

Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Banrisul's 4Q11 and yearend 2011 results conference call. Today with us we have João Emilio Gazzana, CFO and Investors Relations Officer, Werner Köhler, General Accountant, and Alexandre Ponzi, Executive Superintend Investor Relations Capital Markets and Governance unit.

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 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 slideshow of this presentation are available through a live webcast at www.banrisul.com.br/ir. The slideshow 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 will turn the conference over to Mr. Alexandre Ponzi, IR Manager, who will start the presentation. Mr. Ponzi, you may begin the conference.

Alexandre Ponzi:

OK, thanks again. Just before we start our presentation, I will turn the mic over to Mr. Gazzana, just for a brief introduction. Mr. Gazzana, please.

João Emilio Gazzana:

OK. Thank you all for attending Banrisul's conference call. This morning as you know, we released to the press and to the market Banrisul's financial statements, and the numbers released confirmed that Banrisul is in a very consistent path for return on average equity at 22% level, increasing net financial margin, improving efficiency ratio, continuous growth of lending portfolio with low delinquency ratio, high coverage ratio, and room to increase credit operations, with a very high Basel ratio as well, and still presenting very high liquidity.

So we have the pleasure to present now our numbers, and I ask Mr. Alexandre to start our presentation.

Alexandre Ponzi:

Now I would like to go straight to present the 2011 numbers. As can be seen on **slide two**, we have improved market share both in the State of Rio Grande do Sul and also in the Brazilian market, while increasing our service network in relation to the last quarter and in relation to the December last year, in which we increased by 48 the number of total service points.

On **slide three**, we have our credit group, which was above market's average again, growing at 19.7%, a little less than the 19% presented by the banking industry. Our commercial credit portfolio increased 16.3% in the last 12 months, and the loan book growth was supported by the increase of funding, mainly from time deposits, as a result of recent restructuring of our funding products and of our commercial approach to increase these specific deposits.

Total assets of R\$37.6 billion in December 2011, which can be seen on **slide seven**, grew almost 17% in comparison to December 2010, with an increased participation of credit assets, now almost 55% of our assets. Return on assets moved from 2.4% in the 4Q10 to 2.6% last quarter.

On **slide six**, we can see that assets have grown at an average annual rate of closer to 19%. Total funding and assets under management totaled R\$29 billion, increasing 15.6% in the past 12 months, as seen on **slide six**.

Funding comprising time savings and demand deposits make up for 77% of our portfolio, as seen on **slide seven**, and grew 17.4% year on year, with a CAGR of 16.7% over the past six years.

We would like to point out that it is the funding profile on **slide eight**. Our funding comes fundamentally from our branches and is completely retailed funded from customers. In this is an increasing competitive advantage for the Bank, given its low cost and stability in time. In the 4Q11 total funding costs reached 17.9% of the Selic rate, sort of flattish from December 2010. Cost of funding from time deposits reached 87.2% of the Selic rate; it was 92.2% in December last year.

On **slides nine to 11**, loan book reached R\$20.4 billion, about 20% growth in 12 months and 3.8% quarter on quarter, above the average rates of the industry. As such credit growth rates reflecting asset quality and credit control measures, we are still slightly below the CAGR of 26.3% that Banrisul has presented since 2006 for the credit growth. This credit growth, which is strong and now equals to 55% of our total assets, is based on good asset quality, the continuous improvement of quality of the loan book has allowed us to find a more appropriate level for credit provisions as a proportion of the total portfolio, which has maintained around 6.5% throughout the past five quarters.

On the other hand, the turnover of our credit disbursement during 2011 increased 9% in relation to December 2010. Not only in the ear market credit portfolio but with high growth rates in portfolios on direct allocations, such as agricultural and real estate finance, with the benefit of improving customer loyalty on the loan graph.

Loan book is well diversified too, as presented on **slide 12**. Commercial credit portfolio has a relative participation of 75%. Real estate loans in the agricultural portfolio represent each a little more than 8% of our total credit operations.

Commercial credit has still a larger participation of credit to individuals, about 53% of the credit book, it was 56% in September last year, with payroll loans making out for about 74% of our credit to individuals. Out of the payroll lending, 63% is of own generation and 37% comes from acquisition from other banks, all with recourse.

