will inform the state that we are interested to start a negotiation to buy the rights to explore the state payroll.

And in the next month, it is important to consider, we just started the process to make evaluation of the business, and even the legal effects in our business and in our relationship especially with our shareholders. It is important to consider, we hired four big companies to make an advisor for us in that negotiation, especially to define the valuation of their business, and we hired two important Brazilian offices of lawyers specialized in that kind of business.

This is exactly to guide us to make a very perfect or try to purchase the perfect business, including economic, financial and legal effects of that business. And we forecast we will only finish that negotiation between April or May in 2016.

We are only in the beginning of the research, we do not have numbers to show about that negotiation. The state did not present for us what they understand is the correct value, what they want about their negotiation, and we do not have the numbers.

The numbers will be finished only when we conclude our studies, and I highlight we are at the beginning of this, and we do not have any one number to show to the market, but we are informing the market step-by-step of our negotiation. It is very important, we will be very transparent about the steps and the conditions that we will do or not do, that negotiation with the state.

Now, I will pass to Alexandre to show the presentation of the main numbers of the Bank, the main results, and then after we will be available to the Q&A. Thanks very much for your attention.

**Alexandre Ponzi:**

We will continue with the slides, and I am not planning to go through each and every one of the slides, but just the major points that most affected the formation of our results for 2015.

First of all, we are talking about in terms of NII and NIM. We have seen that both items have increased, almost 17% increase in terms of NII and an increase in NIM as well, NIM 7.7% for the whole year, 8.32% for the last quarter of 2015.

This was only possible on account of several movements that Banrisul did throughout 2015, such as, we repriced our credit portfolio six times already in 2015, one at the

beginning of this year. We do not believe that there will be room for increasing interest rates going forward, but we do believe that there will be a positive impact in terms of NII and NIM, given that credit portfolio that tends to grow up to 4% at the most, this is our guidance from 0% to 4%.

Even so, when we hired new credit transactions, they will be done in different levels of rates. Therefore, we do expect that this, together with the fact that we have been able to control our funding cost and, most important, change for the better the mix of our funding sources, we do believe that there will be room for preserving and increasing NII ahead of whatever credit portfolio growth rates we do present.

What was impacted from the full environments, economical and operating environments in Brazil and within the State of Rio Grande do Sul last year, and that shall go forward in this year as well, was recorded in terms of cost of credit. Our provision expenses in 2015 grew almost 98% vis-à-vis the number of 2014, on account of several issues.

Again, this full macroeconomic environment, the fact that the State of Rio Grande do Sul sort of anticipated this impact, the industrial sector in the State of Rio Grande do Sul, for instance, has fallen almost 12% vis-à-vis last year, and in some different sectors, such as metal mechanic companies, vehicles and furniture, we have seen drops of 26%, 33%, 13% within the industrial sector in State of Rio Grande do Sul.

This has contaminated all other sectors of the industry, this has affected the formation of NPLs; and more importantly, together with something that was increasing at a higher pace last year, and also changed a little bit the mix of the companies, which is chapter 11 issues, those several items negatively impacted cost of credit for 2015. Chapter 11 issues, particularly the increase in the State of Rio Grande do Sul by 80%, 60% in Brazil, and we have seen that the mix of companies that are pursuing this type of fiduciary protection has changed.

It was in the past for large companies and instruments suitable for large companies, we have seen there are also corporate segments are filing for chapter 11, on account, again, of this recession that will go on in Brazil at least for 2016.

On our own sake, we do believe that the impact we have seen in terms of provisions tends to diminish because we have recorded mostly of whatever impact. There will be a carryover effect going forward at least during some parts of 2016, but we do believe that the numbers that we will record will be lower than what we had presented so far and this is included in our guidance.

I will now go through the funding, not talking about the gross profits from financial operations, but funding is a more important issue for us. We have been able to maintain — in an environment in which the selling rate increased throughout year — and even to improve the cost of funding.

We have reached a little less than 80% of the Selic rate, our total funding, and we have maintained with an increase of only 2.25% the cost of the time deposits in which we compete with the other banks for this type of product that has grown 21% year-on-year with a balance of more than R\$27 (14:02).

This has come totally from our customers and the fact that we have been able to change the mix of our funding sources by buying back part of our subordinate debt by

not renewing one banking note that was due in August this year, in favor of maintaining a very positive cost of funds, again, contributing to the guidance of NIM and to the formation of revenues for Banrisul.

One other item that has been very positively impacting our numbers is banking fees. Banking fees grew almost 21% year-on-year, 8% in the last quarter alone, and they have been driven by card business in which the fees increased from R\$330 million in 2014 to almost R\$460 million, 39% increase and in addition to insurance business. Insurance business increased in terms of the formation of fees at the same level of the card business 39%, reaching R\$170 million in terms of fees last year alone.

