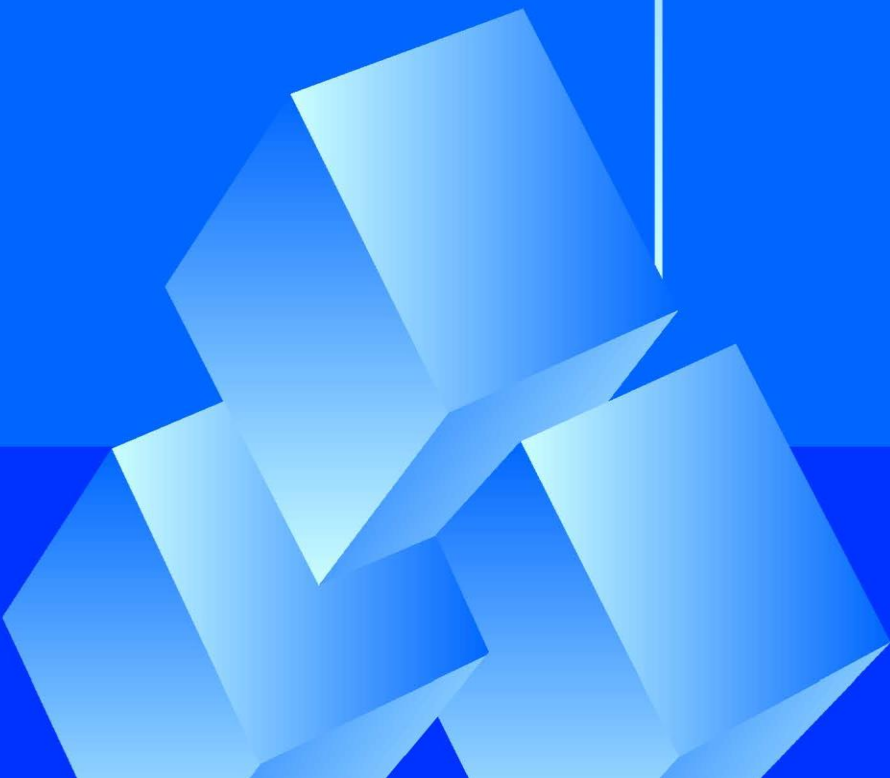
Risk Management Report

First Quarter 2011



Corporate Risk Management Unit

SUMMARY

INTRODUCTION 4

1 RISK MANAGEMENT 5

1.1 Main Corporate Risks 5

2 CREDIT RISK 6

2.1 Management of Credit Risk 6

2.1.1 Identification and measuring 7

2.1.2 Monitoring 9

2.1.3 Control and Mitigation 10

2.2 Exposure to credit risk 11

2.2.1 Amount of exposure to credit risk 11

2.2.2 Percentage of Exposure Accounted for by the Ten Largest Clients 12

2.2.3 Amount of loans past-due 12

2.2.4 Loans written off 12

2.2.5 Amount of provisions 13

2.2.6 Exposure by Risk Weighting Factor 14

2.2.7 Tranche of credit risk, segmented by Risk Weighting Factor 15

2.2.8 Mitigating instruments 16

2.3 Credit Risk of the Counterparty 17

2.4 Credit assignments and TVM deriving from securitization process 18

3 MARKET AND LIQUIDITY RISK 20

3.1 Market Risk 20

3.1.1 Market Risk Policy 20

3.2 Liquidity Risk 25

3.2.1 Process of Managing Risk and Liquidity 25

3.2.2 Management models 26

3.2.3 Financial instruments 27

3.2.4 Internal communication 27

4 OPERATIONAL RISK 28

4.1 Objectives and Policy 28

4.2 Capital Allocation Model 28

4.3 Management Process 29

4.4 Management of business continuity 30

4.5 Communication and information 30

5 MANAGEMENT OF CAPITAL 31

5.1 New Capital Agreement – Basel II 31

5.2 Basel III 33

5.3 Reference Equity 34

5.4 Required Reference Equity (PRE) and the adjustment of Reference Equity (PR) 35

5.4.1 Evolution of PR and PRE 38

5.5 Basel Ratio 39

Charts

Chart 1 – Breakdown of Allowance for Loan Losses – Mar/2011 14
Chart 2 - Evolution in PR and PRE – Financial Conglomerate 38
Chart 3 – Evolution in PR and PRE – Economic-Financial Consolidated 38
Chart 4 – Basel Ratio – Financial Conglomerate 39
Chart 5 - Basel Ratio – Economic-Financial Consolidated 40

Tables

Table 1 - Amount of Exposures and Average Exposure 12
Table 2 - Amount of Exposures of Ten Largest Clients 12
Table 3 - Amount of Loans Past-due 12
Table 4 - Flow of Loans Written off 13
Table 5 - Exposure by Risk Weighting Factor - Financial Conglomerate 14
Table 6 - Tranche of Credit Risk, Segmented by Risk Weighting Factor – Financial Conglomerate 15
Table 7 - Tranche of Credit Risk, Segmented by Risk Weighting Factor - Consolidated Economic and Financial 15
Table 8 - Gross Positive Value of Contracts Subject to the Credit Risk of the Financial Conglomerate Counterparty 17
Table 9 - Gross Positive Value of Contracts Subject to the Credit Risk of the Consolidated Economic and Financial Counterparty 17
Table 10 - Net Global Exposure to Credit Risk of Financial Conglomerate Counterparty 18
Table 11 - Net Global Exposure to Credit Risk of Consolidated Economic and Financial Counterparty 18
Table 12 - Exposures due of Acquisition of Securities arising from Securitisation Process 18
Table 13 - Stress Scenario 24
Table 14 - Implementation Schedule - Basel III 33
Table 15 - Reference Equity Details of Financial Conglomerate 34
Table 16 - Reference Equity Details of Consolidated Economic and Financial 35
Table 17 - Required Reference Equity Details - Financial Conglomerate 36
Table 18 - Required Reference Equity Details - Consolidated Economic and Financial 37

INTRODUCTION

Banco do Estado do Rio Grande do Sul S.A. is a multiple bank controlled by the State of Rio Grande do Sul, and is among the most profitable of Brazil's largest banks in terms of total assets, considering return on net equity, According to Figures from Brazilian Central Bank.

With 439 branches, 398 in Rio Grande do Sul, 24 in Santa Catarina, 15 in other Brazilian states and two abroad, Banrisul has the largest branch network in Rio Grande do Sul. The bank focuses its businesses on meeting the requirements of retail clients, small and medium-size businesses, and entities in the public sector.

The geographical focus of the Bank is in the southern region of Brazil, particularly the State of Rio Grande do Sul. Banrisul is present in 413 of the 496 municipalities in Rio Grande do Sul, when 98% of the State's population is concentrated. With approximately 2.9 million current account holders, Banrisul believes that this number represents approximately 70% of the population in the State of Rio Grande do Sul with bank accounts.

For Banrisul risk management is indispensable for the strengthening of the corporate profile of the institution and continuing with its objective of being the largest financial agent in the State of Rio grande do Sul. In this context, it is important to have a transparent relationship with clients, investors and other interested parties, thus permitting a knowledge of risk management.

The publishing of this report is aimed at providing information to the market and other related parties about the management of risks at Banrisul, as well as meeting the requirements of Brazilian Central Bank and the directives of the Basle Committee. Information disclosed refers to the last quarter of 2009 and the first quarter in 2011. For information where the amounts shown are the same for the Financial Conglomerate and the Economic-Financial Conglomerate, we only show the figures for the Financial Conglomerate.

1 RISK MANAGEMENT

The management of risk is a strategic tool and fundamental for a financial institution. Intrinsic risks range from those which are easily identifiable in the financial area, such as market risk, liquidity risk and credit risk, as well as those that are not directly identifiable as such, but which are also of extreme importance, such as operational risk and image risk, among others.

At Banrisul, this activity aims to align the activities of the Bank with the standards recommended by the New Capital Agreement – Basle II, with the aim of adopting the best market practices and maximizing profitability for investors, based on the best possible combination of the application in assets, and the use of capital required. These are continuous processes in this area, with the systematic improvement of risk policy, internal control systems and safety standards, integrated with the Institution's strategic and market objectives.

The management of corporate risks at Banrisul is carried out in an integrated manner, which allows its processes and decision-making to be flexible, being aligned with best practices and the standards defined by Brazilian Central Bank, in compliance with the Capital Agreement - Basle II.

1.1 Main Corporate Risks

Credit Risk: Defined as the possibility of losses occurring associated with the non-fulfillment by the loan-taker or counterparty of their respective financial obligations under the terms agreed, the depreciation in the loan contract as a result of the deterioration in the credit rating of the loan-taker, a reduction in gains or remuneration, and advantages conceded in renegotiations and loan recovery costs.

Market risk: defined as a possibility of losses occurring as a result of fluctuation in the market values of active and passive positions held by financial institutions. This includes the risk of loan operations subject to variation in the exchange rate, interest rates, share prices and the price of merchandise (commodities).

Liquidity risk: defined as the possibility of losses occurring as a result of inability to meet cash flow requirements as a result of the mismatch of financial flows as a consequence of difficulties in selling a particular asset, or the loss in value of assets.

Operational Risk: defined as the possibility of losses occurring as a result of the failure, deficiency or inappropriateness of internal processes, people and systems, or external events.

2 CREDIT RISK

Credit risk is defined as the possibility of losses occurring as a result of the non-fulfillment by the loan-taker or counterparty, of their respective financial obligations under the terms agreed, the depreciation in the loan contract as a result of the deterioration in the credit rating of the loan-taker, a reduction in gains or remuneration, and advantages conceded in renegotiations and loan recovery costs.