Commercial credit to companies represents 47% of the commercial credit portfolio. Working capital as the most representative line, with a share of 76% in this particular segment. And the commercial credit portfolio as a whole increases at a slightly slower pace than that we have seen for the loan book, **slide 13**, on account of the lower growth of credit to individuals already anticipated at the beginning of last year.

Credit to individuals with a balance of R\$8.1 billion in December 2011 increased almost 10% in the last 12 months and decreased by 3% quarter on quarter, mainly from the reduction of the acquired portfolio. Commercial credit to companies increased 26% from December 2010 to December 2011, 9% from September to December 2011, and reached R\$7.2 billion in balance.

On **slide 14** we show the quality of the credit portfolio with almost 90% classified as normal credit risk. Total provisions of 6.5% of the total loan book, as we mentioned earlier, and default rate is still low, NPLs of 2.8% over 60 days and 2.4% over 90 days, almost the same that we saw in the last quarter 2011, have maintained comfortable coverage ratios of 234% and 271% for past-due loans over 60 and 90 days, respectively. This combination between low NPL ratios and inadequate coverage ratio brings an important tool when managing the loan book.

Slide 15, Banrisul's securities portfolio with a balance of R\$11 billion, a growth of 16% in 12 months. Credit assets now account for a larger share of our total assets. The Bank's sound liquidity condition has been preserved. This larger asset quality allocation into credit is reflecting the growth of almost 23% of the financial revenues in the past 12 months, reaching the balance of R\$5.9 billion; this is **slide 16**.

The 7% drop from the 3Q11 to the 4Q11 is explained by the foreign exchange devaluation that has generated lower revenues on the long-term financing in foreign currency and it was partially offset from credit recovery revenues. Even so, financial income growth from 2010 to 2011 is higher than the CAGR of 15% during the past six years, presented on **slide 17**.

Total provision expenses in 2011 increased 21% from December 2010, but they did decrease by 9% from the 3Q11 to the 4Q11, as is seen on **slide 18**. The growth of provision expenses during 2011 included, in addition to the organic growth of the loan book throughout the year, the impact of the increasing past-due loans over 60 days.

Still, when this rate is annualized, our cost of provision is at the floor of our guidance range, between 3% and 4%, guidance which incorporated expenses, expectations for credit deterioration when initially presented in early 2011.

Expenses with market funding in 2011 are 28% higher than that of 2010. Market funding expenses of R\$463 million in December this year or throughout the last quarter, is 22% higher than what we saw in the 4Q10 and 6% below that presented in the 3Q11.

The changes observed in funding expenses reserved from the increase in the balance of time deposits and also from the behavior of the Selic rate and of the reference rate, or TR, which had impact on savings deposits, as seen on **slide 19**.

Our net interest income, on **slide 20**, reached R\$3.4 billion at the end of 2011, 16% higher than that at December 2010. Net interest income during the 4Q11, R\$907 million, is 15% higher than that of December 2010 and 4% above September, on account of the growth of our credit and securities portfolio and also from lower market funding expenses.

Let us turn now to operating expenses, on to **slide 21**. Throughout 2011, administrative expenses totaled R\$1.8 billion, growing about 8% in 12 months. The balance of R\$510 million recorded in the 4Q11 is 15% higher than that of the 4Q10 and 6% above the 3Q11. Personnel expenses growing at 14% from 2010 to 2011 is related to wage agreements and also from headcount increase. Our net headcount increased by 880 employees. And this explains the OPEX increase in 12 months, given the reduction of other admin expenses in the same period.

From the 3Q11 to the 4Q11, the 6% increase derived mainly from variations of 10% in other admin expenses, especially from marketing ones. The small increase in personnel expenses is tied to the collective agreement that was seen in September 2011. OPEX performance in the past six years is available on **slide 22**.

And now we get to Banrisul's net income, on **slide 23**. The amount of R\$904 million in 2011 is 22% above that of 2010, with an equivalent ROE of almost 22%. As for the net income produced during the 4Q11, R\$227 million net income, this amount is a little smaller than that of the 4Q10 due to higher market funding expenses and loan loss provisions throughout the year and also lower than 3Q11's from lower trade finance income recorded during last quarter. If we take 4Q11 net income, ROE would reach 22.5%.

Earnings per share went from R\$1.81 to R\$2.21 in the last 12 months. Net income during the past six years, particularly the recurring net income, is presented on **slide 24**, as well as the ROE set for each and every period.

