June 2016

Financial Statements

Banrisul

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Press Release

This Press Release contains forward-looking statements, which not only relate to historic facts but also reflect the targets and expectations of the Company management. The terms “anticipate”, “desire”, “expect”, “project”, “plan”, “intend” and similar words are intended to identify statements that necessarily involve known and unknown risks.

Known risks include uncertainties which are not limited to the impact of competitive services and pricing, acceptance of services by the market, Banrisul’s and its competitors’ service transactions, regulatory approval, currency fluctuations, changes in the mix of the portfolio of services and other risks described in the Company's reports. This Press Release is up to date and Banrisul may or may not update it with new information and/or future events.

TABLE 1: ECONOMIC AND FINANCIAL INDICATORS

Main Income Statement Accounts - R$ Million	**1H16**	**1H15**	**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2Q15**	**2Q16 / 2Q15**	**2Q16 / 1Q16**
Financial Margin	2,537.9	2,140.8	1,269.4	1,268.4	1,192.9	1,080.3	1,088.1	18.6%	0.1%
Allowance for Loan Losses Expenses	734.4	710.4	309.0	425.4	426.9	414.1	305.8	3.4%	-27.4%
Gross Profit from Financial Operations	1,803.5	1,430.3	960.5	843.0	766.0	666.2	782.3	26.1%	13.9%
Financial Income	5,058.8	5,033.6	2,459.9	2,598.9	2,602.1	3,168.6	2,104.3	0.5%	-5.3%
Financial Expenses	3,255.2	3,603.3	1,499.4	1,755.8	1,836.0	2,502.5	1,322.1	-9.7%	-14.6%
Income from Services and Fees	828.0	676.0	426.6	401.4	399.3	369.4	351.1	22.5%	6.3%
Recurring Administrative Expenses (1)	1,633.3	1,443.2	860.2	773.2	827.3	761.8	723.5	13.2%	11.3%
Other Recurring Operational Expenses	314.9	198.6	158.5	156.4	116.7	118.1	97.0	58.6%	1.3%
Other Recurring Operational Income	190.4	197.8	95.6	94.8	73.6	341.4	74.1	-3.7%	0.9%
Adjusted Net Income	389.6	339.9	201.5	188.1	148.9	269.7	192.9	14.6%	7.2%
Net Income	389.6	339.9	201.5	188.1	149.5	359.3	192.9	14.6%	7.2%
Main Balance Sheet Accounts - R$ Million	**Jun 2016**	**Jun 2015**	**Jun 2016**	**Mar 2016**	**Dec 2015**	**Sep 2015**	**Jun 2015**	**Jun 2016/ Jun 2015**	**Jun 2016/ Mar 2016**
Total Assets	67,864.8	63,768.9	67,864.8	65,965.4	66,937.8	65,292.1	63,768.9	6.4%	2.9%
Securities (2)	16,536.8	16,652.8	16,536.8	14,450.6	13,927.4	14,294.9	16,652.8	-0.7%	14.4%
Total Credit Portfolio	29,799.9	31,091.2	29,799.9	31,373.5	32,013.3	31,360.0	31,091.2	-4.2%	-5.0%
Allowance for Loan Losses	2,311.1	1,959.9	2,311.1	2,389.7	2,252.5	2,163.5	1,959.9	17.9%	-3.3%
Past Due Loans > 60 Days	1,690.9	1,345.3	1,690.9	1,883.7	1,601.1	1,659.1	1,345.3	25.7%	-10.2%
Past Due Loans > 90 Days	1,433.1	1,163.1	1,433.1	1,530.7	1,382.4	1,402.6	1,163.1	23.2%	-6.4%
Funds Raised and Under Management	54,120.5	51,006.1	54,120.5	51,672.4	51,990.2	49,830.4	51,006.1	6.1%	4.7%
Shareholders' Equity	6,445.6	5,851.3	6,445.6	6,322.8	6,208.6	6,115.1	5,851.3	10.2%	1.9%
Prudential Conglomerate Reference Equity *	6,657.8	7,033.8	6,657.8	7,313.6	7,389.2	7,300.5	7,033.8	-5.3%	-9.0%
Average Shareholders' Equity	6,327.1	5,761.3	6,384.2	6,265.7	6,161.8	5,983.2	5,796.7	9.8%	1.9%