Banrisul's Institutional Credit Risk Management Policy has the aim of identifying, measuring, controlling and mitigating exposure to credit risk in its portfolio; acting in a way so as to consolidate the culture of Best Credit Risk Management Practices; continual perfection of the management of credit risks in all types of assets; to guarantee satisfactory levels of risk and avoid unforeseen losses; and to guarantee the exemption and segregation of function in the credit risk management process.

The description of the Structure of Credit Risk Management is available at *http://www.banrisul.com.br* on the route: "Investor Relations/Corporate Governance/Risk Management/ Credit Risk Management Structure."

2.1 Management of Credit Risk

The credit risk evaluation structure at Banrisul is based on the principle of collegiate decision technique, with levels of authority defined for the granting of loans corresponding to decision levels, which range from the extensive branch network, in its various categories of size, up to the sphere of directives from Credit and Risk Committees at the level of General Management, the Executive Board and the Board of Directors. This process aims to make the granting of credit flexible, based on credit limits for clients being technically predefined, which determine the desired exposure that the institution is willing to bear with regard to each individual or corporate client, in terms of risk vs. return.

The continual and growing implementation of statistical methodology for the evaluation of client risk, with the creating of parameters for loan policies and business rules, combined with the optimization of controls on registration information through the use of a certification model, is making assessments sounder and more detailed. The adoption of the *Credit Score* and *Behavior Score* systems makes it possible to establish preapproved lending limits for private individuals in accordance with the risk

classifications produced by statistic models, which are conceptually more attractive for the management of loans in mass form.

The efficient management of credit risk exposure by Banrisul allows it to continue to expand its loan portfolio with flexibility and safety, due to the power of the instruments used for the measurement of the risks inherent in each client.

2.1.1 Identification and Measuring

In the process of the identification and assessment of credit risks, for private individuals Banrisul uses credit scoring models (*Credit Score* and *Behaviour Score*) which establish preapproved lending limits evaluating the probability of the client defaulting, in other words, in accordance with the risk classifications foreseen in the statistic models.

For companies, in February 2011, an Automated Company Credit and Risk Model is to be introduced, with the adoption of *Credit Score* and *Behavior Score* for the company retail segment. At this stage of implementation, the existing model based on authority limits for the granting of credit by branch committees will continue to be available, so that branches will be able to opt for one of the two models.

Under the existing loan granting model for companies, branch committees may authorize risk limits and lending operations up to the limit of their jurisdiction, established in accordance with the category of each branch. The credit and risk committees at the level of General Management define lending and risk limits for clients who wish to take out loans that exceed the lending jurisdiction set for the branch lending committees. The Executive Board approves specific operations and risk limits for loans that do not exceed 3% of Net Equity. Loans above this limit are submitted to the Board of Directors for assessment.

For the Corporate segment, Banrisul uses technical studies carried out by its internal department for risk analysis, which assesses companies from a financial, management, marketing and production perspective, with periodic revisions that also take account of economic scenarios, inserting the companies into these environments. The management of exposure to credit risk follows the selective and conservative stance adopted by the Institution, following the strategies defined by its top management and the technical areas of the Corporation.

For loan operations not contemplated by credit scoring models and pass-on operations through financial agents, the Bank evaluates the probability of default by individual counterparties, through the use of classification tools projected for different categories of counterparties. These tools, which were

developed internally, and which combine statistic analysis with the opinion of the credit team, are validated, when appropriate, through comparison with the external data available. Classification tools are subject to analysis and updating, whenever necessary. On a regular basis the management validates its classification performance and its ability to forecast instances of default.

CMN Resolution no. 2682, of December 21 1999, determines that financial institutions must classify their credit operations in order of growing risk, contemplating aspects related to the debtor, guarantors, and in relation to the operation.

With regard to the debtor and his guarantors, these aspects cover: economic-financial situation, degree of indebtedness, earnings generation capacity, cash flow, administration and quality of controls, punctuality of payment and payments past-due, contingencies, sector of economic activity and lending limits.

With regard to lending operations as such, the value, nature and purpose of the transaction must be considered, in addition to the characteristics of the guarantees, particularly with regard to sufficiency and liquidity. The loan operations are accompanied by the identification of a minimum rating as a function of the payment most overdue. All the operations of the clients have their ratings calculated, which added to the minimum rating, results in the calculation of the highest risk for the client. The sequence below shows the rating levels.

Bank classification	Description of degree of risk
1 – AA	Very low risk
2 – A	Low risk
3 – B	Slight risk
4 – C	Moderate risk
5 – D	Normal risk
6 – E	Medium risk
7 – F	High risk
8 – G	Very high risk
9 – H	Severe risk

Loss through default and severity of loss represent the expectations of the Bank with regard to the amount of loss incurred by an event, if default should occur. This amount is expressed as a percentage loss by unit of

exposure and normally varies in accordance with the category of the counterparty, with the type and level of events, and the availability of guarantees, or other forms of credit mitigation.

For Public Securities and other debt securities, the Unit for Credit Policy and Risk Analysis draws up reports containing analysis assessments for the granting of Operational Limits for credit risk, for financial institutions, and for the acquisition of securities (public or private issues) issued by companies that operate in the Capital Markets.

The Operational Limit consists of a maximum value to which the bank will accept exposure on the acquisition of securities issued by companies or financial institutions, or in participating in Committed Operations. The Operational Limit is used both for operations involving Banrisul's Treasury Department, through the Financial Unit, as well as operations involving the allocation of third-party funds, through the participation in Banrisul's investment funds managed by the Asset Management Unit.

The extent of technical analysis includes the economic-financial aspect of the institution; economic environment; profile of the company and its controlling shareholders; a study of the conglomerate; and the external rating of the institution. The financial statements may be reclassified according to criteria which allow the systematic measurement of asset and liability positions, as well as results, in order to ascertain the indicators necessary for the subsequent weighting of limits.

2.1.2 Monitoring

In the monitoring stage, analyses are made of the adherence to *Credit Score* and *Behavior Score* models by private individuals, through statistical validation techniques. These analyses are assessed on the half-yearly basis by the Management Committees and the Executive Board.

For all the client segments, analyses are also carried out of indicators of loans past-due, disputes, amount of loans granted, in various sizes and groups, allowing the management of these exposures in accordance with product, risk classification, loan concentration, branch, among other aspects. These analyses, carried out periodically, are aimed at managing the Bank's credit risk and monitoring its commercial performance in credit terms, making it compatible with market trends, with the aim of ensuring the fulfillment of directives, minimizing the risk of failure between the decision-making process and implementation. Consolidated analyses that propose making adjustments to policies in force, if necessary, in accordance with the responsibilities of the various component bodies, are reviewed monthly by decision-making committees and the Executive Board.

In addition to this, management reports on the administration of the Bank's loan portfolio are provided periodically to top management, to permit monitoring of the volumes allocated, and the indices of the pending loans.

A loan loss provision is made monthly, in accordance with Resolution no. 2682/99 of the National Monetary Council. Since December 2008 Banrisul has been booking an additional provision with the aim of covering possible events not captured by its client rating model.

2.1.3 Control and Mitigation

Exposure to credit risk is mitigated by the structuring of guarantees and pricing, in keeping with the level of risk incurred as a result of the characteristics of the loan-taker and the lending operation at the time of the loan being granted.

Monitoring of the loan portfolio with management tools is directly related to the control and mitigation of credit risk because based on this, behavior is verified that could lead to the need for intervention.

The Bank manages, limits and controls risk concentration whenever it is identified - particularly in relation to counterparties and groups.

The management structures the levels of risk which it assumes, establishing limits with regard to the degree of acceptable risk with respect to a specific debtor, group of debtors and segments of industry. These risks are monitored on a rotating basis and are subject to revisions carried out annually, or more frequently whenever necessary. The limits on the level of credit risk by product and industry sector are approved by the Executive Board and the Board of Directors, should this be the case.

Exposure of any loan-taker, including financial agents, in the case of the counterparty, is additionally restricted by sub-limits which cover exposure registered, and not registered in the asset balance sheet. Real exposure, in accordance with the limits established, is monitored daily.

Exposure to credit risk is also managed through the regular analysis of loan-takers, effective and potential, with regard to the payment of principal and interest, and alteration to limits when appropriate.

The Bank implements guidelines and policies that are already consolidated in terms of the acceptance of specific classes of guarantee or risk mitigation, signed as part of the loan or financing contracts, such as, for example, the right to sell or re-present the guaranteed in the absence of the fulfillment of obligations by the debtor, these being assessed and analyzed at the time the loan is granted.

Banrisul, in obtaining guarantees, assesses the degree to which the funds can be freed up, as one of its measures of credit risk mitigation, which is a traditional and customary practice in the financial markets. Usually, for this control, the bank has admitted the receipt of guarantees of a real and fidejussory nature, obeying the peculiarities inherent in the type of contract.

Maximum exposure to credit risk corresponds to the total amount committed to, signed between the parties. Also, it should be pointed out that Banrisul controls all the guarantees contracted, with particular emphasis on operations that use debt securities as a guarantee mitigator, which involves the management of these throughout the loan period, increasing the amount of guarantee whenever necessary during the period that the loan is in force, writing down the excess at the end of the loan period.

For cases involving the invoking of guarantees linked to an insolvent contract, the Bank takes possession of the assets guaranteed by the counterparty, subsequently selling these assets at auction, in accordance with the time limits determined by Central Bank. Also, these are booked under Special Regime, in compliance with the definitions to be found in the Accounting Plan for Institutions in the National Financial System – Cosif.