It should be noticed that the recognition of tax credit in 2007 and 2008 impacted bottom-line figures in those years. Payout policy of 40% has been preserved, and Banrisul paid to shareholders the amount of R\$343 million in 2011; **slide 25**.

Shareholders' equity R\$4.4 billion rolling at a little over 14% in 12 months, 3% from quarter to quarter; **slide 26**. Equity has grown in the past six years at an average rate of 28% per annum, **slide 27**.

If we base our views on 2007 on, to eliminate any effects from the public share offering over Banrisul's equity, THR would be about 12%, a rate that is similar to what we saw during 2011.

With that, we now have the summary of Banrisul's key performance indicators, seen on **slide 28**. Efficiency ratio improved in 12 months, from 47.8% to 45.2%, and is flat during 2011. ROE, from 20.4% to 21.9% in the same period. And ROA from 2.9% to 2.5%, in line with the indicators present by the peers or outpacing those same indicators.

As we go on, we can notice that our 17.2% total in tier I only Basel ratio is a comfortable level that permits the credit growth at a strong base. We have also added a longer review of our efficiency and operating cost ratios on **slide 29**. Banricompras is presented with its main figures on **slide 30**.

Financial turnover and transaction quantities grew 15% and 9.5%, respectively, from 2010 and 2011 when R\$5.5 billion were traded in about 78 million transactions, all from the use of the card from Banrisul's customers. If we included in these numbers the cards that were acquired from Banrisul Serviços, a subsidiary that offers new food and fuel cards mostly, those products, and the still small number of transactions with MasterCard cards, total transactions would be the equivalent of R\$92.3 million and financial turnover, R\$6.2 billion.

With that we mean that the ancillary use of Banricompras network would represent an increase of 19% in the volume traded and of 11% in the financial balance. As the average tickets from the acquiring Banricompras card and from acquiring MasterCard they have been very similar, changes in the financial traded volume is below that for the number of transactions on account of a lower average ticket in transactions with the use of Banrisul Services cards.

And this indicates that the use of Banricompras will be improve to the extend that the acquiring volumes from other cards increase in 2011, they represented only 0.4% of all transactions with Banricompras, as they included only transactions with MasterCard and it is at early stages.

Banrisul's performance has been based on initiatives to leverage businesses and products supported by significant permanent investments in technological upgrades, which have grown at a annual rates of 8% and has allowed the Bank to serve in a faster and secure manner all its account holders and also non-account customers. In 2011, we invested about R\$109 million, **slide 31**.

Finally, 2012 guidance with forecast similar to what we saw in 2011. By presenting the guidance, we now complete the discussion of the main numbers of Banrisul. I will now return the floor back to Mr. Gazzana for a brief conclusion, and then we will leave to your questions and answers. Thank you.

João Emilio Gazzana:

Well, let us go to your questions.

Thiago Batista, Itaú:

Hi, Gazzana and Alexandre. I have two questions. My first question is regarding the acquisition of Bem-Vindo; when do you believe that that acquisition will be concluded and how much payroll loans this partnership could originate per month? And also in the Bank's guidance, this is already incorporated in the Bank's guidance?

And my second question is regarding the bond that the Bank just issued, if you could comment a little more about the rationale of this issuance?

João Emilio Gazzana:

Hello, Thiago. Well, first of all related to Bem-Vindo, as we have been saying in the last quarters, in the case of Banrisul it was important for us to create new opportunities to grow our business related to payroll discounts outside Rio Grande do Sul.

Up till now we were giving only through the alternative applying credits from other banks. And through Bem-Vindo, we will be able to increase our business outside Rio Grande do Sul related to payroll, increasing our own generation.

First of all, the first consequence would be the opportunity to increase our spread, because when we buy credits from other banks, our spread is something between 3% and 3.5% a year. And through our co-generation, it will be possible to increase our spreads at least double this number, even after considering some delinquency rate.

Of course we know that acting outside Rio Grande do Sul we are going to incur in some expenses related to fees we have to pay. But even considering that, we are sure we will be able to have at least double the spread we are running today, when we buy credit from other banks.

And so the tendency in the next two to three years is that up to today we have something near 60% related to our own generation now, and 38% to 40% today related to credit we buy from other banks. In two or three year's time, we intend to have 80% to 90% of our own generation and only something around 10% to 15% related credit we buy from other banks. So, this is our move.

