Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 1Q19 results conference call. Today, with us, we have Júlio Brunet, Chief Planning, Service Channels Officer 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 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 turn the conference over to Mr. Júlio Brunet, Chief Planning, Service Channels Officer and IRO, who will start the presentation. Mr. Brunet, you may begin the conference.

Júlio Brunet:

Good morning. Mr. Ponzi, our head of IR, will present the main figures for us. And after, we will respond to your questions.

Alexandre Ponzi:

Let us move on to our net income slide, in which we see that we have had a strong growth both in terms of the recording and the recurrent net income from the first three months of this year, with a growth over the same period last year of 31% and an increase over the adjusted December's of 6.6%.

This is on account of various factors. One that should be emphasized right now is the fact that we have changed the bottom line for the effective tax rate, in which we are expecting that the remainder of the year should be calculated at the ratio from 25% to 28% mostly vis-à-vis over 30% that we had produced in the last year.

This is one of the main reasons, but not the most important one for the production of the net income, which is produced on account of resilient margins, in which we have seen that

NII is similar to what we produced in March last year, and a small drop in comparison to December, in a quarter when the numbers by the end of last year were affected by the recovery of write-off credits, corporate write-offs that produced a strong increase in margins, but also had an impact in terms of increase of provisions in order to offset the bottom line for Banrisul.

This will be present next in terms of provisions, but we are seeing that this resilient margin, similar to what we had in March last year, is also produced on account of an environment in which overall credit portfolio for the bank increased 7.7% year-on-year.

The most important of our segments of credit, which is the non-earmarked one, increased 10.4%. In this segment alone, the driver is still individuals with payroll loans, growing 18% and 23%, respectively, over the last 12 months. And also, we have seen a decrease in terms of the portfolio, the stock of credits to companies reduced by 8.7%. And in terms of working capital, main important credit to company line that we have right now, a drop of 10.5%.

Not only this performance of our credit portfolio was constructive to margins, but they were affected by the spreads and interest rates that we charge. We have informed the market one chart with our average monthly interest rate, in which overall throughout the portfolio, decreases of rates were observed, non-earmarked portfolio, 10% decrease; individual segments, 11.7%; payroll loans, 10.5%; companies and working capital, 10.6% and 12.2%, respectively.

This is why margins are maintained at the same level as they were 12 months ago, in an environment in which credit increased a little bit. The fact that the performance of individuals and the performance of payroll loans has not been able in full to neutralize the fact that we are reducing credit to companies is the reason why NII is resilient. But margins as calculated in terms of NIMs themselves, they are within the range of 7.5% to 8.5% for the 2019 as a whole.

Provision expenses at a very comfortable pace, maintained below R$300 million per month, 3.7% of our total credit portfolio, decreasing 6.4% vis-à-vis March last year, and 37% when we compare to December on account of the fact that we had to book additional provision expenses for credits that were recovered from write-offs, as I mentioned, in order to neutralize the impact that they had in the financial margins.

In terms of deposit basis, again, the driver for Banrisul being able to increase credit portfolio whenever the condition of the market is favorable, we have loan-to-deposit ratio of below 70%, 68% in average; controlled funding cost, 89%, 90% of the CDI; and real increases of 10% throughout of our whole portfolio. Main driver are time deposits.

Banking fees, we have a seasonal effect when we compare margin this year with December last, in which there was an 8.2% decrease, but this on account of the fact that there is poor environment for formation of banking fees in the 1Q19 vis-à-vis the strongest of all the quarters, which is the last one because of the year-end activities and the transactions. Also, December last year was impacted by about R$11 million coming from rental fees from the heavy equipment in one of our subsidiaries.

But when we compare with the production that we observed in March 2018, this 2% increase is on account of the fact that last year we had not changed by March the recording of MDR fees coming from our card companies, coming from our acquiring network named Vero, in which we were booking gross MDRs instead of net, the portion that is belongs to the Company itself. If we were to exclude the numbers of the 1Q18, we would see that MDRs alone, they would have had a reduction of R$30 million. Therefore, they increase when you compare March 2018 to March 2019 would have been higher than this 2% that we produced in line to a guidance of two digits low or high one digit for 2019 as a whole is still pressured by the competition in MDRs in terms of the acquiring business as itself.

But in terms of efficiency, we are now on a better track, in which we have seen that personnel plus other administrative expenses have increased only 2% in comparison to March 2018, and a drop of 4% when we compare to December.

This drop of 4% is related to the fact that we recorded provisions for our incentivizing employees to leave Banrisul. We were expecting that 600 employees would have left Banrisul by the end of March of this year. The final number is a little higher than 550 and, therefore, the efficiency shall come from 2Q onwards, in which personnel expenses have increased 0.3% in relation to March last year, and -5% this year. And there is room for increasing efficiency in terms of personnel expenses.