Exceptionally, the guarantee may be considered to be difficult to convert into cash. In this context, the occurrence of contingencies which make the realization of this guarantee impossible, are taken into account, such as for example, the occurrence of natural phenomena, obsolescence and/or deterioration of the assets, rendering it unfeasible to sell them in the market.

With respect to Derivative Financial Instruments, as at December 31, 2011, the Bank had no such operations in its portfolio.

2.2 Exposure to Credit Risk

The tables below show quantitative data related to exposure to credit risk. Initially, the table shows the amount of credit risk exposure referring to the last five quarters.

2.2.1 Amount of Exposure to Credit Risk

Below, we show the amount of total exposure and average exposure value exposure in the quarter:

Table 1 - Amount of Exposure and Average Exposure

Financial Conglomerate – Thousands of Reais					
	Mar/11	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Total exposures*	20,117,185.4	19,181,977.9	18,321,318.0	17,397,269.8	16,363,321.9
Average exposure for the quarter	19,783,042.4	18,939,679.9	18,017,743.3	17,065,758.6	15,862,659.3

* includes credit operations, mercantile leasing, advances, commitments and the providing of guarantees.

The credit risk exposure of the Financial Conglomerate increased from R$16,363,321.9 thousand in March 2010 to R$20,117,185.4 thousand in March 2011, an increase of 22.9% in the period. The average quarterly exposure which was R$15,862,659.3 thousand in March 2010, in the first quarter of 2011 had risen to R$19,783,042.4 thousand, an increase of 27.71% in the period.

2.2.2 Percentage of Exposure Accounted for by the Ten Largest Clients

Below we show the evolution in the quarterly exposure to the Bank's ten largest clients, in relation to the total amount of operations involving the granting of credit:

Table 2 - Amount of Exposure of Ten Largest Clients

Financial Conglomerate					
Percentage exposure represented by the ten largest clients	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
	15.6%	15.9%	15.4%	15.9%	16.6%

The exposure to the ten largest clients in the first quarter 2011represented 15.6% of the credit portfolio, decreasing 16.6% in comparison to the same period of 2010.

2.2.3 Amount of Loans Past-due

Below we show the loans past-due, gross of provisions and excluding loans already written-off, segregated by the degree to which the loan is past-due:

Table 3 - Amount of Loans Past-due

Financial Conglomerate - R$ million			
Degree of past-due	**Mar/11**	**Dec/10**	**Sep/10**
Past-due up to 60 days	161.2	126.5	143.2
Past-due between 61 and 90	61.1	30.7	52.8
Past-due between 91 and 180 days	138.5	115.4	125.3
Past-due for more than 180 days	459.4	381.8	460.0
Total	**820.2**	**654.4**	**781.3**

2.2.4 Loans Written off

Below we show the flow of loans written off in the quarter:

Table 4 - Flow of Loans Written off

Base Date	Losses	Recovery	Net Loss
Mar/11	84.37	19.89	64.48
Dec/10	147.29	48.79	98.50
Sep/10*	104.35	49.00	55.35
Jun/10*	91.87	26.29	65.58
Mar/10	87.57	11.35	76.21

* Amounts corrected in relation to 2010 report.

Net loss in March 2011 was R$64.48 million, decrease of R$11.73 million from March 2010.

2.2.5 Amount of Provisions

Below, we show the amount of loss provisions in relation to the exposure of the Loan Portfolio:

Lending operations amounted to R$17,939.6 million in March 2010 and R$14,765.7 million in March 2010, an increase of 21.4% in the period. Loan loss provisions for the Financial Conglomerate, amounted to R$1,082.3 million, equivalent to 7.3% of the total loan portfolio as at the end of March 2010. In March 2011, loan loss provisions amounted to R$1,156.0 million, representing 6.4% of the portfolio, as shown in Graph 1:

Graph 1 – Breakdown of Allowance for Loan Losses – Mar/2011 – R$ million

2.2.6 Exposure by Risk Weighting Factor

Below we show the exposure to credit risk, segmented by exposure weighting factors, used in the calculation of the tranche of capital allocation to credit risk:

Table 5 - Exposure by Risk Weighting Factor – Financial Conglomerate

Financial Conglomerate – Thousands of Reais					
Total Exposure*	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
	20,117,185.4	**19,181,977.9**	**18,321,318.0**	**17,397,269.8**	**16,363,321.9**
FPR of 20%	0.2	29.3	4.4	783.0	2,115.0
FPR of 35%	269,596.4	261,985.7	252,961.3	240,338.0	231,946.7
FPR of 50%	2,891,663.8	2,847,634.4	2,663,699.9	2,626,568.2	2,528,855.2
FPR of 75%	9,778,278.4	9,269,544.4	8,954,898.1	8,480,906.1	7,855,715.4
FPR of 100%	7,177.646.5	6,802,784.1	6,449,754.3	6,048,674.6	5,744,689.6

* includes credit operations, leasing, advances, commitments and the providing of guarantees.

The risk exposure of the Financial Conglomerate increased from R$16,363,321.9 thousand in March 2010 to R$20,117,185.4 thousand in March 2011, a growth of 22.94% in the period, with the largest amounts (retail operations) concentrated at the weighting factor of 75%.

2.2.7 Tranche of Credit Risk, Segmented by Risk Weighting Factor

Below we show the value of the PEPR tranche (tranche referring to the exposure to weighted by risk weighting factor attributed to them) of the PRE, segmented by risk weighting factors (FPR), in accordance with Articles 11 to 16 of Circular no. 3360, of September 12, 2007, of the Financial Conglomerate and the Economic-Financial Consolidated Conglomerate.

Table 6 - Tranche of Credit Risk, Segmented by Risk Weighting Factor – Financial Conglomerate

Financial Conglomerate R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
FPR	***PEPR***	***PEPR***	***PEPR***	***PEPR***	***PEPR***
20%	18.0	13.9	16.8	16.0	15.6
35%	10.4	10.1	9.7	9.3	8.9
50%	180.9	164.6	154.7	153.3	148.3
75%	806.7	764.7	738.8	699.7	648.1
100%	1,055.6	1,020.5	979.7	914.0	849.3
Total PEPR	2,071.6	1,973.9	1,899.8	1,792.3	1,670.2

The tranche of capital allocation referring to exposures weighted by credit risk factor of the Financial Conglomerate increased from R$1,670.2 million at the end of March 2010 to R$2,071.6 million at the end of March 2011. As we can see from the table, there was an increase in all the weightings, with the highest volumes being concentrated under the weighting factor of 100%. The table below shows how this has evolved for the Consolidated Economic-Financial figures.

Table 7 - Tranche of Credit Risk, Segmented by Risk Weighting Factor – Economic and Financial Consolidated

Consolidated Economic-Financial R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
FPR	***PEPR***	***PEPR***	***PEPR***	***PEPR***	***PEPR***
20%	18.0	13.9	16.8	16.0	15.6
35%	10.4	10.1	9.7	9.3	8.9
50%	180.9	164.6	154.7	153.3	148.3
75%	806.7	764.7	738.8	699.7	648.1
100%	1,066.5	1,030.5	989.3	923.2	858.7
Total PEPR	2,082.4	1,983.8	1,909.3	1,801.5	1,679.6

2.2.8 Mitigating Instruments

For the verification of the capital allocation of the credit risk tranche, the Institution did not show mitigated figures for the quarters analyzed, through the instruments defined in Articles 20 to 22 of Circular no. 3360 of 2007, drawn up by Brazilian Central Bank.

2.3 Credit Risk of the Counterparty

Below we show information relating to the Credit Risk of the Counterparty. Initially we show the information referring to the positive gross value of the contract, subject to the credit risk of the counterparty.

2.3.1 Gross positive value of the contracts subject to the credit risk of the counterparty

The positive gross values of the contracts subject to the credit risk of the counterparty include derivatives, operations to be settled, the lending of asset and operations committed to. Disregarding the positive amounts related to compensation agreements, as defined under Resolution no. 3263 of the CMN, of February 24, 2005, below we show the table for the Financial Conglomerate.

Table 8 - Gross Positive Value of Contracts Subject to the Credit Risk of the Financial Conglomerate Counterparty

Financial Conglomerate - R$ million					
	Mar/11	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Credit Risk of Counterparty	4,150.0	4,144,4	6,563.9	6,464.2	5,648.7

Based on the table, all it can be seen that the gross volume of the contracts subject to the credit risk of the counterparty in March 2010 totaled R$5,648.7 million, reducing to R$4,150.0 million in March 2011, a drop of 26.53% in the period. The table below shows the Consolidated Economic-Financial figures.

Table 9 - Gross Positive Value of Contracts Subject to the Credit Risk of the Economic and Financial Consolidated Counterparty

Consolidated Economic-Financial - R$ million					
	Mar/11	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Credit risk of the Counterparty	4,168.4	4,162.8	6,581.9	6,4821.8	5,665.8

2.3.2 Positive figures related to compensation agreements

During the period, the Institution did not report positive figures related to compensation agreements or the settlement of obligations, as defined in resolution no. 3263 of the National Monetary Council of 2005.