And for us this new strategy is very important because, as you know, payroll in Brazil is suffering a very important change. According to the new rule by the Central Bank, most of the banks that were in this business, really are not able to stay in the business anymore. And if we wanted to increase our payroll business outside Rio Grande do Sul, without Bem-Vindo we would have to concentrate our exposition in maybe two or three banks, and we concluded that it was not the best strategy.

So, in this case we will be generating payroll discount business through Bem-Vindo, outside Rio Grande do Sul, but with Banrisul credit policy and only to Federal Government employees or some state government employees. Those operations will be conducted according to Banrisul's credit policy. And we think by what we are

judging up to now, Bem-Vindo is generating around R\$100 million per month, and from March on, when we are going to take over this company, up to the end of 2012, we intend to be working at around R\$150 million per month and maybe a little more in 2013.

We do not intend to be a big player in this area; what we want to do is just increase our own generation in order to create opportunity to invest our own liquidity. We do not intend to transform Banrisul in a big player in this area, let us say to sell credit to other banks, we just want to generate what we need to be able to create an opportunity to invest our own liquidity.

As I said before, if today we have 60% our own generation, in two or three years time we intend to have 80% to 90% our own generation. Another question related to....

Alexandre Ponzi:

Just before we go through the issuances that we just concluded, it is also important to note that we see our credit to individuals reducing quarter on quarter on account that Banrisul reduce exposure to other banks. We have been more selective than we were in the past. And this has prevented our credit to individuals portfolio from growing.

But the point is, this new strategy, we will not only replace credit lines to replace the portfolio, but it will preserve margins, because we will be now pricefying with higher spread as almost with full spreads that we charge to customers. So, that is one of the benefits.

The order is, I just saw some reports that we grew on agricultural and real estate finance stronger than we grew in the other lines. This has taken advantage of some exposure that we have natural to the market in the State of Rio Grande do Sul we did take some advantage.

It is not likely that this will grow at the same pace, but we are now trying to recuperate positions on the commercial portfolio and in places which we are not currently located, such as the states of São Paulo and Rio de Janeiro, where Bem-Vindo has 70% of their services station. They do that to keep on increasing credit to individuals, to replace or to sweep part of the acquired portfolio that we have, but still preserving margins.

João Emilio Gazzana:

Really what I can emphasize is that related to our own generation in Rio Grande do Sul State, as we generate using our own branch network, we have spreads around 11% to 12%. Related to what we buy from other banks, the spread is something 3% to 3.5%. And what we are going to generate through Bem-Vindo network, our spread is going to be something around 8%.

So, we think that it will be an opportunity to increase our spread related to payroll business. And as Alexandre was saying, to preserve Banrisul's spreads and so try to keep our means over 10%.

Thiago Batista:

And the Bank's guidance is already incorporating this partnership, correct?

Alexandre Ponzi:

Not in full. When we made the guidance, it was not included all the potential that we see for Bem-Vindo network. It is a very conservative one, because it was explicit in Mr. Gazzana's saying when he mentioned that we do want to be recognized as a payroll lending bank.

We want to see that all opportunity that we have will generate business. So therefore the guidance on credit growth is very conservative. It does include part of the potential of Bem-Vindo, which was, as I am sure it was mentioned before, it has a potential of generating more than R\$250 million in terms of payroll loans per month.

But we assume that a little less than R\$100 million will be generated throughout next quarter. So, the potential will not be fully used.

João Emilio Gazzana:

And in our case, it is very important to say that payroll business today makes up for something around 30% of our total credit operations. We intend to keep this percentage more or less around this same level. Let us say, in the future Banrisul total lending will be growing something near between 15% and 20%. And we want our payroll business to grow as well, between 15% and 20%.

So, the share of payroll business is going to keep more or less the level we have today. It is very important, we think that the payroll business is very important for Banrisul, is a very secure and very low delinquency rate, even because we are going to deal only with Federal lending, with Federal Government employees. But at the same time we think that Banrisul is a very diversified bank. We lend to individuals, to companies, and we have a very diversified portfolio. And of course we want to keep this diversified portfolio. So, the payroll lending is just a way to keep our capacity to generate this kind of credit.