Average Total Assets	67,401.3	61,665.3	66,915.1	66,451.6	66,114.9	64,530.5	62,563.1	9.3%	0.7%
Average Profitable Assets	59,293.0	56,155.5	59,722.6	58,863.3	59,116.8	58,067.0	56,867.8	5.6%	1.5%
Stock Market Information - R$ Million	**1H16**	**1H15**	**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2Q15**	**2Q16 / 2Q15**	**2Q16 / 1Q16**
Interest on Own Capital/Dividends (3)	156.6	161.4	80.4	76.2	101.5	93.5	84.4	-3.0%	5.5%
Market Capitalization	3,492.6	3,643.9	3,492.6	3,271.8	2,396.6	2,282.1	3,643.9	-4.2%	6.7%
Book Value Per Share	15.76	14.31	15.76	15.46	15.18	14.95	14.31	10.1%	1.9%
Average Price per Share (R$)	7.07	11.39	8.36	5.72	5.90	8.10	10.56	-37.9%	46.2%
Earnings per Share (R$)	0.95	0.83	0.49	0.46	0.37	0.88	0.47	14.5%	6.5%
Financial Index	**1H16**	**1H15**	**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2Q15**		
ROAA (pa.) (4)	1.2%	1.1%	1.2%	1.1%	0.9%	1.7%	1.2%		
ROAE (pa.) (5)	12.7%	12.1%	13.2%	12.6%	10.0%	19.3%	14.0%		
Efficiency Ratio (6)	49.9%	53.0%	49.9%	49.4%	50.2%	50.8%	53.0%		
Financial Margin (7)	8.74%	7.77%	8.78%	8.90%	8.32%	7.65%	7.88%		
Recurring Operating Cost	4.7%	4.5%	4.7%	4.7%	4.5%	4.5%	4.5%		
Default Rate > 60 Days (8)	5.67%	4.33%	5.67%	6.00%	5.00%	5.29%	4.33%		
Default Rate > 90 Days (9)	4.81%	3.74%	4.81%	4.88%	4.32%	4.47%	3.74%		
Cover Ratio 60 days (10)	136.7%	145.7%	136.7%	126.9%	140.7%	130.4%	145.7%		
Cover Ratio 90 days (11)	161.3%	168.5%	161.3%	156.1%	162.9%	154.2%	168.5%		
Provisioning Index (12)	7.8%	6.3%	7.8%	7.6%	7.0%	6.9%	6.3%		
Basel Ratio (Prudential Conglomerate)	16.8%	17.7%	16.8%	18.3%	17.8%	17.9%	17.7%		
Structural Indicators	**Jun 2016**	**Jun 2015**	**Jun 2016**	**Mar 2016**	**Dec 2015**	**Sep 2015**	**Jun 2015**		
Branches	536	534	536	536	536	536	534		
Service Stations	203	206	203	203	202	203	206		
Electronic Service Stations	511	569	511	519	541	557	569		
Employees	11,283	11,546	11,283	11,051	11,098	11,491	11,546		
Economic Indicator	**1H16**	**1H15**	**2Q16**	**1Q16**	**4Q15**	**3Q15**	**2Q15**		
Effective Selic Rate	6.73%	5.94%	3.36%	3.26%	3.36%	3.43%	3.03%		
Exchange Rate (R$/USD - end of period)	3.21	3.10	3.21	3.56	3.90	3.97	3.10		
Exchange Rate Variation (%)	-17.80%	16.81%	-9.81%	-8.86%	-1.71%	28.05%	-3.29%		
IGP-M (General Market Price Index)	5.91%	4.33%	2.86%	2.97%	3.95%	1.93%	2.27%		
IPCA (Extended Consumer Price Index)	4.42%	6.17%	1.75%	2.62%	2.82%	1.39%	2.26%		

(1) Includes Personnel Expenses and Other Administrative Expenses.
(2) Includes Interbank Deposits and deduces Repurchase Obligations.
(3) Interest on Own Capital and Dividends paid and/or provisioned (before retention of income tax).
(4) Net Income / Average Total Asset.
(5) Net Income / Average Shareholders' Equity.
(6) Efficiency Ratio for the last 12 months. Personnel Expenses + Other Administrative Expenses / Financial Margin + Income from Services and Fees + (Other Operational Income – Other Operational Expenses).
(7) Net Interest Income as a percentage of Average Profitable Assets.
(8) Past Due Loans > 60 days / Total Credit Portfolio.
(9) Past Due Loans > 90 days / Total Credit Portfolio.
(10) Allowance for Loan Losses / Past Due Loans > 60 days.
(11) Allowance for Loan Losses / Past Due Loans > 90 days.
(12) Allowance for loan losses / credit portfolio.