2.3.3 Net Global exposure to counterparty credit risk

Based on the gross positive values of the contracts subject to counterparty credit risk, including derivatives, settlement operations, asset lending and operations committed to, the net exposure is calculated as follows:

Table 10 - Net Global Exposure to Credit Risk of Financial Conglomerate Counterparty

Financial conglomerate - R$ million					
	Mar/11	Dec/10	Sep/10	Jun/10	Mar/10
Counterparty Credit Risk	1,145.3	1,384.4	1,861.9	2,191.5	2,559.0

Observe that the net global exposure to counterparty credit risk in March 2010 totaled R$2,559.0 million, falling to R$1,145.3 million in March 2011. The table below shows the Consolidated Economic-Financial Figures.

Table 11 - Net Global Exposure to Credit Risk of Economic and Financial Consolidated Counterparty

Consolidated Economic-Financial - R$ million					
	Mar/11	Dec/10	Sep/10	Jun/10	Mar/10
Counterparty Credit Risk	1,163.7	1,402.7	1,879.9	2,209.1	2,576.1

2.4 Credit Assignments and TVM Deriving from Securitization Process

With respect to the flow of exposures assigned with a substantial transfer of risks and benefits, and exposure balances assigned without either transfer or substantial retention of risks and benefits, the Institution did not report any movement in the quarters analyzed in this report.

With respect to the flow of exposure granted with a substantial retention of risks and benefits, which were written off, and the exposure balance assigned with a substantial retention of risks and benefits, the Institution again showed no movement in the quarters analyzed.

The table below shows the total value of the exposure as a result of the acquisition of securities arising from the securitization process:

Table 12 - Exposures due of Acquisition of Securities Arising from Securitization Process

Financial Conglomerate – Thousands of Reais					
	Mar/11	Dec/10	Sep/10	Jun/10	Mar/10
Exposure in real-estate receivable certificates	2,765.6	2,637.5	2,686.7	2,931.4	2,796.0

The Institution had two Real-Estate Receivable Certificates (CRI), one in the custody of Bovespa and the other with CETIP, as at the end of March 2011, totaling R$2,765.6 thousand.

The receivable flows consisting of rental payments are linked to the issue of real-estate receivable certificates. The issue of securities, with respect to the subordination of this to the others, for the redemption purposes has no subordination.

3 MARKET AND LIQUIDITY RISK

3.1 Market Risk

Market risk consists of the possibility of losses occurring as a consequence of the fluctuation in the market values of the portfolios of assets and liabilities held by the financial institution. Among the market risk events is also included the risk of operation subject to variations in interest rates, exchange rate, price indices, share prices and commodity prices.

The control of the Institution's market risk and that of the companies of the Conglomerate, is centralized into a single specific unit for the respective processes, which are mapped, classified and consolidated in accordance with the exposure characteristics of the operations, in accordance with the criteria defined by the regulatory authorities.

In alignment with the best market risk and liquidity practices, and also meeting the recommendations and standards by the regulatory authorities, Banrisul invests in the perfecting of its systemic processes in a structured manner, as well as its management practices, following market standards and strategies defined by top management.

3.1.1 Market Risk Policy

Banrisul's Market Risk Management Policy has the aim of establishing satisfactory management standards that guarantee main business strategics and actions for shareholders, covering products, services, activities, processes and systems, as well as establishing exposure limits for the trading book and the banking book; fulfilling normative requirements with regard to the allocation of regulatory capital and the monitoring of capital consumption, with the aim of ensuring the implementation of the best risk management practices.

Market Risk Management Process

Banrisul has adopted a Collegiate Decision System, in order to make it easier to align itself with the control standards established by the CMN, through Resolution no. 3464/07. The Bank's strategic decisions with respect to market risk involve all the business units, these being discussed at internal meetings and committees, and put before the Executive Board and the Board of Directors. Its management is carried out using models and tools which permit the effective control and management of daily positions, in accordance with the particular profile and level of risk defined in the policy of market risk.

Definition of limits

Limits for exposure subject to market risk are segregated in accordance with Circular no. 3354/07, of Brazilian Central Bank under the *Trading Book and Banking Book* categories and the limits were established and approved by Executive Board and Board of Directors.

3.1.1.1 Trading Portfolio

The trading portfolio consists of operations using financial and market instruments, including derivatives, held with the intention of trading, or allocated to the hedging, and which are not subject to limits on trading. The trading portfolio must consist of operations held with the intention of trading, and for: (i) resale; (ii) the obtaining of benefits from price movements, effective or expected, and (iii) the carrying out of arbitrage operations.

The makeup of the trading portfolio must adhere to the liquidity level required by Banrisul; the liquidity management contingency plan; envisaging the possible sale of assets in the commercial portfolio, as opportunities arise in the markets, except for intraday trading operations carried out by the treasury with the following classification limits:

a) Securities: maximum of 50% of the total portfolio;

b) Credit operation: maximum of 15% of the total portfolio;

c) All derivative operations destined for the hedging of the trading portfolio.

3.1.1.2 Banking Portfolio

The banking portfolio consists of financial operations involving assets and liabilities traded by Banrisul, through its branch network or other business areas, for which the counterparty is a client. In other words, part of the commercial portfolios, agricultural, residential and development loan portfolios, because they are structured portfolios that form part of the Bank's organic growth; and FCVS; as well as portfolios of securities maintained until their due dates, with the intention of applying additional funding raised as a result of operations with clients. To this end, the banking book of Banrisul and that of its offices abroad, may include part:

a) of the securities portfolio: securities issued by the National Treasury classified up to their due date, including any that are securitized; securities issued by Brazilian Central Bank, debentures; promissory notes; real-estate receivable certificates, quotas in real-estate funds; shares; international Brazilian sovereign debt and the sovereign debt of foreign governments.

b) of the commercial loan portfolio; including agricultural, residential and development loans.

The process of classification of new operations is defined by the business area at the time of their implementation. In the event of any doubts arising with respect to the classification of new products, the accounting department may be consulted for clarification.

3.1.1.3 Parameters for classification limits:

a) Securities: minimum of 50% of total portfolio;

b) Lending operations: minimum of 85% of the total portfolio;

c) All derivative operations destined for the hedging of the structural portfolio.

3.1.1.4 Measuring and monitoring of exposure: interest rate risk and share portfolios.

a) Interest rate risk

Defined as the risk of interest rate alterations which define the financial margin or the book value of the institution due to an adverse movement in interest rates and the absence of a perfect correlation between rates received and paid for different instruments, in the balance sheet or for off-balance sheet items.

At Banrisul, interest rate pricing is the task of the Financial Unit, which must be consistent with the budget approved for the Bank as a whole. In the pricing of products, an internal model is used for the obtaining of prices for the creation of economic value which provides the expected result. Monitoring is accompanied by the Unit for Corporate Risk, Market and Liquidity Risk Management.

The main sources of interest rate risk in the Bank's portfolio are:

Risk of pricing and re-pricing risk, which derives from the different repricing of the products offered and subscribed to by clients, in the Bank's assets and liabilities;

The yield curve, which derives from asymmetric movements in the rates along the length of the curve;

Basis risk, which derives from imperfect correlation in the adjustments of rates received or paid under different financial instruments, with similar repricing characteristics.

The exposure to interest rate risk of the banking portfolio is calculated based on the methodology defined in Brazilian Central Bank Circular no. 3365/07, whose classification covers assets, liabilities and off-balance sheet items which are sensitive to interest rates, and which are not part of the trading book. In the process, the respective cash flows are calculated, thus obtaining the gaps in interest rate risk and the corresponding exposure.

The measurement techniques used by Banrisul for the measurement and control of the market risk exposure of the trading portfolio are in accordance with Central Bank regulations and good international practices, of particular note being: mark to market, the calculation of *value at risk*, and stress testing.

In the calculation of the market risk of the Conglomerate's assets and liabilities, the *cubic spline* model has been adopted. The prices are captured daily through ANBIMA – Brazilian Association of Financial and Capital Market Entities and BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros. Based on these prices, a function of natural cubic spline interpolation is applied (year of 252 working days) in order to obtain a particular interest rates for interim working days.

All the operations contracted by the Bank and which are subject to market risk contribute to the calculation of *VaR*. Value at Risk or VaR or *value at risk for the coverage of exposure subject to market risk*, measures the possible loss of capital, with a particular interval of reliability of 99% over a given time horizon. The calculation is carried out through the combination of return matrices for each risk factor (currency and term) and the correlation between them, applied to the mark to market of the Institution's portfolio. The model expresses the maximum value which the Bank can lose, with a reliability level of 99%. There is therefore a statistical probability of 1% that the actual losses may be higher than those estimated based on *VaR.*

For operations referring to currency coupons, price indices and interest rates, the model used is the *maturity ladder*, as defined by Brazilian Central Bank in Circulars Nos. 3362, 3363 and 3364/07.

As a way of compensating for the deficiency of *VaR*, every quarter, or whenever necessary, Banrisul carries out stress testing based on the determinations of Brazilian Central Bank and the recommendations of Basel II, carrying out an analysis of historical and hypothetical scenarios of extreme conditions in the market, considering the impact of alterations in

political and economic variables which could have a negative impact on the operations and finance positions of the Bank. The study is carried out with the application of a specific scenario for each risk factor, with the aim of quantifying the impacts on the portfolios and testing the financial health of the Institution, and its resilience capacity in the face of a worsening crisis.

Scenarios applied: shocks of 10%, 20% and 50% to the fixed interest rate curve, currency coupons, inflation and shares, based on market information (BM&F Bovespa and Anbima).