But more importantly than the number itself is the fact that there is room to increase and to perform commercial — the number of active transactions, insurance transactions that we have, increased only 8% in 2015. There is a lot of room for us to better explore the customer base that we have, and that was the fundamental, the ground basis of the process that we concluded with the joint venture with Icatu. So, there is room to increase at the same level 20% and 20% plus fees base for next year.

Just to prove what I just mentioned, we have presented now what is the result of the acquiring network called Vero, in which we have increased by more than 15% the number of affiliated merchants that is connected to the acquiring network. And more importantly, we have been growing steadily quarter-on-quarter the number of transactions and the amount that has been transacted within this acquiring network. Year-on-year, we have seen increases of more than 30%. And this is the guidance for this year as well.

On the other hand, these items, they have had some impacts in terms of the formation of our administrative expenses. We have presented here the recurring ones in which personnel, plus administrative expenses, increased 10.6% year-on-year.

Personnel, when we exclude, they increased by 11% on account of the wage renegotiation as of September this year, 10% increase and the fact that Banrisul has changed the risk sharing of supporting complementary pension plans, especially from the defined benefit to the variable contribution plan that occurred last year.

It has altered the formation of our personnel expenses, but they have been growing in line to mostly to wages negotiation. We expect a positive impact next year coming from the fact that the headcount will be reduced, 470 employees left Banrisul or will be leaving Banrisul on account of the retirement plan that we just concluded last year.

And there will be a positive impact in terms of personnel expenses, even if we do hire a certain number of employees coming from the tender that we concluded, that will enter at the a very low position and will contribute to the formation of revenues for the Bank.

Out of this, other administrative expenses, they have two different behaviors and we have to separate them. If we just take the part that is related to maintaining Banrisul's core business, it has increased only 3.7% below any inflation index, any other price indexes in Brazil.

But if we do separate two expenses or two investments that we make in terms of the costs that are there to support business opportunities that are contributing to the formation of results, this item altogether increased a little less than 10%, below inflation in Brazil, but again, at almost two-digit growth.

It is on account of what, the expenses that we have to support the card business in which we pay both for processing the transactions, and I mentioned the transactions grew 31%, and also we pay the interchange fee to the issuers of the cards that we have captured in the acquiring network.

We also recorded under administrative expenses the commissions that we paid to banking correspondents on account of the origination of payroll loans outside the State of Rio Grande do Sul, outside of our branch network and mostly not done with customers.

This portfolio that is produced by our affiliated company called Bem, increased 8% last year and the expenses related to this business increased from 213 to 223%. But the gross revenues that we made increased from R\$500 million to almost R\$640 million. So it is a huge increase and these two drivers, both cards and the banking correspondent, are there to stay and therefore Banrisul will be recording according to the expenses that are related to this business.

Other income and expenses, operating income and expenses, they have been growing on account of mostly from the impacts of the foreign exchange variation in the equity of our two branches outside Brazil. We dealt with one increase of 47% in terms of the USD vis-à-vis the BRL last year and this has had an impact in terms of our other operating income and expenses. In the 3Q, we had a very strong and positive impact from the tender of the subordinate debt.

We have delivered in terms of our accounting net profit R\$848 million, R\$849 million, increasing from the R\$691 million last year. But if we just take the recurring numbers, they are very similar this year on account of the huge impact of provision expenses in terms of our operating trends.

Again, the key driver for preventing Banrisul from reaching higher net income was the fact that provision expenses increased almost 100%, therefore, completely impacting whatever major positive changes we have done in our financial and banking revenues altogether.

Assets have increased 12.4%, R\$66.9 billion at the end of this year. We have still maintained, even though with the payment of the bank notes, local bank notes, with the payment of part of the buyback program of the bond and with the increase of deposit of Central Bank coming from the reserve requirements for deposits, even though, we have been able to maintain a very strong liquidity base that is presented in terms of our securities portfolio.

Credit portfolio grew 5% year-on-year, 2% in the last quarter alone, reaching R\$32 billion, a little over R\$32 billion. This increase in the last quarter was impacted by the fact that we were able to finance the year-end bonus for civil servants of the State of Rio Grande do Sul, R\$860 million plus in terms of a new credit portfolio that has not impacted margins, but has helped increase a little bit part of our credit portfolio.

And this number is being recorded under other types of credits to individual. This is the main reason why payroll loans have been reducing their share from 75% in average to 72% this quarter, only on account that we recorded under other credit to individuals, so, financing of the year-end bonuses.