MATERIAL FACT

On June 17, 2016, Banrisul signed with the Government of Rio Grande do Sul the contract for the transfer of services related to the payroll of State's civil servants. Valid for a period of ten years, Banrisul paid R$1,250.6 million for the exclusivity in providing payroll services, while preserving any portability rights to the state's employees.

Concerning the bottom line, the impact of the payment of the transaction for the purchase of the payroll of state employees will be monthly recorded as expenses during the term of the agreement. Technical studies related to capital indicators indicate that the agreement will preserve Banrisul's capital structure, keeping expected Basel indicators in the following years above legal requirements set by regulatory agencies. Lastly, in relation to the strategy, the transaction preserves the relationship with state employees and provides opportunities to add value to business generation.

FINANCIAL HIGHLIGHTS

We report Banrisul's most relevant numbers for 1H16 and 2Q16. The Analysis of Performance, Management Report, Financial Statements and the Accompanying Notes are available at the Bank's website www.banrisul.com.

TABLE 2: KEY ITEMS OF THE INCOME STATEMENT

Result - R$ Million	1H16	1H15	2Q16	1Q16	4Q15	3Q15	2Q15	1H16 / 1H15	2Q16 / 1Q16
Net Interest Income	**2,537.9**	**2,140.8**	1,269.4	1,268.4	1,192.9	1,080.3	1,088.1	18.6%	0.1%
Allowance for Loan Losses	**734.4**	**710.4**	309.0	425.4	426.9	414.1	305.8	3.4%	-27.4%
Gross Profit from Financial Operations	**1,803.5**	**1,430.3**	960.5	843.0	766.0	666.2	782.3	26.1%	13.9%
Income from Services and Fees	**828.0**	**676.0**	426.6	401.4	399.3	369.4	351.1	22.5%	6.3%
Recurring Administrative Expenses	**1,633.3**	**1,443.2**	860.2	773.2	827.3	761.8	723.5	13.2%	11.3%
Operating Income	**667.4**	**481.4**	355.0	312.3	197.0	359.9	293.5	38.6%	13.7%
Consolidated Net Income	**389.6**	**339.9**	201.5	188.1	149.5	359.3	192.9	14.6%	7.2%
Net Income Adjusted for Non-Recurring Events	**389.6**	**339.9**	201.5	188.1	148.9	269.7	192.9	14.6%	7.2%

Consolidated net income reached R$389.6 million in the first half of 2016, 14.6% (R$49.7 million) higher than 1H15. In 2Q16, recurring net income increased 4.5% (R$8.6 million) from 2Q15 and 7.2% (R$13.5 million) from 1Q16. Annualized return on average equity reached 12.7% on 1H16.

Banrisul's **recurring performance** in **1H16** from 1H15 reflects the increase of the financial margin and the favorable performance of banking fees, although the environment of poor economic activity affected business throughout the banking industry. 2Q16's performance was impacted by stable net interest margin, by loan deceleration and by improvements in delinquency levels, which required lower loan losses provisions.

Concluded during 1Q16, the **settlement of derivative contracts** used as hedge to the subordinated bond **and the hiring of new swap contracts** constituted other important financial events**.** The new derivatives agreements signed are referenced in the updated notional of the debt. This transaction produced an inflow of R$1.2 billion into treasury funding and a positive net effect of R$16.8 million on the bottom line for January 2016.

Net interest income of R$2,537.9 million in the first half of 2016 increased 18.6% (R$397.1 million) from the same period last year. In 2Q16, net interest income reached R$1,269.4 million, increasing 16.7% (R$181.4 million) from 2Q15 and stable from 1Q16. NII expanded due to the increase of financial revenues ahead of financial expenses, in a context of credit portfolio repricing and growth of securities portfolio, including compulsory deposits placed at the Central Bank of Brazil. Quarter-on-quarter, NII stability reflected the increase of spreads within the non-earmarked portfolio, of securities income (including the results from reserve requirements) and the exchange rate variation.