And at the same time, it is very important to remember that Bem-Vindo network we intend also to distribute other credit products and also write insurance, credit cards, and maybe even some business with medium-sized companies as well, depending on new strategy we are planning. So Bem-Vindo network is going to be not only a way to generate payroll business but we want also to add other opportunities to grow our business outside Rio Grande do Sul.

Well, related to our subordinated bond as Tier II subordinated bond, I would like to remember that our long-term planning, in our long-term planning we decided not to allow our Basel ratio to fall under 14%, just because in the near future we are going to have some changes in the international scenario and in Brazilian scenario related to Basel III.

And you never know what new rules are going to come. So in our long-term plan we intend to keep our Basel ratio above 14%.

Well, today we have something around 17.4%. And with this subordinated bond, we think we are going to reach something around 19%. So, we are going to have a lot of room to grow our operation. And if you ask me "Why? You do not really need this additional capital." Well, it is true in the near future. But just because of that we decided that it was a right time to go to the market, just because we do not need it in the immediate future. Our main aim was to create a benchmarking related to liquidity of Banrisul bond, related to the rate of interest, and in order to be able in the future to go again to the market, maybe with a issuance, not in the near future.

We are not planning a new issuance in the near future. But we think that it is very important to have a Banrisul benchmarking in the market. And at the same time, it was an opportunity to have a long-term funding for our operations. Because you know that in Brazil it is difficult to have a long-term funding as well. And so we thought it was very important, given Brazil's purpose as well.

But you know that for Banrisul it was our first time in that market, and we think we opened a new door, a new opportunity.

Fabio Zagatti, Barclays Capital:

Hi, thanks for the opportunity. I have two questions here on credit growth strategy, what was behind the good quarter-on-quarter evolution in the SME segment? And why has the own origination payroll portfolio not grown in the 4Q? Is it due to competition or is it something else? And then I will have a second question. Thanks.

João Emilio Gazzana:

Thank you for your question. I apologize for the problems in the audio. Well, really what is happening is that the opportunity to grow in the payroll business in Rio Grande do Sul is more difficult. At first we have plenty of room to grow. Now, it is more or less difficult to keep growing at the same rate we did before. And at the same time, it became difficult as well to keep growing buying credits from other banks, because as you know now we have two or three banks from which we can buy this credit. And it is not our policy also to concentrate our business with few players. So, it was inevitable for us to start a new strategy.

And if you remember, we have been telling the market since June that we intended to make operational agreement with some players in the market in order to increase our own payroll generation. And this is exactly what we ended up doing with Bem-Vindo. So, Bem-Vindo is a strategy to keep growing in this market. And we think that with this new strategy, we will be able to keep growing our payroll discount business in the same path of our overall credit operations.

So, we plan to grow our total credit portfolio between 15% and 20% in 2012. With this new strategy we will be able to grow our payroll business in more or less around 15% and 20% in 2012 as well. Without Bem-Vindo, it would be more difficult to keep the same rate of growth.

And as I was saying before, it is going to be a way to increase our spreads because the credit we were buying from other banks, the spread is half what we are going to get with Bem-Vindo. So, really is a strategy to improve, to keep at first and even to improve our spread in the payroll business, and to be able to guarantee our capacity to keep growing in the payroll business in same path we are growing in our other credit operations, because our long-term strategy is to keep our payroll business representing something between 25% and 30% of our total portfolio. We do not want to be a payroll bank but we want just to be able to create opportunity to invest our own liquidity.

Well and really during the year, if you take 2011 as a whole, the biggest rate of growth was related to big companies. In these companies we had a rate of growth of 38.4% during 2011. And also we had a rate of growth of 25% related to medium-size companies. With small sized companies, 24%.

And this is related to our guidance we have released in the beginning of 2011. In 2011 our guidance related to companies, our aim was to grow, to have a rate of growth related to companies higher than the rate of growth related to individuals. In 2011, we intended to grow from 16% to 21% related to companies and 12% to 17% related individuals. So, we managed to grow faster related to companies. Of course we ended up growing even higher than what we had planned initially, our rate of growth related to companies was something around 25%.

And we still think there is plenty of room to increase our business with companies in Rio Grande do Sul and even outside Rio Grande do Sul, because we are growing our retail network in Santa Catarina, and at the same time, as we already explained in other occasions, we also intend to set up some partnership or some kind of operational agreement in the future, in order to be able, together with other partners, to grow our credit portfolio to companies outside Rio Grande do Sul as well.

