Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 4Q18 results conference call. Today, with us, we have Júlio Francisco Gregory Brunet, Chief Planning, Service Channels and Investor Relations Officer; 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 session. At that time, further instructions will be given. Should any participant need assistance during this 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, 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.

Now, I would like to turn the conference over to Mr. Júlio Francisco Gregory Brunet, Chief Planning, Service Channels Officer and IRO, who will start the presentation. Mr. Brunet, you may begin the conference.

Júlio Francisco Gregory Brunet:

Good morning, everyone. Thank you for your participation. Mr. Ponzi will present the main figures for us. Thank you.

Alexandre Ponzi:

Hello, guys. We start with our net income. We are glad to see that in terms of our reported and recurring net income, we have seen a flat line from last year 2017 vis-à-vis 2018, in terms of reported ones.

Considering that 2017 net income was impacted by tax credit coming from the economic plan called "Plano Verão" in Brazil and also the final agreement for the distribution of savings bonds. Those two factors have positively impacted 2017 numbers by roughly R$310 million.

But if you take just the managerial numbers, we have seen an increase of almost 25% vis-à-vis last year, in which we are not including our sub incentive for employees leaving Banrisul upon retirement that occurred both in 2017 and 2018.

Therefore, we are more than satisfied to see that whatever strategies that Management has put into practice over the last year is now paying off a 20% increase, almost R$1.1 billion in terms of net income. It is a very strong one.

In margins, we have reached NII of R$5.7 billion at the end of 2018, an increase of 9% over 2017 numbers. And in terms of our net interest margin, we have an annualized of 8.5%, within our guidance for last year.

We have seen an increase in terms NII last quarter, on account of the recovery of the write-offs coming from our credit portfolio of companies, which has helped to increase margins in the last quarter alone. But, then, this impact was offset by the recognition of provision expenses mandatory upon this type of transactions. Whenever a write-off transaction is recovered and included in our balance sheet, a similar and same-sized provision is to be recorded.

In expenses, the flow of last year decreased by 11% vis-à-vis 2017. We have reached R$1.3 billion roughly against the R$1.44 billion we had in 2017. And provision expenses for 2019, in relation to the credit portfolio, reached 3.8%. We are now returning to our historical numbers, below what we have seen over the last three years, in which the economic environment hugely impacted Banrisul in terms of the recognition of provisions.

And if we take out the effects of this recovery in our provision expenses, the trend for last quarter in recurrent items and numbers would be similar at least to what we had in the 3Q– R$240 million or R$250 million per quarter in terms of recurring provision expenses.

Our deposit base has increased 9.5% in the 12 months, driven by time deposits, which is our main and most important funding product. We have been able to maintain funding costs below 89% of the CDI Selic rate. And more importantly, that is a slight change in the trend of the loans to deposit ratio, in which we are now using the liquidty that the Bank has into the formation of credit assets.

The implication of that is that we are seeking at least to maintain margins as they were, because we assume that the cost of funding will be not altered throughout 2019 as a whole.

Banking fees, on a very positive trend, almost 11% growth year on year–10.6% was the final result. Almost of R$2 billion of fees that were recorded for the Bank, and deposits increased 10% over the last quarter.

So, this is the trend for this year, still driven by MDR fees, or fees that comes from our acquiring network. But also impacted by sales fees, the selling of insurance in saving bond products and other initiatives.

Our base of cost at least in expenses has increased, in accumulated terms, a little less than 5% in the whole year, vis-à-vis the previous one, impacted by two different reasons. First of all, personal expenses – the recurring one. In this item, we are not including about R$86 million that will be used to pay employees who are leaving and that were enrolled in the plan for encouraging the leave of employees that should be occurring throughout this quarter with the deadline being March 15.

But if we take only recurring numbers, we see the personnel expenses have increased 6.5% – below the index of remuneration of this item, which had an effective rate of 7.55% by year end – and it includes the negotiation of wages with the union of banking employees, in which we have established the terms of payroll for 2019 and for next year.