Provision for loan losses reached R$734.4 million in 1H16, increasing 3.4% (R$23.9 million) from 1H15 due to the scroll of the portfolio by rating levels, in a context of expansion of delinquency levels and reduction of credit assets. In 2Q16, provision expenses reached R$309.0 million, decreasing 27.4% (R$116.4 million) since 1T16, reflecting the effect of implementation of risk diversification measures per customer, as well as the reduction of delinquency.

Banking Fees totaled R$828.0 million in 1H16, driven by the performance of Banrisul Cartões and insurance, pension plan and capitalization products. Of the increase of 22.5% (R$152.0 million) in fees, R$104.8 million were produced by the acquiring business, R$16.9 million from checking account fees and R$15.6 million in fees from insurance, pension plan and capitalization products. In 2Q16 banking fees reached R$426.6 million, growing 6.3% (R$25.2 million) over 1Q16, favored particularly by the acquiring and vouchers business (responsible for 53.4% of the increase in revenues in the period).

The favorable performance of banking fees contributed to the improvement of the **personnel expenses coverage ratio**, which reached 98.8% in 1H16, 11.4 pp. above 1H15.

In 1Q16, **administrative expenses (**personnel expenses and other administrative expenses) totaled R$1,633.3 million, increasing 13.2% (R$190.2 million) since 1H15. In the last quarter, recurring administrative expenses increased 11.3% (R$87.0 million).

Personnel expenses increased 8.3% (R$64.4 million) from 1H15 to 1H16 due to last year's wage agreement, impact offset by the reduction of headcount on account of the retirement severance plan offered to employees in the second half of 2015. From 1Q16 to 2Q16, personnel expenses increased 7.4% (R$29.8 million) influenced by the vacation seasonality that occurs during the first quarter and by the new employees and trainees that were hired after the conclusion of the last public tender.

Other administrative expenses increased 18.8% (R$125.8 million) from 1H15 to 1H16, especially impacted by the growth of interchange expenses in connection to the cards business (acquiring and emission) and expenses from the amortization of goodwill in investments and the first instalment of the payroll purchase agreement. In the last quarter, other administrative expenses increased 15.5% (R$57.2 million), mostly because of higher depreciation and amortization expenses and costs with third party services.

The **reconciliation between net income and recurring net income is presented below**, due to extraordinary events that were recorded throughout the year 2015. The reconciliation demonstrates ROAE, ROAA and efficiency ratio with basis on the recurring net income.

TABLE 3: ACCOUNTING NET INCOME STATEMENT X ADJUSTED NET INCOME

Extraordinary Events - R$ Million	1H16	1H15	2Q16	1Q16	4Q15	3Q15	2Q15
Adjusted Net Income	**389.6**	**339.9**	201.5	188.1	148.9	269.7	192.9
Extraordinary Events	**-**	**-**	-	-	0.6	89.6	-
Retirement Plan (1)	**-**	**-**	-	-	3.2	(51.6)	-
Insurance Distribution Agreement (2)	**-**	**-**	-	-	-	22.5	-
Tax Effects (3)	**-**	**-**	-	-	(2.5)	13.2	-
Tax Credits – CSLL Law No. 13169/15 (4)	**-**	**-**	-	-	-	105.5	-
Accounting Net Income	**389.6**	**339.9**	201.5	188.1	149.5	359.3	192.9
Adjusted ROAA	**1.2%**	**1.1%**	1.2%	1.1%	0.9%	1.7%	1.2%
Adjusted ROAE	**12.7%**	**12.1%**	13.2%	12.6%	10.0%	19.3%	14.0%
Adjusted Efficiency Ratio	**49.9%**	**53.0%**	49.9%	49.4%	50.2%	50.8%	53.0%

(1) Retirement Severance Plan, implemented in 2H15.
(2) Complement to the amount paid in 2014 related to the agreement for the distribution of life insurance and pension plans products of Icatu Seguros in Banrisul channels. In 2015, the establishment of the holding company Banrisul Icatu Participações S.A. was completed, in which Banrisul holds 49.9% of the capital.
(3) Tax benefit related to the Retirement Severance Plan and the Insurance Distribution Agreement.
(4) Application of Provisional Measure No. 675/15, converted into Law No. 13169/15, which establishes the increase to 20% from 15% of the social contribution (CSLL), effective until December 2018.