Our funding base and assets under management is presented mostly for the understanding of how the mix is comprised of, and, more importantly, we have been able to grow 8%, twice the amount of the credit portfolio mostly from our branch network. Net income R\$6.2 billion, increase of 9.5%, after the distribution of interest on capital and dividends that we paid. More importantly, then the numbers themselves is to present the main financial status on Banrisul.

We have been able to recover part of our coverage ratio, both for 60 and 90-day past due credit. Return on equity for 2015, as a whole, reached 12.8% behind 2014. But we do believe that there may be room to increase and to deliver the guidance of 14% ROAE this year, even though this is a very challenging one.

We have maintained asset quality at the levels of the previous quarter or performing positively vis-à-vis September, when we reduced from 4.47% to 4.32% in 90-day plus NPL ratio. In this case, we are including the portfolio of a year-end bonus that was produced by the end of December.

If we exclude this portfolio, even though there will be a positive performance of NPLs, they would have reached 4.42%, similarly to what we had in September, meaning that we understand that any impact in terms of NPL formation tend to be more modest than they were throughout 2015, which they were impacted by macroeconomic issues, by judiciary recoveries of chapter 11, and by the fact that we have seen that credit to corporates were the mostly impacted.

We started to present an evolution in terms of the efficiency index. We improved from 55% to a little over 50% this year and fees now cover almost 90% of our personnel expenses. We have, in this scenario, maintained capital base, total Basel of 17.8%, core capital 14.8%, a reduction in terms of the number of employees coming from the fact that those who left Banrisul on account of the retirement plan started to leave by the last quarter. So we saw a reduction from September as well, and we have maintained our service network.

In terms of our NPLs, in which we were mostly impacted and we are trying to present from the factors that this NPL formation is coming from, we have seen that there is no concern whatsoever in terms of the NPLs from individuals. They have been improving each and every quarter, even considering the fact that unemployment rate tends to increase.

We do expect a 2% increase in unemployment rates for 2016, on account of the fact that our individuals' portfolio is a safer one, mostly in terms of the fact that we deal with payroll loans. Also, the 25% of the portfolio that is not related to payroll loans has interest rates that support part of the risk that is evolved. Therefore, mitigate most of these negative impacts that are yet to be seen.

But in terms of the corporate segment, we have seen a huge increase of NPLs from 4Q14 to 4Q15, but they have sort of stabilized from September to December and this is the trend that we expect that will be produced going forward.

This is why we do expect that cost of credit tends to be lower than what we produced last year, but it is still ahead of our historical numbers of mid-way from 3.5% to 4.5%. We were always close to mid-way or the bottom line. Last year we did presented numbers that were historically high, but we do believe that this number tends to come through a less negative base, which is producing the guidance that we have released.

Out of all the changes that we make, and adjustment to the guidance to cope with the current environment, I would say that the most challenging one would be ROAE. We are expecting ROAE to increase from 12.8% to 14% on account of several issues, on account of a less negative performance of NPLs and, therefore, the cost of credit, and from the fact that there is room to increase fees and also to preserve and still increase NII for the time being.

It is necessary to say that this guidance was produced and delivered not considering any impacts from the fact that Banrisul will restart negotiating the payroll loans with its controlling shareholder, the State of Rio Grande do Sul.

Whenever we do have numbers to present to the market, concerned with the fact that there will be some impacts on Banrisul, and that we are mostly concerned with the transaction with the related party and the corporate governance that is involved, the guidance maybe reviewed, but this disclaimer has to be done.

With this, we conclude the presentation of the slides. And now I will turn the floor to Q&A session.

**Thiago Batista, Itaú BBA:**

Thanks for the opportunity. We have discussed during the Portuguese conference call the asset quality evolution of the Bank. But my question is, in terms of your guidance of some contraction level of provisions, how much are you expecting in terms of NPL ratio in the end of the year? How much devaluation are you expecting? Is something similar to last year when delinquency ratio went up 100 b.p. or is less than that?

And the second question, if you could provide to us the numbers of state civil servants with bank account in Banrisul?

**Ricardo Hingel:**

The level of delinquency, we expect that to have a good response about the strategy that we are doing. It is important to consider that we have a very difficult environment, the economic environment in Brazil in 2015, and that impacted directly in the quality and the risk of the bank portfolio for the whole banks. We are in the same ship, as we say, of the banks.

The cash flow has impacted because the sales are going down of the companies, the capacity of payments or the payback of the companies has reduced last year, and that is why the NPL was very bad for us or much higher than we expected last year, but we expect that to make keep the same level, because we just adjusted the price of the Bank. Actually we are reducing the real value of the credit portfolio.

If you want to consider that we are growing, for example, our forecast for 2016 growing in the limits only 5%, 5% is only a nominal value or nominal growth, it is not a real growth. So actually, when we talk in Brazil grow 5% nominal, and we are talking that in a more real reduction of the credits, around 20%, 20% negative is the real evolution of this.