The results obtained from the process are monitored daily by the Corporate Risk Management Unit and serve to alert management whenever statistical losses estimated for the portfolios come close to the limits approved by the Executive Board and the Board of Directors. The table below shows the results for three scenarios for the months of June, September and December 2010 and March 2011:

Table 13 - Stress Scenario

Risk factors	Financial Conglomerate– R$ million											
	Mar/11			Dec/10			Sep/10			Jun/10		
	10%	20%	50%	10%	20%	50%	10%	20%	50%	10%	20%	50%
Fixed rates	101.8	101.8	101.9	85.6	85.5	85.4	121.6	121.7	122.1	128.1	128.2	128.6
Exchange rate coupon	5.5	5.4	5.1	5.7	5.6	5.7	6.5	6.6	6.9	5.7	5.8	6.0
Price index coupon	3.4	3.4	3.1	5.4	5.2	5.4	8.8	9.0	9.7	8.9	9.2	10.0
Interest rate coupon	198.1	195.9	189.8	207.0	205.1	206.7	193.6	195.3	200.8	167.9	169.4	174.3
Equity prices	2.4	2.7	3.3	3.0	3.2	1.4	2.4	2.4	2.4	2.0	1.8	1.1
Total	311.3	309.2	303.3	306.7	304.7	304.6	333.0	335.1	341.9	312.6	314.4	320.1

The results obtained for the month of March 2011 show that an increase in interest rates has a limited impact on the task of Required Reference Equity (PRE), for the coverage of exposure subject to market risk, of the trading book and banking book. For increases of 10%, 20% and 50% in interest rates, the impact of the required PRE corresponds to R$311.3 million, R$309.2 million and R$303.3 million, respectively.

b) Equity risk

The risk of exposure to shares of the banking portfolio, for the purposes of capital allocation, is carried out using the model defined by Brazilian Central Bank Circular no. 3366/07.

3.1.1.5 Control and Monitoring of Exposures

At Banrisul, control of market risk is carried out in a centralized manner, independent from the business areas, taking into account individual companies and consolidated financial and economic figures. All the activities exposed to market risk are mapped, measured and classified in accordance with the recommendations of CMN Resolution no. 3464/2007 and Brazilian Central Bank Circular no. 3354/2007.

3.1.1.6 Internal communication

With the aim of the information coming from the area responsible for the management of market and liquidity risks achieving the required amplitude, reports are produced daily for members of top management, committees and business areas, monitoring potential risk exposure in order to assist decision-making. In addition, a Monthly Market and Liquidity risk Report is produced and submitted to the Executive Board and the Board of Directors, to be sent on to Brazilian Central Bank, this document highlighting the main items of exposure subject to market and liquidity risk at Banrisul.

3.2 Liquidity Risk

This is defined as liquidity risk as a result of the possible occurrence of an imbalance between tradable asset and demandable liabilities– "mismatches" between payments and receipts which could affect financial capacity, taking into consideration the different currencies and settlement terms of the Bank's rights and obligations, as they fall due.

The liquidity risk of the banking businesses may arise from the moment when, occasioned by difficulties in raising funds for the financing of assets, resulting in the usual increase in funding costs, may also imply a restriction in asset growth; or due to the differences in the settlement of obligations with third parties, induced by significant mismatch between residual due-dates of assets and liabilities.

3.2.1 Process of Managing Risk and Liquidity

In its quest to adopt the best practices used in the financial system, and in adherence to the recommendations of Basel II, Banrisul establishes operational limits for liquidity risk consistent with the strategies of the Bank's businesses, for financial instruments and other exposures, whose compliance in macro-parameter terms is regularly analyzed by the economic committees, bank management, and submitted to instances of

supervision by directors, with the aim of maintaining operations in an efficient manner by the managers.

The management of liquidity is centralized at the Treasury Department. This management has the aim of maintaining a satisfaction level of cash and equivalents to meet short, medium and long-term financial needs, both in a normal scenario and in a crisis scenario, with the adopting of corrective actions if necessary.

3.2.2 Management Models

a) Control and Monitoring

Banrisul monitors Liquidity Risk and Market Risk on a combined basis, observing the cash flow from the incoming and outgoing flows and from the institution's financial and non-financial operations, which are updated daily and projected over a 90 day horizon so as to guarantee an additional safety margin in addition to the minimum liquidity estimated which could affect the allocation and raising of funds in the market, observing the precepts required under CMN Resolution no. 2804/00 and Brazilian Central Bank Circular no. 3393/08.

In the control process, the mismatches arising from the use of short-term liabilities to provide funding for long-term assets, are monitored, with the aim of avoiding liquidity deficiencies and guaranteeing that the Institution's reserves are sufficient to deal with its daily cash requirements, both cyclical and noncyclical, as well as long-term needs; to maintain a minimum level of highly liquid market assets, together with access to other forms of liquidity; To ensure a base of funding operations that are sufficiently diversified, while fulfilling the minimum levels required by the regulations.

Models used for the purpose of monitoring daily liquidity are:

- ✓ Cash flow;
- ✓ Monitoring of liquidity level;
- ✓ Mapping of mismatches in terms and currencies;
- ✓ Map of individualized portfolios, by term and currencies;
- ✓ DCAR - statement of fund raising and allocation;
- ✓ Map of duration, among others items.

So as to avoid high negative values for liquidity gaps over short-term intervals, the institution seeks to ensure continually efficient treasury management. To deal with the higher maturity amounts, particularly, those related to the expansion in loans granted, the Institution adopts a policy of raising different types of funding that are more suitable to achieving equilibrium between asset and liability maturities, while also simultaneously

guaranteeing greater stability of client funds, through the launching of structured products and savings accounts. The Institution adopts a policy of not generating significant exposure in foreign currency, or to assets and liabilities that are reference to the exchange rate, limiting its exposure to 5% of its Reference Equity.

With regard to Liquidity Contingency the Institution aims to identify in advance and minimize possible crises and their effects on the continuity of its businesses. The parameters used for the identification of crisis situations consist of a range of responsibilities and procedures to be followed so as to guarantee the stable level of liquidity required for daily positions.

b) Assumptions used for the treatment of advance liquidation of deposits which do not have a defined due-date.

Cash deposits: Historic figures reveal that Banrisul's cash deposits have been rising, showing the Institute's capacity of preserving a cushion and level of liquidity appropriate to its daily cash withdrawals.

Savings deposits: The historic migration of savings deposits to current accounts has not resulted in a reduction in savings balances equal to the increase seen in cash deposits, due to the expansion in incomes, seasonal characteristics at the end of the year and the traditional preference of savings account holders for this type of investment.

3.2.3 Financial Instruments

In the first quarter 2011, Banrisul did not contract any operations using financial instrument derivatives on its own account, with or without a central counterparty, subdivided into those realized in Brazil and abroad, or other type of leveraged derivative, as operations that are not used for the hedging of its assets and liabilities are not part of the Bank's policy.

3.2.4 Internal Communication

Daily reports are sent to the Treasury Department containing exposure by risk factor, as well as open exposure by due-date. This procedure guarantees timely monitoring of market and liquidity risk by all related parties.

4 OPERATIONAL RISK

Banrisul's operational risk, in accordance with Brazilian Central Bank Resolution 3380/06, is defined as the possibility of losses occurring as a result of the failure, deficiency or inappropriateness of internal processes, persons or systems, or external events, including legal risk.

4.1 Objectives and Policy

In compliance with Resolution no. 3380/06, Banrisul has implemented an operational risk management structure, consisting of policies, methods, processes, systems and responsibilities, being capable of identifying, evaluating, monitoring, controlling and mitigating operational risk.

Institutional Operational Risk Management Policy has been published in the form of an internal resolution, in June 2008, and is consolidated in the Bank's Standard Instructions. It has the aim of providing Banrisul with parameters, models and methods for the identification, evaluation, monitoring, control and mitigation of operational risks and the internal and external disclosure of internal and external levels of Banrisul's exposure to operational risk. It thus aims to maintain confidence in all its levels of business, with a reduction in exposure to risks and effective losses.

With the aim of involving all the employees of the Banrisul Group, the policy involves shared participation in the control of Operational Risk: all employees, student trainees and outsourced service providers of Banrisul are responsible for the practice of behavioral measures which avoid exposure to risks, within the limit of their responsibilities. The document also distributes responsibilities to managers, internal control agents, committees, the Executive Board and the Board of Directors.

4.2 Capital Allocation Model

Banrisul adopted, initially, the Basic Indicator Approach (BIA), with the objective of verifying the tranche of capital for the coverage of Operational Risk (Popr), as established by Circular no. 3383, of 04/30/2008, and Communiqué no. 16913, of 05/20/2008, published by Brazilian Central Bank.

The methodology of the Basic Indicator Approach establishes that the capital to be allocated to operational risks must be calculated half-yearly, considering the last three annual periods. The Indicator of Operational Risk Exposure (IE) corresponds, for each annual period, to the sum of the half yearly values of revenue from financial intermediation and revenue from

services provided, deducting financial intermediation expenses. To this whole calculation is applied a capital allocation factor (β) of 15%.

4.3 Management Process

The methodology adopted by the Bank, based on the best market practices, and international standards, in accordance with the recommendation of the New Capital Agreement – Basel II, and Central Bank Regulations, envisages the identification and treatment of operational risks through the mapping of their most significant processes.

Satisfactory risk management is directly related to the knowledge of the processes existing at the institution. All the critical processes must have their operational risks identified, assessed, monitored and controlled.

The macro-processes have been identified and defined in terms of their importance by the Institution, endorsed and prioritized by the Executive Board. Based on the mapping of the processes the necessary documents are generated for the identification of the risks. Internal and external audit reports, as well as reports on operational risk events identified, constitute additional inputs to the instrumentalization of the macro-process analysis.