ROAE of 12.7% in 1H16 was 0.6 pp. above 1H15, influenced by the increase of net interest income, the expansion of banking fees, the increase of administrative expenses and the exchange rate variation.

Based on recurring events, **efficiency ratio** reached 49.9% at the end of June 2016, improving 3.1 pp. in relation to the 53.0% of June 2015. The upward of the efficiency reflects the expansion of net interest income and banking fees, the favorable effect of the repurchase offer of the subordinated bond in 2015, while partially offset by higher administrative expenses.

OPERATIONAL HIGHLIGHTS

TABLE 4: ASSET EVOLUTION STATEMENT

Asset Evolution Statement - R$ Million	Jun 2016	Mar 2016	Dec 2015	Sep 2015	Jun 2015	Jun 2016/ Jun 2015	Jun 2016/ Mar 2016
Total Assets	67,864.8	65,965.4	66,937.8	65,292.1	63,768.9	6.4%	2.9%
Credit Operations	29,799.9	31,373.5	32,013.3	31,360.0	31,091.2	-4.2%	-5.0%
Securities + Interbank Transactions - Repurchase Obligations	16,536.8	14,450.6	13,927.4	14,294.9	16,652.8	-0.7%	14.4%
Funds Raised and Under Management	54,120.5	51,672.4	51,990.2	49,830.4	51,006.1	6.1%	4.7%
Shareholders' Equity	6,445.6	6,322.8	6,208.6	6,115.1	5,851.3	10.2%	1.9%

At the end of June 2016, **total assets** reached R$67,864.8 million, growing 6.4% (R$4,095.9 million) from June 2015 and R$1,899.4 million from March 2016. The year-on-year increase in assets reflected the growth of funding sources, mostly related to the R$3,566.9 million in deposits and the R$958.7 million in open market funding. As to securities, it is worth pointing the increasing participation of compulsory resources year-on-year, whose balance increased R$2,434.1 million, the reduction of R$1,291.4 million in the credit portfolio and the increase of R$1,250.6 million in intangible assets due to the acquisition of the payroll of state employees. In the last quarter, the increase in assets was mainly due to the increase of R$2,190.5 million in funds from deposits. Securities portfolio recorded a growth of R$1,285.7 million, credit assets decreased R$1,573.7 million, and intangible assets increased by R$1,248.8 million due to the conclusion of the state payroll agreement.

Total **credit assets** (expanded concept) reached R$31,033.4 million, decreasing 4.3% in twelve months. Deducting sureties and endorsements, the loan book decreased 4.2% (R$1,291.4 million) year-on-year, especially driven by the reduction of R$1,001.5 million in non-earmarked credit portfolio and of R$536.8 million in long-term finance, partially minimized by the growth of R$238.4 million in real estate finance. From March 2016 to June 2016, loan book decreased 5.0% (R$1,573.7 million), especially due to the decrease of R$1,479.9 million in the non-earmarked portfolio, mainly on account of the early settlement of loans that were taken by civil servants to advance 2015 Year-end bonus, mitigated by the expansion of R$400.9 million in acquired payroll loans.

Securities and interbank investments totaled R$22,107.1 million, decreasing 0.7% (R$116.1 million) in the last twelve months, and with a net balance of R$16,536.8 million at the end of June 2016 (repurchase transactions deducted). Quarter-on-quarter, the balance of securities and interbank investments, expanded 14.4% (R$2,086.2 million), deducted the repurchase transactions. The reduction of the treasury portfolio in twelve months was influenced by the partial repurchase of the subordinated bonds, by the reduction of the balance of financial and development funds, by the maturity of the first tranche of the bank notes, by the migration of funds to comply with compulsory deposits and the increase in intangible assets, in an environment of credit compression. In the last three months, the rise of the treasury balance was driven by the expansion of the deposits and the reduction of credit, in a period in which intangible portfolio increased.