Other OPEX, they are well behaved, in line to what we expect and below any inflation index that we may have, mostly if we just compare to the IGP-M in Brazil. But again, it is a trend for improving efficiency for the Bank.

Other operating income and expenses, they had a better performance in relation to the fact that we did not have to record labor provision expenses as we had in previous quarters.

Total assets increasing 8.5% over the last 12 months, reaching R$77.9 billion. Out of these assets, we have had an increase of 10%, also in terms of our securities portfolio, which is the portion of our funding that has not been allocated into higher spreads assets, which is credit portfolio per se.

But again, with the R$21 billion in cash in hand, it gives us a strong advantage in order to immediately pass on to higher-yield assets if external economic conditions in Brazil and in Rio Grande do Sul are better, so that we can enjoy a strong liquidity position that we have vis-à-vis our huge capital base of 15% plus of total capital that will be present afterwards.

Credit portfolio, this 8% increase is still driven by non-earmarked credit, mostly individuals in the form of payroll loans.

Total provisions, they are responsible for a share of 7.5% of our total credit portfolio, when they were last year, in the same period, representing 8.7%. It is a strong drop, expected on account of Banrisul producing credit of better quality, in which you can see the breakdown of this credit portfolio, similar to what we have over the last five quarters in a row, but with a higher share represented by individuals and payroll loans themselves, which are being produced both with the use of our branch network dealing with customers, increasing 24% in the last 12 months, trend that was similar to the production that we have using one auxiliary channel, called Bem, in order to produce payroll loans to INSS retirees and beneficiaries, and also employees from the federal government.

Next slide is the representation of our funding, and also our assets under management, growing overall 9.5% in the last 12 months, neutral in terms of the number that we had in December.

Having said that, shareholders' equity, 2.4% increase in the last 12 months, 1.2% increase in the last three months, R$7.4 billion, which is affected by Banrisul incorporating all the net income that is produced minus the 40% payout ratio that has been approved for 2019 as a whole.

Very comfortable coverage ratio, a little below 295%. We have been able to cover almost in full personnel expenses with banking fees, and we are seeking to expand this in order to improve efficiency. 18.7% ROE; 1.7% ROA; 2.6% 90-day default ratio; efficiency improving from 52.5% to 51.5%, 100 bps improvement; 15.6% total capital base, represented by 14.3% in terms of our Tier 1 alone; and the number of employee headcount and branches.

Last but not least, we are maintaining our guidance for the remainder of the year, needing to emphasize that what concerns us the most, but not a very worrisome condition, is the fact that external environment is still not very constructive for Banrisul to feel eager to increase credit to companies. Therefore, margins are to remain at the same pace, but not impacting anyhow any revision in terms of our guidance.

For the presentation of the numbers, I would say that this is what was needed to mention. And now, I will return the mic to analysts for any questions that you may have.

Yuri Fernandes, JPMorgan:

Thank you, gentlemen. I have a question on your shareholders' equity. We saw a small increase, but some impact from your previous recognition of the insurance JVs you have with Icatu and other players. Can you just provide us with some color on what happened here? And then I can make a second question after that.

Alexandre Ponzi

Yuri, I am not sure that you recall that in previous years, if I am not mistaken, 2015 and 2016, both years altogether, Banrisul, in order to construct an alternative channel to distribute insurance products within our branch network and to our customers, we created and established a JV with Icatu.

In the valuation that was exercised back then, there were two revenues that were booked, one-off for Banrisul that we created, R$104 million. This is the reduction of the equity this year that, given that the Central Bank of Brazil in this quarter decided to review its decision, we were required to reduce our equity by the very same amount of revenues that we had in full one-off in those years that I mentioned.

And this reduction of our equity will return over the time of the agreement, which is 20 years' exclusive terms for Icatu and Banrisul together at BIPAR, Banrisul Icatu Participation holding, to offer these products to our customers. These provisions out of our equity will be returned.

This is why we have this reduction, but again, as a mandatory decision made by the Central Bank of Brazil that we had to comply with.

Yuri Fernandes:

Okay. Very clear, Alexandre. So basically, you had nonrecurring gains and now it is reversion, and you are going to accrue this gain again as part of the Central Bank requirements. That is it, right?

Alexandre Ponzi:

I would not say that they are not non-recurring gains in the beginning, but there were different classifications. Part of the amount of the revenues that Banrisul obtained from the company that we JV'd with, they enter one immediately, those that we are now provisioned reducing from equity and then obtaining over the term of the contract. Others, they were throughout the agreement term as well.