The methodology used by Banrisul for the carrying out of qualitative analysis consists of assessment, in a decentralized manner, and from the perspective of the managers of the Bank's processes, of the effectiveness of the control and the potential of the risks, enabling the detection of undesirable exposures and the implementation of corrective measures.

Qualitative analyses of Operational Risk are carried out by the CSA (Control Self-Assessment) technique, which is based on the application of checklists with managers, for self-evaluation.

The information collected results in Banrisul's Operational Risk Matrix. The result of the analysis is sent to the managers with the aim of generating plans for the mitigation of operational risk.

The Compliance Area of the Accounting Department is responsible for the monitoring of the execution of these plans. The action plans are sent for the appreciation and approval by the Organization's decision-making bodies (Committees, Executive Board and Board of Directors).

With regard to quantitative analysis, Banrisul's Loss Database is in the process of being structured, which will have the objective of providing institution with information regarding loss events and near-loss events, so as to make the management of operational risks at the Institution more effective, while also meeting the pertinent standards.

In the first quarter of 2011, the consulting company PriceWaterhouseCoopers worked with Banrisul to help improve the risk management processes in the Bank. Scheduled to be concluded by November of this year, kick-off activities focused on gathering data and making a diagnosis report about all aspects of risk management at the Bank.

4.4 Management of Business Continuity

The structure of operational risk management makes provision for the existence of a contingency plan, containing the stresses to be adopted to ensure conditions of continuity of activities and to limit grave losses occurring as a result of operational risks.

At Banrisul, the cycles of Management of Business Continuity are carried out half-yearly, with the 7th cycle is currently in progress. Tests are carried out of existing plans, and improvement possibilities are looked at, and if possible, introduced in subsequent cycles.

4.5 Communication and Information

The process of operational risk management involves the drawing up of reports which permit the identification and timely correction of deficiencies in control and operational risk management.

The reports are drawn up at the end of each cycle of operational risk evaluation, comprising the results of the analysis and the respective action plans drawn up by the managers for the treatment of risks inherent in the processes. The operational risk matrix completes the report, which is submitted to higher authority for analysis and deliberation.

The activities carried out by the area for Operational Risk Management are consolidated in a report, and sent annually to the Executive Board and the Board of Directors.

In the first quarter of 2011, we continued to campaign for awareness of the employees regarding to operational risk and continued the ongoing risk analysis. In addition, working groups were created to discuss specific questions of the Bank, with the participation of the Corporate Risk Management Unit.

5 Management of Capital

5.1 New Capital Agreement – Basle II

The main objective of the Basle Committee, with the creation of the Basle Agreement, was to develop a system for the measuring and standardization of minimum capital requirements, calculated based on the weighted asset risk. Capital requirement is one of the incidents mace used by regulatory authorities, for the quest for solidity and stability in the international banking system.

Since the introduction of the first version of the Basle Agreement, which aimed to internationalize standards of risk management in banking activities, there have been significant changes in the sector. The revision to the Agreement aims to develop a capital structure significantly more sensitive to risk and at the same time considering the particular characteristics of each bank and each system of supervision and accounting of each country. Therefore, the Basle Accord II, also known as the New Capital Agreement – Basle II has come to complement the structure related to the risks considered in the calculation of capital requirement, which in addition to credit risks and market risk, already considered in the original agreement, introduce operational risks. It also provides more flexibility to institutions, permitting the use of their own models for the managing of risk controls. In counterparty, this increased flexibility must be accompanied by efficient supervision and greater market discipline.

The New Agreement is based on three key elements:

Key Element I: Minimum Capital

The first key element establishes minimum capital requirements or credit, market and operational risks, permitting the use of internal models for the calculation of capital allocation, more sensitive to the structure of the institutions.

Key Element II - Banking Supervision

The second key element concerns the process of banking inspection. The new structure requires that banks have adequate capital to provide support for all the risks in their banking businesses, and that they develop and use the best risk management techniques.

Key Element III - Transparency

The third key element establishes a greater degree of market discipline by increasing the level of transparency of the banks, so that market agents are well-informed and can better understand the risk profile of the banks.

Brazilian Central Bank, in keeping with the dispositions of the New Capital Agreement – Basle II, published Resolution 3490/07 of National Monetary Counsil, establishing that financial institutions must permanently maintain a level of capital that is appropriate to their risk structure. The resolution introduced modifications to the calculation of the minimum equity requirement, for the coverage of asset risks and the risks of the financial institutions' activities.

Brazilian Central Bank requires that the value of the Reference Equity – PR, be compatible with the risks assumed, in other words higher than the Required Reference Equity – PRE, which is calculated by the sum of the tranches described below:

PRE = PEPR + PCAM + PJUR + PCOM + PACS + POPR

PEPR – tranche referring to weighted exposure by weighted risk factor attributed to it. Circular no. 3360 of 09/12/2007.

PCAM - tranche referring to the risk of exposure to gold, and foreign currency and operations subject to exchange-rate variation. Circular no. 3389 of 06/25/2008, Circular no. 3388 of 06/04/2008, and Letter-Circular no. 3309 of 04/15/2008.

PJUR – tranche referring to the risk of operations subject to variation in exchange-rate and the classification of the trading book-Pjur1+Pjur2+Pjur3+Pjur4 - defined by Circulars 3361, 3362, 3363, 3364, all of 09/12/2007.

PCOM – tranche referring to the risk of operations subject to variation in the price of merchandise (commodities). Circular no. 3368 of 09/12/2007.

PACS – tranche referring to the risk of operations subject to variation in share prices and classified in the trading book. Circular no. 3366 of 09/12/2007.

POPR – tranche referring to operational risk. Circular no. 3383 of 04/30/2008, Circular no. 3476 de 12/24/2009, Letter-Circular no. 3315 of 04/30/2008 and Letter-Circular no. 3316 of 04/30/2008.

RBAN - in addition to these tranches, Brazilian Central Bank has also started to require that financial institutions maintain a Reference Equity sufficient for the coverage of interest rate risks on operations not included in their trading books, in accordance with Resolution no. 3464/07, Resolution no. 3490/07, and Circular no. 3365/07.

5.2 Basel III

In accordance with the new recommendations of the Committee on Basel Banking Supervision on capital structure and liquidity of financial institutions, the Central Bank of Brazil issued the Notice no. 20615 on February 17, 2011, with the preliminary guidelines and initial schedule for the implementation of Basel III in Brazil, which meets the commitment of the members of the G20 agreed on December 2010.

The definitions of the third version of the Capital Accord - Basel III are intended to introduce more stringent measures to increase the stability of the international financial system, after the global financial crisis started in 2008.

The new rules impacted the capital and liquidity of the financial institutions with the introduction of higher levels of requirements, which determine the banks to increase capital reserves to protect themselves from crisis. By the new rules on capital and liquidity, banks must have a minimum of Tier 1 capital - retained earnings and shares - of 5.5% on Risk Weighted Exposures by Risk and must maintain an additional conservation capital (2.5%) and counter-cyclical capital to be fixed at time of substantial credit growth (0% to 2.5%).

Two indicators will be set: a new leverage indicator, which takes into account the nominal value of assets (without risk weighting) and a liquidity control indicator. It is scheduled the requirement of a minimum value for the leverage ratio, initially set at 3%. The coverage ratio of short-term liquidity will require, under any stress scenario, a minimum amount of assets whose stock should allow the bank's continuity for 30 days. It should also be calculated the long-term indicator, which seeks to encourage institutions to fund their business with more stable sources of funding.

The table below summarizes the measures and the implementation schedule released by the Central Bank of Brazil:

Tabela 14 - Implementation Schedule - Basel III

Parameter/EPR	01/01/13	01/01/14	01/01/15	01/01/16	01/01/17	01/01/18	01/01/19
	F = 0.11	F = 0.11	F = 0.11	F= 0.09875	F= 0.09875	F= 0.08625	F= 0.08
Main Capital	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Tier I	5.50%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
PR	11%	11%	11%	9.875%	9.25%	8.625%	8.000%
Conservation Capital	0	0	0	0.625%	1.25%	1.875%	2.50%
PR + Conservation Capital	11%	11%	11%	10.50%	10.50%	10.50%	10.50%
Counter-cyclical Capital (until)	0	0.625%	1.25%	1.875%	2.50%	2.50%	2.50%

5.3 Reference Equity

Reference Equity represents the equity base for the calculation of the Operational Limits of the financial institutions, as defined by CMN Resolution 3444/07 and consisting of the sum of Level I and Level II, excluding the deductions set out in the directive.

According to CMN Resolution 3490/07, Reference Equity must be higher than Required Reference – PRE.

Below we show the details of the Reference Equity of the Financial Conglomerate and the Consolidated Economic-Financial figures:

Table 15 - Reference Equity Details of Financial Conglomerate

Financial Conglomerate- R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Reference Equity	**3,865.9**	**3,715.5**	**3,608.2**	**3,455.9**	**3,422.9**
Reference Equity Level I	**4,006.1**	**3,851.5**	**3,742.0**	**3,587.2**	**3,553.3**
Shareholders' Equity	3,855.4	3,856.2	3,592.8	3,591.0	3,409.1
Creditors results account	2,545.3	-	2,406.2	-	2,092.0
Debtors results account	2,390.7	-	2,251.8	-	2,020.4
Deferred fixed assets	10.1	10.1	10.1	10.1	10.1
Adjustments to market value- Securities and Derivatives	(6.3)	(5.5)	(4.9)	(6.3)	(6.0)
Provision additional to the minimum established by Resolution no. 2682/99	-	-	-	-	76.6
Dividends and bonuses to be distributed	-	-	-	-	-
Reference Equity Level II	**(6.3)**	**(5.5)**	**(4.9)**	**(6.3)**	**(6.0)**
Adjustment to market value - Securities and Derivatives	(6.3)	(5.5)	(4.9)	(6.3)	(6.0)
Deductions from PR	**133.9**	**130.6**	**128.9**	**124.9**	**124.4**
Shares issued by financial institutions and other authorized financial institutions, authorized by Central Bank of Brazil	133.9	130.6	128.9	124.9	124.4

*CMN Resolution no. 3674 of December 30, 2008, allowed the full increase of the additional provision to Reference Equity Tier I. CMN Resolution no. 3825 of December 16, 2009, revoked its effects from April 1st, 2010.