TABLE 5: STATEMENT OF THE CREDIT PORTFOLIO

Credit Operations - R$ Million	Jun 2016	% Total Credit	Mar 2016	Dec 2015	Sep 2015	Jun 2015	Jun 2016/ Jun 2015	Jun 2016/ Mar 2016
Foreign Exchange	848.0	2.8%	862.5	910.3	857.8	876.7	-3.3%	-1.7%
Commercial	19,554.8	65.6%	21,034.7	21,346.1	20,788.4	20,556.3	-4.9%	-7.0%
Individuals	11,216.6	37.6%	12,208.6	11,878.9	11,334.4	11,113.3	0.9%	-8.1%
Payroll	8,208.2	27.5%	8,254.7	8,309.8	8,352.5	8,153.5	0.7%	-0.6%
Other	3,008.4	10.1%	3,953.8	3,569.0	2,981.8	2,959.7	1.6%	-23.9%
Companies	8,338.3	28.0%	8,826.2	9,467.2	9,454.1	9,443.1	-11.7%	-5.5%
Working Capital	6,101.9	20.5%	6,396.6	6,970.4	6,851.0	6,893.6	-11.5%	-4.6%
Other	2,236.4	7.5%	2,429.6	2,496.8	2,603.1	2,549.5	-12.3%	-8.0%
Long-term Financing	1,941.4	6.5%	2,164.7	2,338.4	2,384.7	2,478.2	-21.7%	-10.3%
Real Estate Financing	3,860.3	13.0%	3,836.4	3,829.1	3,797.4	3,621.9	6.6%	0.6%
Agricultural Financing (1)	2,421.4	8.1%	2,696.7	2,724.8	2,563.6	2,530.1	-4.3%	-10.2%
Other (2)	1,173.9	3.9%	778.5	864.6	968.1	1,028.0	14.2%	50.8%
Total of Credit-like Transactions	**29,799.9**	**100.0%**	**31,373.5**	**32,013.3**	**31,360.0**	**31,091.2**	**-4.2%**	**-5.0%**

(1) Includes securitization credits.

(2) Includes leasing, credits linked to acquired portfolio and public sector.

Funds raised and under management, composed by deposits, bank notes, subordinated bonds and investment funds, totaled R$54,120.5 million, increasing 6.1% (R$3,114.4 million) in twelve months, especially driven by the increase of R$4,152.1 million in time deposits, and partially offset by the reduction of R$871.2 million in the subordinated debt, due to the partial early settlement of the bond that took place in 2015. From March 2016 to June 2016, funds raised and under management increased R$2,448.0 million, given the growth of R$2,190.5 million in deposits, and of R$381.3 million in assets under management.

Shareholders' equity reached R$6,445.6 million at the end of June 2016, increasing 10.2% (R$594.3 million) from June 2015 and 1.9% (R$122.7 million) from March 2016 from the incorporation of results after the payments of dividends and interest on own capital and the reassessment of actuarial liabilities on post-employment benefits adjusted to tax effects, as per accounting procedures set forth by CPC 33 (R1).

Banrisul paid and provisioned R$568.0 million in **taxes and contributions** in 1H16. Tax withholding totaled R$490.7 million, levied directly on financial intermediation and other payments.

TABLE 6: OTHER INDICATORS

Indicators - %	1H16	1H15	2Q16	1Q16	4Q15	3Q15	2Q15
Net Interest Margin	**8.74%**	**7.77%**	8.78%	8.90%	8.32%	7.65%	7.88%
Basel Ratio (Prudential Conglomerate)	**16.8%**	**17.7%**	16.8%	18.3%	17.8%	17.9%	17.7%
Loan Portfolio Normal Risk/Total Credit	**88.5%**	**90.1%**	88.5%	88.5%	90.0%	89.7%	90.1%
Loan Portfolio Risks 1 and 2/Total Credit	**11.5%**	**9.9%**	11.5%	11.5%	10.0%	10.3%	9.9%
Default Rate > 60 Days	**5.67%**	**4.33%**	5.67%	6.00%	5.00%	5.29%	4.33%
Default Rate > 90 Days	**4.81%**	**3.74%**	4.81%	4.88%	4.32%	4.47%	3.74%
Cover Ratio > 60 Days	**136.7%**	**145.7%**	136.7%	126.9%	140.7%	130.4%	145.7%
Cover Ratio > 90 Days	**161.3%**	**168.5%**	161.3%	156.1%	162.9%	154.2%	168.5%
Provision Ratio	**7.8%**	**6.3%**	7.8%	7.6%	7.0%	6.9%	6.3%