So, 6.5% in terms of personnel expenses (recurring items) is a very important driver for improving efficiency for the Bank, similarly to what we have seen in other administrative expenses, which grew by only 3.2%. Eventually, in the future, there may be room for an attempt to reduce these items, because initiatives to improve efficiency, such as digitalization, digital channels and other alternatives will be entering our core business at a stronger pace than it is today.

The net amount of other operating income and expenses is now coming back to the trend of about R$60 million to R$70 million net per quarter, in which we did no see in 4Q18 – the increase in labor provisions at the same pace that we had seen in 3Q. So, this is a positive trend. We had announced that we were not expecting to increase the labor provisions in the last quarter, and the number is exactly what we had announced.

Having said that, total assets increased almost 6% year on year–2.1% in the last quarter alone. Our liquidity by the form of securities now increased at the same pace of our assets, with a slight reduction over the last quarter, which is positive for the Bank, because we are seeking to incentive the formation of more profitable assets in relation to just using our securities to use it in the form of federal government bonds. But it is still a very strong position of R$21 billion – 30% of our total assets – roughly about that number, and we are seeking to use the liquidity we have in a more profitable way.

The credit portfolio totaled R$34 billion, 8.6% increase in the last twelve months, with a strong growth of 7.3% in the last quarter alone. This growth is coming from our non-earmarked credit portfolio, mostly loans to individuals in the form of payroll loans, which grew, in the accumulated figures, 11% in the LTM and almost 10% in the last three months alone.

Total provisions vis-à-vis credit portfolio decreased 6%, and now are responsible for 7.7% of our total credit portfolio vis-à-vis almost 9% that we had 12 months ago.

The breakdown of the credit portfolio is similar to what we had been producing over the last quarters, with a higher share coming from individuals in the form of table loans. Credit to corporations is still being reduced: we have seen the decrease of 5.6% on account of the economic environment, which is still too fragile for us to start producing credit in this segment for the time being. But, in terms of individuals and payroll loans, we have seen a strong increase of 20% in the LTM.

The production that we had coming from our customers, coming from our branches, represents a 23% increase in 12 months, and almost 5% in the last quarter. The use of banking correspondents was responsible for a growth of 20.5% in 12 months, and a strong production of 16% in the last quarter alone.

This will still be the driver for our credit growth in the beginning of this year, but we are still awaiting for a better economic and productive environment that shall eventually arise from those measures that the federal government is trying to pass in the national Congress, especially coming from the pension reform.

Then, we have the breakdown of our funding and assets under management structure. Just to show again what is important is time-deposit for Banrisul. Shareholders' equity of R$7.3 billion, an increase of 3.5% in 12 months, on account of the net income we produced, reduced by the payment and the provisions of interest on capital and dividends, affected by the capital reduction that impacted our equity in the 2Q, as you can see in the slide, and also from the assessment of actuarial deficits coming from one of the post-employment plans we offer to employees upon retirement that has this annual reassessment.

Apart from that, we have been able to see that our capital is being maintained and preserved, in order to make therefore our capital base, which is still comfortable; tier one and tier two capital indexes of 13.5% and 15.2%, respectively.

But, more important than that is that, in seeking efficiency, we have now seen that services are covering more than 100% of our personnel expenses, a coverage ratio of 300%, impacted mostly by the recovery of written-off credits in the last quarter. This is a more volatile index, but it is still a very comfortable ratio for the Bank. 15.3% is ROE, 1.5%, ROA, and 90 days plus default rate of 2.6%.

This is a very strong base, which is linked to the guidance we are producing now. And the guidance must be read differently in each item; it is not like if you would work with an average range of the guidance. For instance, we have a range from 4% to 8% in the guidance for credit, and we delivered 8.6% in 2018, and eventually, with the improvements we are expecting in terms of the market per se, probably the ceiling of the guidance will become a sort of the base for the lower part of our range.

On the other hand, cost of credit is expected to remain at these 3% we have announced, in order to contribute to at least 16% in terms of ROE. Probably those are the main important items that compose our numbers, and we would be better off if we just returned the microphone to you and received the questions from the analysts. Thank you.