Table 16 - Reference Equity Details of Economic and Financial Consolidated

Consolidated Economic-Financial - R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Reference Equity	4,000.6	3,873.0	3,738.0	3,603.1	3,548.2
Reference Equity Level I	4,006.9	3,878.5	3,742.9	3,609.4	3,554.2
Shareholders' Equity	3,856.1	3,551.7	3,593.7	3,408.7	3,410.0
Creditors results account	1,574.5	3,173.0	1,576.3	2,715.7	1,308.6
Debtors results account	1,419.8	2,840.8	1,421.8	2,510.4	1,236.9
Deferred fixed assets	10.1	10.1	10.1	10.1	10.1
Adjustments to market value- Securities and Derivatives	(6.3)	(5.5)	(4.9)	(6.3)	(6.0)
Provision additional to the minimum established by Resolution no. 2682/99	-	-	-	-	76.6
Dividends and bonuses to be distributed	-	0.7	-	0.7	-
Reference Equity Level II	(6.3)	(5.5)	(4.9)	(6.3)	(6.0)
Adjustment to market value - Securities and Derivatives	(6.3)	(5.5)	(4.9)	(6.3)	(6.0)
Deductions from PR	-	-	-	-	-
Shares issued by financial institutions and other authorized financial institutions, authorized by Central Bank of Brazil	-	-	-	-	-

*CMN Resolution no. 3674 of December 30, 2008, allowed the increase of an additional provision to Reference Equity Tier I. CMN Resolution no. 3825 of December 16, 2009, repealed effective from April 1st, 2010.

The Reference Equity of the Financial Conglomerate showed an increase over the period analyzed, due to the incorporation of profits generated in the same period, totaling R$3,865.9 million in March 2011, 4.04% higher than the previous quarter. The Reference Equity of the Economic and Financial Consolidated showed an increase of 3.29% compared to December 2010, amounting R$4,000.6 million in March 2011.

5.4 Required Reference Equity (PRE) and the Adjustment of Reference Equity (PR)

Required Reference Equity is the minimum capital required by Brazilian Central Bank and must be compatible with the risk structure of the institution.

The following table contains information referring to the allocation of capital for the Financial Conglomerate and the Consolidated Economic-Financial Conglomerate, including the measurement of the Basle index, and the margin for the application in new businesses.

Table 17 - Required Reference Equity Details – Financial Conglomerate

Financial Conglomerate - R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Credit risk	**632.1**	**1,973.9**	**1,899.8**	**1,792.3**	**1,670.2**
Loan Operations - Retail	632.1	592.5	569.5	538.9	500.8
Retail Commitments	174.5	172.6	169.7	161.1	147.1
Loan operations – Non-Retail	786.4	766.8	703.6	667.1	651.2
Commitments - Non-Retail	61.5	59.1	58.4	49.7	50.4
Guarantees Provided	47.9	48.6	50.5	51.1	44.7
Advances	47.8	46.2	53.2	47.1	45.1
Tax Credit	68.3	67.9	68.5	67.7	66.6
Other Assets	250.5	220.2	226.4	209.5	164.3
Market Risk	**313.6**	**308.5**	**330.9**	**310.9**	**290.7**
Exchange rate risk	-	-	-	-	-
Interest rate risk - sum	311.4	305.8	328.5	308.7	288.4
Fixed interest in Reais - Pjur 1	101.8	85.6	121.5	128.0	121.7
Foreign currency coupons- Pjur 2	5.6	5.8	6.5	5.6	5.7
Price index coupons- Pjur 3	3.5	5.5	8.6	8.7	9.0
Interest rate coupons- Pjur 4	200.4	208.9	191.9	166.3	151.8
Commodity risk	-	-	-	-	-
Share risk	2.2	2.8	2.4	2.2	2.3
Operational risk	**375.5**	**346.8**	**346.8**	**322.1**	**322.1**
Required Reference Equity	**2,760.7**	**2,629.3**	**2,577.5**	**2,425.3**	**2,283.0**
Reference Equity	**3,865.8**	**3,715.5**	**3,608.2**	**3,455.9**	**3,422.9**
Required Reference Equity- PRE: credit risk + market risk + operational risk	**2,760.7**	**2,629.2**	**2,577.5**	**2,425.2**	**2,283.0**
Rban -banking portfolio	21.9	22.0	22.0	22.0	21.5
Margin = PR - PRE - Rban	**1,083.4**	**1,064.2**	**1,008.7**	**1,008.6**	**1,118.4**
Basle Index	**15.4%**	**15.5%**	**15.4%**	**15.7%**	**16.5%**

Required Reference Equity of Financial Conglomerate grew from R$131.4 million in the last quarter, totaling R$2,760.7 million, due mainly to the increase of credit operations in the same period. It represents an increase of 20.92 in comparison to March 2010.

In relation to other risk parcels that comprise the Required Reference Equity, the operational risk portion grew due to higher on revenues, totaling R$375.5 million in the last quarter.

The market risk parcel grew over the last quarter, influenced by the parameters set by the Central Bank of Brazil and the mismatch between the maturities of assets and liabilities transactions.

Table 18 - Required Reference Equity Details – Economic and Financial Consolidated

Economic-Financial Consolidated - R$ million					
Base date	**Mar/11**	**Dec/10**	**Sep/10**	**Jun/10**	**Mar/10**
Credit risk	***632.1***	***1,983.8***	***1,909.,***	***1,801.5***	***1,679.6***
Loan Operations - Retail	174.5	592.5	569.5	538.9	500.8
Retail Commitments	174.5	172.6	169.7	161.1	147.1
Loan operations – Non-Retail	786.4	766.8	703.6	667.1	651.2
Commitments - Non-Retail	61.5	59.1	58.4	49.7	50.4
Guarantees Provided	47.9	48.6	50.5	51.1	44.7
Advances	50.4	46.2	53.3	47.2	45.1
Tax Credit	68.3	67.9	68.5	67.7	66.6
Other Assets	261.5	230.1	236.0	218.7	173.7
Market Risk	***313.6***	***308.6***	***330.9***	***310.9***	***290.7***
Exchange rate risk*	0	0	0	0	0
Interest rate risk - sum	311.4	305.8	328.2	308.7	288.4
Fixed interest in Reais - Pjur 1	101.8	85.6	121.5	128.0	121.7
Foreign currency coupons- Pjur 2	5.6	5.8	6.5	5.6	5.7
Price index coupons- Pjur 3	3.5	5.5	8.6	8.7	9.0
Interest rate coupons- Pjur 4	200.4	208.9	191.9	166.3	151.9
Commodity risk	0	0	0	0	0
Share risk	2.2	2.8	2.4	2.2	2.3
Operational risk	***388.9***	***358.0***	***358.0***	***330.9***	***330.9***
Required Reference Equity	**2,785.0**	**2,650.5**	**2,598.3**	**2,443.3**	**2,301.2**
Reference Equity	**4,000.6**	**3,873.0**	**3,738.0**	**3,603.1**	**3,548.2**
Required Reference Equity- PRE: credit risk + market risk + operational risk	**2,785.0**	**2,650.5**	**2,598.3**	**2,443.3**	**2,301.2**
Rban -banking portfolio	21.9	22.0	22.0	22.0	21.5
Margin = PR - PRE - Rban	**1,193.7**	**1,200.6**	**1,117.7**	**1,137.9**	**1,225.5**
Basle Index	**15.8%**	**16.1%**	**15.8%**	**16.2%**	**17.0%**

Required Reference Equity of Economic and Financial Consolidated showed an increase of R$134.5 million in the last quarter, coming to a total of R$2,785.0 million, principally as a result of the lending operations over the same period. Compared to March 2010, showed increase of 21.02%.

With respect to the other tranches that make up PRE, the tranche of operational risk showed an increase due to the rise in revenue, totaling R$388.9 million in the last quarter.

The tranche of market risk increased in the last quarter, influenced by the parameters defined by Central Bank of Brazil and the mismatch between asset and liability operation periods.

5.4.1 Evolution of PR and PRE

The following chart shows the adjustment in Reference Equity with respect to Required Reference Equity.