The increase of **NII** from 1H15 to 1H16 reflects the repricing of the credit portfolio, as well as the performance of interest-earning assets and of interest-bearing liabilities. Therefore, revenues produced from the increase in interest-earning assets overcame expenses resulting from changes in the balances of interest-bearing liabilities, in the same way that the reduction of financial expenses offset the reduction of interest revenues from assets in an environment where there was the early settlement of the subordinated debt, the replacement of swap contracts, foreign currency variation and growth in the participation of treasury assets, including reserve requirements, in interest-earning assets. From 1Q16 to 2Q16, relative margin reduced due to exchange rate variation, the largest share of treasury in the formation of interest-earning assets and the increase of non-interest-earning assets.

The 60-day **default rate** reached 5.67% in June 2016, an increase of 1.34 pp. in the last twelve months and a decrease of 0.33 pp. in the last three months. 60-day past due loans totaled R$1,690.9 million in June 2016, an increase of R$345.6 million over June 2015. The 90-day default rate reached 4.81%, totaling R$1,433.1 million in loans overdue. The 90-day delinquency ratio increased 1.07 pp. year-on-year and decrease 0.07 pp. quarter-on-quarter.

Coverage ratio of loans 60-days past due reached 136.7%, lower than the 145.7% in June 2015 and higher than the 126.9% in March 2016. The 90-day coverage ratio reached 161.3%, lower than the 168.5% of June 2015 and higher than the 156.1% of March 2016. Year-on-year, coverage ratios were influenced by the increase of defaulted loans and by the volume of cost of credit reflecting the current levels of customer risk. The increase of the indicators in the last three months was influenced by the reduction of overdue credit transactions.

Total provisions reached 7.8% of the outstanding credit portfolio in June 2016, 1.5 pp. above June 2015 and 0.2 pp. higher than March 2016. The balance of credit provisions increased R$351.2 million in twelve months due to growth in NPL and in write-offs, in a context of reduction on the balance of credit assets. Loan book by rating levels reduced 1.6 pp. in the proportion of loans classified as normal risk in relation to the total portfolio year-on-year. From 1Q16 to 2Q16, the balance of provision expenses decreased R$78.6 million, while and the representativeness of the normal risk loan portfolio remained stable in relation to the total loan book.

GUIDANCE

The 2016's guidance for credit, loan losses provisions and ROAE changed. Not altered: guidance for funding growth, loan losses provisions/credit portfolio ratio, efficiency ratio and net interest margin.

Goals related to total credit portfolio and non-direct lending (individuals and companies) are based on the implementation of policy of maximum credit risk exposure per customer, especially the corporate segment, within the environment of slowdown in economic growth. Strong credit recovery efforts into should improve the flow of cost of credit, even though the balance of provisions may end at higher levels in comparison to forecasts at the beginning of the year.

ROAE was reviewed to incorporate expected effects arising from the reduction of credit portfolio and the payroll purchase agreement, although NIM and efficiency indicators have been performing within the expected ranges for the year.

TABLE 7: GUIDANCE

Guidance	2016	
	Expected (1)	1H16 Revised
Credit Portfolio	0% to 4%	-4% to 0%
Non-direct Lending - Individuals	0% to 4%	4% to 8%
Non-direct Lending - Companies	0% to 4%	-19% to -15%
Real Estate Loans	4% to 8%	1% to 5%
Allowance for Loan Losses Expenses/Credit Portfolio	3.5% to 4.5%	3.5% to 4.5%
Allowance for Loan Losses Balance/Credit Portfolio	6.5% to 7.5%	7.5% to 8.5%
Funding	10% to 14%	10% to 14%
Recurring Return on Average Shareholders' Equity	14% to 17%	11% to 15%
Efficiency Ratio	49% to 53%	49% to 53%
Net Financial Margin / Interest-Earning Assets	7.5% to 8.5%	7.5% to 8.5%

(1) Published in 4Q15 and maintained in 1Q16.

Porto Alegre, August 10, 2016.

GOVERNO DO ESTADO
DO RIO GRANDE DO SUL

Secretaria da Fazenda

Banco do Estado do Rio Grande do Sul

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Accountant CRCRS 38,534

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