Thiago Bensfield, Itaú BBA:

Hi, everyone. Thank you for taking my question. I have just one question, on your credit portfolio guidance. You just mentioned that you expect to reach the upper bound of this guidance, 8% growth. Can you discuss a little bit what is the upside risk to this growth? What are the main drivers that could lead to a surprise to this ceiling of the guidance?

Alexandre Ponzi:

Thiago, you mentioned it correctly. If there is any risk to our credit guidance, it will be an upside one. Why? Because conditions and the environment for production of credit is still too slow to encourage Banrisul to produce at a stronger and faster pace. We have both conditions to grow, which is liquidity in connection to capital base. But we are still awaiting to see how the market will behave, coming from good expectations that will eventually be connected to those reforms that are to be passed in the forms of bill in the National Congress. This is the main driver.

Secondly, we are still growing in terms of our payroll loans. We have made adjustments to our origination base, to our risk assessment base, and we are expecting that credit to corporates will start to pick up. We have adjusted our core business to SMEs and eventually this will grow also at a stronger pace in relation to today.

But given that we expect any improvements in the economy coming from 2H19, for the time being, we choose to offer a conservative guidance that eventually could, instead of trying to present something that will be more difficult to deliver. You mentioned that you have a second question. If you want to ask it, please.

Yuri Fernandes, J.P. Morgan:

Also, regarding the guidance, actually the cost of risk guidance. From what I understood, Alexandre, you are also pointing to the bottom of the guidance. Is there any chance of this being lower than that?

I ask this because when we look to 3Q18, you were running close to 3%. That is the bottom of your guidance. Your level of coverage is much higher today, and I understand that your cost of risk was higher in 2018, mostly because of the recovery of charge-off loans. If you receive some normalization on these recoveries, that I do not know if that is the base case, how likely is for us, investors, to see you running below the 3% of your guidance?

My second question is regarding your tax rate. Given lower income taxes in Brazil, can you give us any sense on what is your effective tax rate for 2019? Thank you.

Alexandre Ponzi:

Yuri, there may be some room for reducing our cost of credit, but we do not see it likely to happen because, first of all, we want to increase our credit assets. Secondly, companies in the mix of SMEs tend to demand slightly higher provisions. We are not connecting the cost of credit with the recovery of write-offs. That is coming from a good and bad environment that will allow us to try and benefit from having write-offs written off, the huge amount of transactions over the last three years. But this will be represented in the form of a more volatile cost of coverage ratio.

But in terms of cost of credit, the renewal of credit, the increase of our credit lines make us feel comfortable with the 3% of a bottom for the range vis-à-vis the expected increase for the credit portfolio.

Eventually, if the conditions are much better than we foresee, there may be room. But for the time being, we prefer to stick to the bottom range being the feasible number, but not an upside risk for better numbers. For the time being, we might as well stay with the numbers we have just produced.

Werner Kohler:

About the tax rate, I think that next year, 2019, we will have a low tax rate. If we compare it with 2018, because of social contribution, it will be decreasing 5%. Last year, we had 2 rates, when we accounted the fare with the tax, we accounted using the new rate–40%– including IR, social contribution and the current tax rate was at 45%.

Next year, we will have the same rate when we account the fare tax and the current tax we will pay. Because of this, we will have better tax rate, but I cannot tell you what this rate will be, but a little below the rate we had in 2018.

Yuri Fernandes:

But do you think 200 bps lower or 300 bps? Can you give us any color on that?

Werner Kohler:

The rate that decreased in the social contribution was 5%, and if we account this in the rate we had in 2018, I think we will have 4%, maybe less tax rate than we had last year.

Yuri Fernandes:

Thank you very much.

Operator:

As it appears to be no further questions, this will conclude our question and answer session. I would now like to turn the conference back over to Mr. Brunet for any closing remarks.

Júlio Francisco Gregory Brunet:

Thank you for your participation. Bye.

Operator:

This conference is now concluded. Thank you for attending today’s presentation. You may now disconnect.