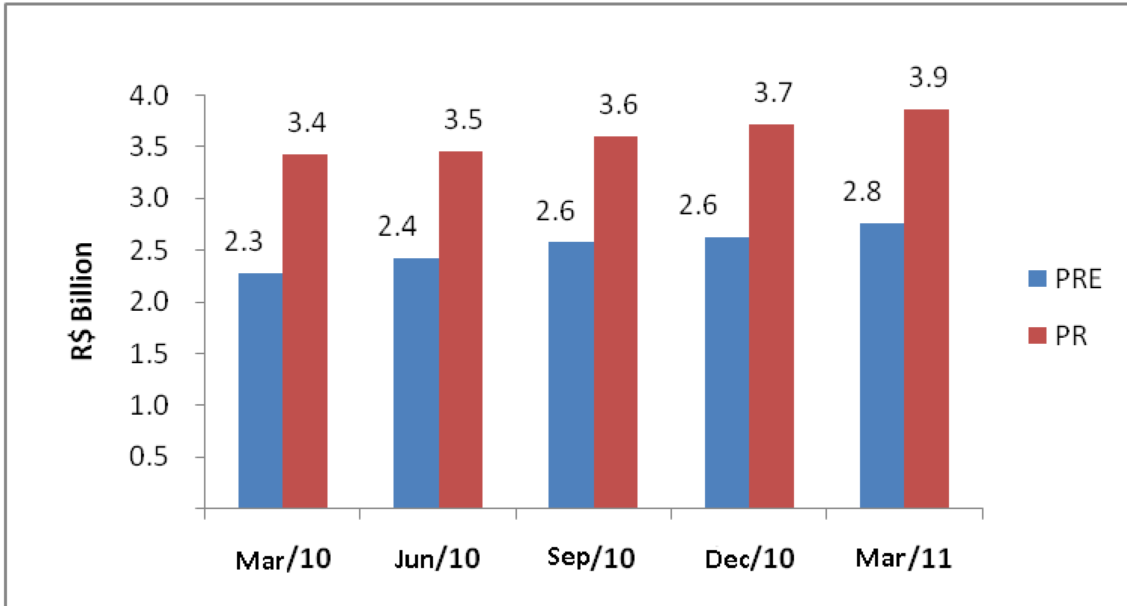


Chart 2 - Evolution in PR and PRE - Financial Conglomerate

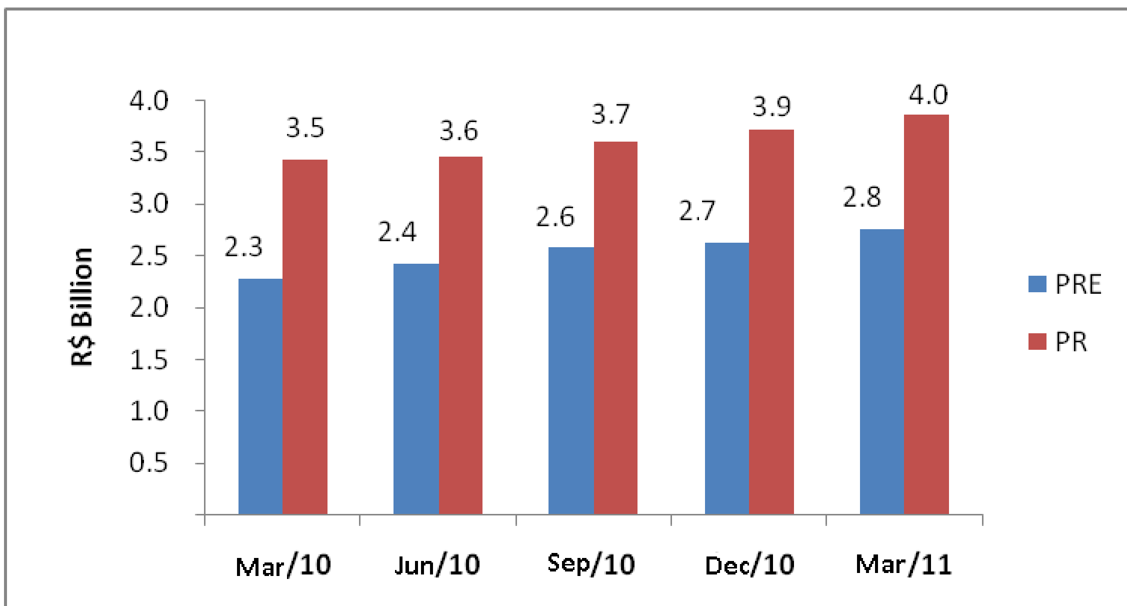


Chart 3 - Evolution in PR and PRE - Economic-Financial Consolidated

The Reference Equity of the Economic Financial Consolidated ended the first quarter 2011 with R$4.0 billion, 42.8% higher than the Required Reference

Equity of R$2.8 billion, which resulted in a Basel Ratio of 15.8%, higher than the minimum figure required by Central Bank of Brazil, of 11%.

5.5 Basel Ratio

The Basel Ratio represents the ratio between the Equity Base - Reference Equity – PR, and the weighted risks - Required Reference Equity – PRE, in accordance with the regulations in force, demonstrating the solvency of the Company. The minimum percentage established by Brazilian Central Bank in Brazil is 11%. The chart below shows the evolution in the Basle Index of the Financial Conglomerate and the Consolidated Economic-Financial Conglomerate.

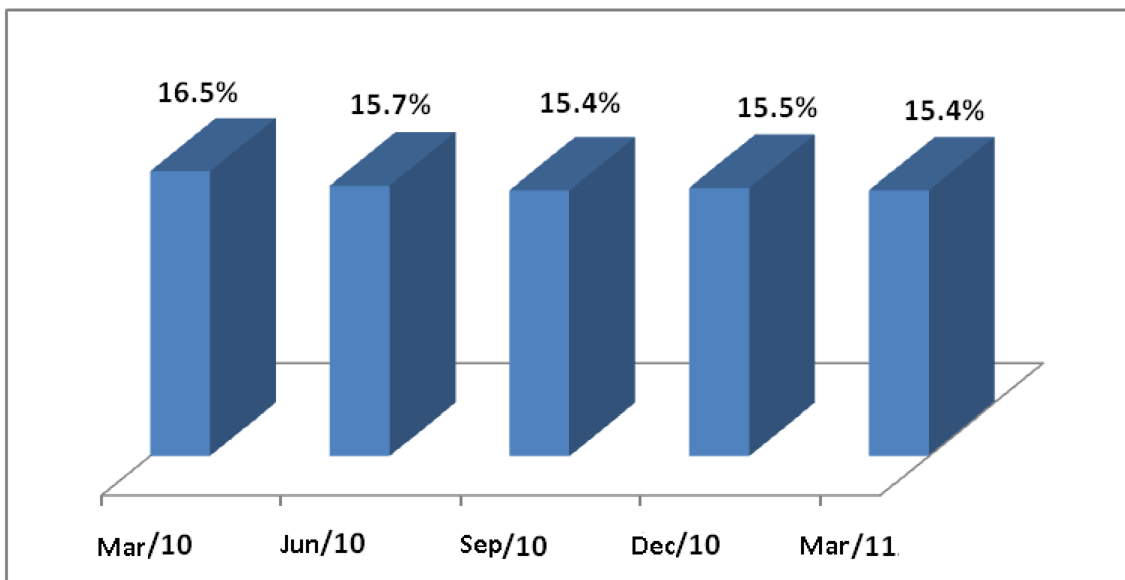


Chart 4 – Basel Ratio – Financial Conglomerate

The Basle index of the Financial Conglomerate ended the last quarter at 15.4%, higher than the minimum figure defined by Brazilian Central bank, which allows for an increase of up to R$9.8 billion in new business.

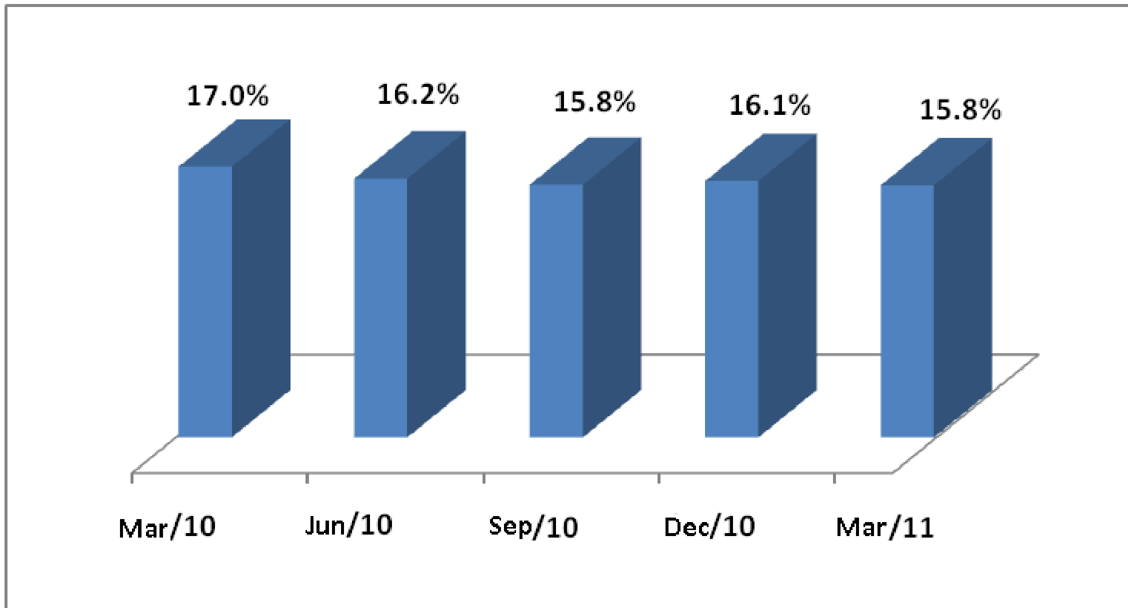


Chart 5 -Basel Ratio – Consolidated Economic and Financial Conglomerate

The Basel Ratio for the Consolidated Economic and Financial Conglomerate ended the quarter 15.8%, higher than the minimum figure defined by Brazilian Central Bank, which allows for an increase of up to R$10.8 billion in new business.