Alexandre Ponzi:

And Fabio, perhaps this restructuring of business in terms of dealing with companies is what have made an increase in terms of the participation of the small and medium companies.

So, the point is we have just made some adjustment to our service network in order that in places located from the State of Paraná up, in which we do not have very much of a presence in terms of the number of branches, we intend to deal with companies small and medium, in order to preserve margins when dealing with this specific segment. And about 20% of our credit to companies is currently done in positions that are not in the State of Santa Catarina and Rio Grande do Sul.

So, this is a very interesting way of increasing portfolio, preserving margins and also to expand business with companies that tend, in the longer run, to increase the participation of other banking products such as collection and other products, payroll business as a whole, in order to try and attract individuals.

But outside the State of Rio Grande do Sul we made some adjustment to our organizational structure in order to deal in places where our presence is not as strong as it was in other places. Bem-Vindo's strategy might come in addition to deal with

companies and also having points of services spread out throughout Brazil, but it is a strategy that will have to be fully assessed and currently is not resulting in some improvements in terms of contribution to the Bank as of today.

João Emilio Gazzana:

And when we speak about large companies in the case of Banrisul, only to remember, we understand companies have revenue above R\$300 million per year. So, many other banks need to be considered as large medium companies.

Fabio Zagatti:

OK, I understood. Thanks. And as my second question is on the drop risks in Rio Grande do Sul, can you give us an update on potential losses that Banrisul may experience related to the weather conditions in the state? And how much of the Bank's agricultural portfolio that has some sort of exposure to the weather situation there is covered by insurance? Thanks.

João Emilio Gazzana:

OK. Well, of course we had drought in the beginning of the year. And I would say that in a certain way it is common to have this kind of problem in Rio Grande do Sul, in this period of the year. But really this drought jeopardized a little only related to corn production, not so much related to soybean. Soybean was little affected by that.

Anyway, the problem I think is more or less over now, because we started to have some raining in Rio Grande do Sul. But in the case of corn, our total credit with this product related to corn, it was something around less than R\$50 million. But most of it is related to small agricultural business, and almost all of that is covered by insurance from the Federal Government.

So, we do not expect so much trouble for Banrisul related to that. If the drought was a problem, and it was, and it had not started to rain, may be we could have a bigger problem, not only related to agriculture, but related to other secondary effects as well, related to commerce and some parts of the industry as well.

But we think the problem is more or less over now, because we started to have some raining in many parts of Rio Grande do Sul State. I do not know if Alexandre has something more to add.

Alexandre Ponzi:

Apart from this being a seasonal effect that happens every start of the year, what we have seen now is that even mills have reduced their exposures related to any problems affecting the production of the harvest in the State of Rio Grande do Sul. There will be a drop, it is likely that the productions of all grains in the State of Rio Grande do Sul will be reduced 7% to not more than 10%.

Fabio Zagatti:

OK. Thanks.

Marco Spinar, Neuberger:

Thanks for hosting the call this morning. I just had two questions. One is a follow-up to the previous question on the drought. And then I am just wondering about the impact that a pour rainy season will have on the overall Rio Grande do Sul economy? And when you typically see that? I mean, given the pour season, I believe was in January, do you typically see that in the 1Q, or does it take while for the pour to feed into the economy?

And my second question simply relates to your expectations for NIMs in 2012, what your outlook is for the net interest income and NIMs in the next year. Thanks.

João Emilio Gazzana:

Well, of course, as I was saying, we started to have some rain in Rio Grande do Sul and we are not feeling that the problem is going to be such a big deal anymore. And as Alexandre was saying, maybe related to soybeans, we are going to have to recalculate a maximum 10% the drop in production related to what was expected before.

And so, we do not think, of course we are not going to have such a good year like we had last year, in 2011. But we do not think we are going to suffer very much and we do not think we are going to have a problem spread into other sectors of the economy. The worst problem was related, as I said before, to corn. And related to corn in the case of Banrisul we are covered by almost R\$50 million lending in this area, covered by insurance from the Federal Government. And also the small producers are much in diversified in Rio Grande do Sul.

So, they produce not only specific products like corn, but normally they are suppliers of milk to the transformation industry, they deal with other products like soybeans as well, like poultry and many other products. And we do not think the State is going to suffer very much.

Only if during the year we have a new drought or a problem higher than we have up to today. But related to what happened up to now, we do not think it is probably not going to be a big deal, and we are not feeling that we are going to have a big problem.

Alexandre Ponzi:

And even though the effect that we saw during the first months of this quarter in terms of specifically NPLs, they are very positive. We are running at a number that is similar to what we ended 2011. So, any assessment will have to be done from now on. And not related to the agricultural portfolio per se, because they are either insured by the Federal Government, in the case of corn production, or we are not so exposed directly as Banco do Brasil, for instance.

Of course we did increase our credit portfolio, agricultural portfolio throughout 2011. But it was taking advantage of some good opportunities that we saw. And we increased

from around 7% to around 8% of our total portfolio. It is not a big participation in terms of the direct agricultural loans.

The problem, or what we are concerned is to see any further increase in NPL coming from the indirect effect that will come from the local municipalities that are not mostly related to the agriculture segment. This is what we would like to see. But as of today, we did not see any increase from NPL rates that we have in December and throughout January.

It is too early to call but we do not assume, that is why we have our guidance with a 3% to 4% growth in terms of provision expenses, the same that we have throughout 2011, that we are comfortable that any negative results from this drought will not be as major as they were announced, specially the throughout the media.

Marco Spinar:

And just to clarify though that point, that all is very encouraging. But how much of your portfolio is exposed to local municipalities? Is that included in the 8% number you mentioned earlier in terms of add exposure? And typically how long does it take for this to feed through? Will we know it by the 2Q or even by the end of the 1Q?

Alexandre Ponzi:

The direct exposure would be the size of our agricultural portfolio, 8.5% of total loans. The indirect or the secondary effects, the additional effects, we assume that it could be as high as the indirect participation of the agricultural segment in the state GDP, close to 30% of total loan book.

All in terms of exposure, but it is not all related to financing companies that are in the chain of the agricultural business, or companies that are doing business only in the State of Rio Grande do Sul. For example, one of the way that we mitigate is that, particularly all the industries that are related to the agricultural segment, they have about 70% of the total production in Brazil not only in the State of Rio Grande do Sul, so they have a huge participation in the State but not only related to Rio Grande do Sul. So, we could mitigate.

In 2008, in which the same size of drought the analysts were saying that this would be as huge as, we could expand our business into the commercial portfolio, beating the market by more than 5%. And precisely this business that we are doing in order to increase participation to credit to companies in other states and increasing our penetration into channels that will produce credit to individuals is precisely not only to cope with this, but also to deal with this negative effect that we suffer on account of being regionally located. But we do not expect that the drought will have a major impact into the formation of NPL.

On the negative side is that we might not grow as much as we grew in terms of financing the primary sector. But again, this is the way that we have to mitigate also this effect.

Marco Spinar:

OK. Thank you. And then in terms of your outlook for NIMs and how you manage your NIMs, given what could be a declining or already has been declining rate environment?

João Emilio Gazzana:

Well, we expect to be able to keep our NIMs in 2012 more or less around 10%. Of course if the rate of interest comes down, each time the rate of interest comes down it is more difficult to keep the margins. Of course maybe if the rate of interest comes to around 9%, like some market analysts are expecting in Brazil for 2012, maybe it will be difficult to keep two digits. But anyway we think that we will not be far from 10%; it would be at least around 10%.

It depends, of course, on the level of the Selic rate. If the Selic rate is 8.5%, let us say, it would be difficult to keep margins above two digits. But anyway, for 2012 we still have expectations to keep something around 10%.

Because in the case of payroll business, in some way, as I was explaining before, we are going to increase our own generation. And in this case it would be a way to keep our spreads. And also we intend to keep growing in the market to companies as well, and normally our operation related to small and medium size companies, where you can practice margins a little higher than other big companies, for example.

So, we think there is a good possibility for us to still keep two digit NIMs for 2012. And of course it will be very difficult to keep the same level next year, according to the expectation of lower Selic rates.

Alexandre Ponzi:

But then on the first hand any drop in the Selic rate we will have the benefit in practice in terms of our cost of funding. Regardless of any future or likely change in the rate or the tax rate that could be applicable to floating rates time deposits. This will be a benefit, there will be benefit for Banrisul in terms of preserving NIMs.

And the more we change from acquiring into generating own portfolios through these initiatives, either in the State of Rio Grande do Sul or through Bem-Vindo, we will have the benefit of preserving NIMs for 2012, that is for sure.

João Emilio Gazzana:

This is because payroll business is a fixed interest rate. And as we have this portfolio, in the case of fixed interest rates, and all our payroll lending is related to fixed interest rates, in this case, in the first moment in 2012, we are going to benefit from a lower interest rate.

Of course as time passes, all operations will be setup in a lower level. But at least during 2012, if the Selic rate comes down, we are going to benefit related to our fixed income credit portfolio. And all the credit portfolio related to payroll, let us say almost R\$4 billion related to our own generation and another R\$2.2 billion related to what we buy from other banks, and now what we are generating through Bem-Vindo, so we are

talking about something around almost R\$7 billion, is going to be a fixed interest rate. And with a lower cost of funding, it will be a way, at least during 2012, to keep our margins.

Marco Spinar:

OK. Thank you.

Mariel Santiago, HSBC:

Hi. My question is more of a follow-up on your expansion strategy and competition. How fast do you think you can grow outside the state of Rio Grande do Sul? And what are your thoughts about competition from big cap banks? And also, can you give us also a little bit of color on your competition in your home states? I know, for example, Bradesco grew its branch network by almost 40% in the South in 2011. So, what are your thoughts about that?

João Emilio Gazzana:

OK. In the case of Rio Grande do Sul, as we have a very stable and a very low cost funding, is a main force we have to face the competition, and we are very strong in this area. This is one thing.

Another thing is that we are opening 111 new branches in 2012, this is for 2012. Some of them we are inaugurating even now, during February. So, we are prepared to face this new competition. We have a low cost of funding, so we are able to compete in price, we have all the products all other banks are offering to the customers, and we are opening, we are expanding our branch network in Rio Grande do Sul and even in Santa Catarina.

So, we think that we will be able to face this new competition. And outside Rio Grande do Sul, we have this new strategy with Bem-Vindo, which allows us to guarantee our position outside the State. Today we have nearly 25% of our credit operations outside Rio Grande do Sul, because we cannot forget that all the credit we are buying from other banks is a 100% credit generation outside Rio Grande do Sul. And with Bem-Vindo we are going to be even stronger in this area.

So we think that in two or three year's time we will be able to generate outside Rio Grande do Sul at least 30% of all the total lending portfolio.

Alexandre Ponzi:

Just to conclude this thought, we have a table presented in which we make clear that we did lose some market share in terms of the number of branches. But even though that we have seen that the competition is moving to the State of Rio Grande do Sul, this is like the last boundary in Brazil. For the bank that you mentioned, they have to make all the announcements because they did lose parts of their services stations from Banco Postal.

But again, we lost market share in terms of number of branches, but we increased our market share in terms of credit operations and in terms of funding. So, in the State of Rio Grande do Sul we are likely to regain our market share in terms of the number of branches, because we are now transforming some of our service posts into full branches, so they will generate business and not only servicing customers, and we will increase our number of branches also in the State of Santa Catarina in the next month.

So the idea is we will preserve, at least, market share in the State of Rio Grande do Sul, and we will be benefiting as of throughout 2012 on account of the cost of funding that we have.

Mariel Santiago:

OK, thank you. Just a quick second question, if I may. When do you think the higher spreads from your own originations should start benefiting margins?

João Emilio Gazzana:

Well, we calculate that we are going to start benefiting from March on, but not of course full. It is going to start little by little and step by step from March on. Of course the full effect, we are going to feel only next year, let us say, because the tendency is that, as we increase our lending portfolio to Bem-Vindo, we will be able to substitute a great part of the credit we buy from other banks. Of course we are going to keep part of the business we buy from other banks.

But from March on we will be already able to feel some improvement. But it will be step by step, we are going to start building a new strategy. And of course this is going to happen this way, from March on, step by step. And the numbers will be visible, let us say, by the end of the year, beginning of the next year.

Mariel Santiago:

OK. Thank you.

Operator:

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

João Emilio Gazzana:

OK. Thank you very much for being with us. And if there is any question left, you can send us to our IR area, that it will be a pleasure for us to help you with these questions. And we hope next quarter to be back with even better numbers.

Alexandre Ponzi:

And a better connection as well. We apologize for any problems that you might have felt.

João Emilio Gazzana:

OK. Thank you very much.

Operator:

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

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