What surprised us is the changing of view from the Central Bank of Brazil after quite a long time have been passed in order that we had to review the amount that we produced. But given that, when we compare to our equity, R$100 million is not that relevant in relation almost R$8 billion, it was the best way to record the impacts.

It has the positive effect of increasing our return on equity, 18.7% is the calculated on that. But if we were to exclude this amount, even then we would have delivered 18.4% of ROE. Still a very resilient number, within our guidance, but then, it was mandatory coming from the regulators in the industry, in Brazil.

And you mentioned that you may have a second question.

Yuri Fernandes:

Yes. Can you also discuss how do you see effective tax rate going on? I know that there was the reduction of 5% in Brazil on bank's effective tax rate, but it still was a bit low. So if you can provide some color on how you see the effective tax rate for the year. That is another one.

And also, if you can comment on Vero, how are you seeing the competition in the acquiring business? Looking to your numbers, you continue to grow 15% year-over-year on volumes, so it seems to be in line with the industry. That is pretty good, given we are seeing a very tough environment, with some players losing market share. So if you can comment first on tax, and second, how you are seeing the acquiring business. Thank you.

Werner Kohler:

When we talked about this tax rate, we have to have in view that, in the last year, we needed to account the amount of the tax using the tax rate that was for banks, 45% last year, and we needed to realize the amount that we have as a deferred tax in our assets. And we needed to account the new deferred tax using 40%, that is the rate that we have to apply to have new deferred taxes.

And about this last year, we have a higher tax rate than the normal tax rate that we had. And this year, when we see our results and the base, in Brazil we call *lucro real,* that is the way that we see the basis of the taxes, we can see in our numbers that we pay all the amount that we can pay as interest on capital that is deductible on the basis of the tax.

Then, if we see our numbers, we can see clearly that this tax rate is the tax rate related with our numbers, because our numbers come from bank business and Vero services. And in these services, we have to apply tax rate not so high than the bank market has to apply. And the mix of these businesses makes us have this 26%, 25%, 27% maybe as a tax rate.

Alexandre Ponzi:

Just to emphasize that, even though there may have be seen a huge drop in terms of our effective tax rate, we are not expecting that throughout 2019 similar rates are to be observed each and every quarter. This is our expectation. A range of 25% to 28%.

In acquiring business, still we are not seeing and suffering any major impact from the competition. Management of the Company is quite aware of what is the trend of the business. It is being prepared to offer similar price conditions to other markets in order not to reduce its market share within the state of Rio Grande do Sul, an area in which we benefit from having together bank and the Company operating the single largest acquiring network that benefits from a package of solution that includes a card company itself and the banking altogether.

We are aware of market conditions, market competitions. We are not concerned with what may happen, but the Company is prepared to offer whatever is necessary in order to maintain its market share within the state of Rio Grande do Sul vis-à-vis other alternatives that they are seeking in order to increase marginally its revenue and business throughout other areas of Brazil.

But, of course, I am not saying that everything is going to be on the sunny side of the street, but definitely, eventually, some impacts in terms of the productions of fees may be observed.

For the Bank itself as controlling of the card company, what we are seeking is to increase fees coming from other business such as insurance, other products that are in our portfolio and that have a likelihood of increasing its share. But we are concerned, not impacted whatsoever by the competition in this quarter.

I have not mentioned, but Cartões, representing a little less than 1/4 of our net income, increased almost 12% its bottom line year-on-year. It is a very interesting business that we have the advantage of having a solution that is applicable and delivered in an area in which Banrisul as a bank is the dominant player in the state.

But we are looking to what the environment is presenting, what the competition is showing, and we are prepared to compete in similar terms.

Yuri Fernandes:

Just to be clear, what do you mean 'compete in similar terms'? Do you mean on pricing as well? For instance, we see some players getting aggressive in prepayments, on the take rates. Is that what you have in mind? Or do you want to compete more on services? What is the rationale here for competition?

Alexandre Ponzi:

The Company has been doing that. It is adjusting its price according to the market, especially when we see that other competitors would try and enter the state of Rio Grande do Sul in order to increase share.

We have mentioned that we have the largest acquiring network, therefore, it is a barrier against other competitors. Some movements were made, but we adjusted our prices accordingly. We adjusted the delivery of the money to be as fast as possible in line to what others are doing.

We are now offering solutions together that are not only included in the acquiring business itself, but also included in the banking business and other solutions to customers. We are maintaining and we intend to keep with this 1/3 of market share that we have in the state of Rio Grande do Sul in terms of acquiring business itself.

Yuri Fernandes:

Thank you, Alexandre.

Operator:

This concludes our question-and-answer session. I would now like to turn the floor back over to Mr. Brunet for any final remarks.

Júlio Brunet:

Thank you for your participation. Good morning.

Operator:

This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.