And why that reduction? Because we are trying to get more quality in that portfolio. We are demanding more guarantees for new deals with the reduction of the credit that we are operating. We are making a movement to reduce the limit of risk of the companies. The whole movement that we are doing, and we expect to have a very good response of this reduction or at least keep the same level that we finished in 2015.

Another thing is when we renew the portfolio, that renew is more selective and we understand we will collect more quality of this, and we are trying to reduce the level of risk. But one thing we need to consider, the recession in Brazil did not finish, it will continue in 2016.

That is why it is not very easy to reduce the level of provision. But we consider that in the corporate segment, we are close to the limit of the this, but we one thing that concerns us now is the personal client of the Bank, because the unemployment rate that we expect for 2016 will be higher than 2015.

That is one thing that concern us in 2016, where we can have an increase of the NPLs or level of provisions. But this risk we understand is more controlled because a significant part of our portfolio is represented by public employees and the payroll loans where the risk is very, very low. Alexandre will complement.

**Alexandre Ponzi:**

Yes. When we see specifically in NPL ratio, we have to see the rollover of this portfolio, and the write-off that we will have in this year about the delinquency portfolio that we had last year. And we think that the new delinquency portfolio will not be higher than what we have now in our portfolio. Then we think that this movement of write-off in new credit portfolio, delinquency will be continuing in this level or maybe better than now till the end of the year.

**Ricardo Hingel:**

And just to compliment Alexandre, there is another point. I mentioned that we are expecting that if there will be an increase in terms of NPL, it tends to be modest in relation what we have. First of all, on account of comparison basis; secondly, and more important, we have adjusted our credit origination in order to cope with the difficulties of companies and individuals alike.

Therefore, new credit tends to be of a safer quality position to the ones that are still within our loan book. And we are to expect them to be renewed on account of the duration of the portfolios are completely written off.

We saw an increase of 32% of NPLs on 90 days came from 3.4% to 4.3%. It was a huge increase, but mostly we assume that this has been already impacted in our numbers and therefore, any increase tends to diminish for the time being.

And also, even if NPLs increase, there will be with different impacts in terms of the formation of cost of credit. It is not only NPLs that we are concerned with. We were mostly impacted on account of provision expenses.

Our guidance for 2015, we had an expectance that this number would have been closer to 800 million, 900 million for the whole year. It was almost twice that number. If we exclude that, and we were able to deal with that and the fact that we believe that we sort of behave in advance in relation to other banks in terms of the provision of these expenses, our bottom line would have been closer to R\$1 billion.

This is the driver that will most impact the formation of our ROAE for this year. How cost of credit will behave and this cost of credit is still suffering from our older vintage of credit that are still active within our loan book, not impacting NPLs any longer, but impacting the cost of credit itself.

**Thiago Batista:**

Just some point on the provisions. What is the GDP that you are using in the budget? And then I do not think you answered the second question about the number of civil servants in Banrisul.

**Ricardo Hingel:**

Let me see if I understand your question. You wanted to know what was the GDP that we have included in our budget?

**Thiago Batista:**

Yeah. This is only to complement the first part and then the second question I did was the number of state civil servants in Banrisul.

**Alexandre Ponzi:**

We were impacted, calculating with the GDP of 2.5%, 2.6% the negative one when we did. And it tends to be more difficult to deliver this number, because the expectation is that GDP will be lower than 3% for the whole year.

You mentioned the civil servants of the state. We have more than 311,000 tax payers individual numbers included in this list. This is a very representative part of our clientele, also in terms of our first lien credit, but if we take payroll loans alone, we have about two-thirds of whatever that this type of customer takes.

One-third is given from other banks. So that is why we have been included in the assessment of this portfolio before we present any numbers both to the state, given the communication that it has delivered. Banrisul has 15 days to produce an announcement.

More important to the market, in order to defend ourselves and to prove that the number that we will be dealing with tends to be one that can be justified for both in terms of investment and, more importantly, in terms of dealing with the related party, we are trying to analyze what is the whole business that Banrisul has before we do put any number on it.

But it is a very important part of our business, our customer base, about 10% of the number that we have. But for the time being, it is a portion, it is a share that we are not willing to let go without doing whatever we can to preserve and to maintain business as it is.

**Thiago Batista:**

Thank you, Ponzi. Perfect.

**Operator:**

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Hingel for any remarks.

**Ricardo Hingel:**

Thank you very much for your attention. Now, just to consider that we are available for the next talk, if you want to make any questions for us, please ask us or call or even send us emails. That is our interest to send you the whole information that you need. Thank you very much.

**Operator:**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's Investor Relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript."