



Bank Risk Classification System

Introduction

The **RISKbank**© will guide you into the difficult task of matching risk and return in adequate levels.

Our proposal is to introduce a new methodology to measure bank risk, which takes into account not only the traditional objective analysis but also intangible factors in order to help define the credit and operational limits for each bank.

This is only possible by the consolidation of specific knowledge and experience of Lopes Filho & Associados - Investment Consultants developed in 20 years of financial institutional analysis.

Product Characteristics

✓ **UNIVERSE**

The comparison basis involves 137 banks, commercial and multiple, private and public, foreign and national, classified by their size. This universe can be increased according to the clients needs.

✓ **FREQUENCY**

The classification data required will be updated as soon as the information is available, which occurs regularly every quarter. However, the legislation obligates the institutions to publish their balance sheets each month, allowing us to update the classification data monthly in the future.

✓ **SERVICES**

Besides the classification, there is a thorough followup, which assures the client that any alteration extra-balance sheet, suspicious irregularities or any other relevant fact that may occur and suggest possible change in the **RISKbank**© ranking, will be considered and re-classified.

For each quarter, attached to **RISKbank**©, there will be a brief analysis of the financial sector, with interesting comments. The **RISKbank**© Indicator can be used in the determination of adequate operational limits.

A General View of RISKbank©

RISKbank© is an association of balance sheet, sectorial and statistic analysis techniques with the empirical knowledge of how financial institutions work and their operational characteristics. The final result is a clear view of objective factors of each bank performance in time, plus the subjective factors capable of rising possible concerns in the most sensitive areas and major impact to the bank's financial health.

❶ Objective Analysis

The objective analysis includes the usage of 10 indicators widely accepted as the most efficient ones in measuring the risk of financial institutions.

These indicators are subject to a statistical treatment, which provides the uniformization of the series, eliminating distortions (average and standard error) and coming to standard results. From the ponderation of the results we get the **RISKbank©** indicator for each institution, so that it can be ranked and classified among the other institutions of its group.

❷ Previous Classification By Size

Besides the ten indicators previously mentioned, the banks are pre-classified by size, represented by the total assets. We avoid the comparison between institutions of different sizes, which usually corresponds to different levels of risk. We call this the **inner risk**, that is to say, the fact of being small in assets, makes the institution more vulnerable to cash flow variations, bringing the necessity of offering better conditions to the clients in order to keep the balance of assets and liabilities.

❸ Alert Columns

Indicators correspond to maximum and minimum limits. If any of them is trespassed, an alarm should ring to warn that some kind of adjustment must be done in the institution in order to return to an adequate level. These columns are useful to evaluate the bank risk related to itself, not to the others as it happens in the general classification.

❹ Subjective Analysis

The subjective analysis is an important additional criterion to analyze the risk of the banks. These techniques allow us to do more specific and conservative analysis considering the subjective aspects, as follows: RELIABILITY OF INFORMATION; MEMBERSHIP SUPPORT; OWNERSHIP/CORPORATE STRUCTURE; MANAGEMENT PERFORMANCE; ASSET/LIABILITY CONTROL; FUTURE DEVELOPMENTS AND SO ON.

<i>Criteria and Major Indicators of RISKbank©</i>
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➤ LIQUIDITY

The banks operate with currency and credit, which are extremely volatile products. The simple possibility (not the fact itself) of having problems of liquidity (not having enough currency to honor the borrowings), is enough to put into risk the whole bank structure, should it be small, medium or large, public or foreign.

➤ **FREE CASH**

This indicator allows us to analyze the cash flow management policy of the bank. It is expressed by the Liquid Assets less the Interbank Deposits.

➤ **SOLVENCY**

This index shows the structural problems a bank may have. When in association with the liquidity index, it can detect imminent problems of solvency, rarely solved by present mechanisms of exchanging bank reserves.

➤ **BANKRUPTCY**

The basic activity of a bank is to intermediate resources, capturing savings and generating credit operations. When a bank does not receive the payment of a loan, it may get into problems, which can seriously risk not only the present but also the future of the institution. Besides, it also suggests the incompetence of the bank in choosing its debtor clients.

➤ **PROFITABILITY**

Banks, just as any other institution in a capitalist system, in other words, works for profits. However, the **RISKbank**© takes into consideration, that low levels of profitability in a certain period of time may not represent a matter of concern, for in some cases they can be interpreted as strategy for changing the level of profitability in the future.

The subjective analysis provides an evaluation of each case, even though the statistic classification may negatively score fewer profitable banks.

➤ **OPERATING EXPENSES**

This indicator shows how the financial result is used to afford the operational structure, in other words, how much the bank structure costs in relation to its own results generation in its basic activity.

➤ **CASH GENERATION**

The activities of a bank must be profitable enough to honor its financial obligations (clients); the expenses (employees and suppliers) and taxes (Government). These obligations are paid by the cash generated from the operations.

Banks should generate their own resources in their activities, otherwise they would put the client resources into risk in order to honor their own debts.

➤ **LEVERAGE**

The activity of intermediating resources requires operating with an expressive level of loans compared to its own resources.

There isn't a standard relationship that shows if the leverage level is adequate or not to an institution. However, it can be figured out whether a leverage level is high or low, by comparing to existing legal limits and also to other similar financial institutions.

➤ **ASSETS CONCENTRATION**

This indicator is used to adequate the global analysis to conjunctural factors, providing a clearer view of the real situation of the institution.

For instance, if concentration in government bonds, foreign currency or credit should mean a risk increase, the indicator will help it to point it out.

➤ **RISK BASED ASSETS**

The Central Bank of Brazil has changed its capital requirements since August 1994, when Brazil got into Basle Agreement. After that, the Central Bank has drafted its own interpretation of Bank for International Settlements' capital guidelines.

Now the banks' capital adequacy is limited not only by their liability leverage level but also by their assets.

As this regulation may control the flexibility or growth of the system, the establishment of minimum capital levels is frequently an important rating consideration.

Ponderation Factors to the Indicators

The ponderation factors represent a personal assessment. They try to reflect an existing reality by pointing out the indicators that imply in higher risk level in some point in time. Because of that, they can be changed every moment, in relation to the economical and conjunctural factors, as well as the performance of the financial sector.

Conclusion

We believe that the **RISKbank**© will be of great value to you as it will help you to find the optimum allocation of your resources, and also identify the institutions which have been underestimated in potential, due to the lack of conditions to analyze them properly.

In order to make it possible, we are willing to clarify any doubt you may have about the institutions included in the list of your choice and make it possible to include any other institution of your interest.

For further information call (5521) 210-2152 or visit our site www.riskbank.com.br. We are enclosing the full list of the banks included in **RISKbank**© and an exemple of an application of the system.

BNL DO BRASIL S.A

Corporate Name: Banco BNL do Brasil S.A
Address: Av. Paulista, nº 1.963 - Cerqueira César - São Paulo
 CEP.: 01.311-300
Established: August 1986
Licensed Activities: Comm., Invest., Consumer, Foreign Exchange
Ownership Origin: Foreign
Foreign Associated Bank: Banca Nazionale del Lavoro S.p.^a

RISKbank® INDEX	SIZE : MEDIUM							RANK	
	WARNING COLUMNS							JUN/01	MAR/01
10,67								31	49

Risk Classification

LOW RISK FOR MEDIUM TERM

Risk and Performance Analysis

As a wholly owned subsidiary of the Italian bank, Banco BNL do Brasil S.A has always operated in a conservative manner, with an investment structure showing little volatility. Its main activity continues to be loans to medium size and large companies for foreign trade purposes as the bank has ease in obtaining foreign funding through its head office (71% of its funds). However, this has not limited the banks activity in the domestic market, where it has been developing new funding sources such as Time Deposits and investments funds. It has also been active in looking for alternatives in other areas such as retail banking, including a credit card for private sector employees automatically discounted from their salary payments. This more active posture has guaranteed growing and more regular results over the last three years, helped especially by the revenue increase from loans. It is also worth noting the importance of exchange rate variation in the results for the first semester of 2001, as the bank operates with approximately 50% of its shareholders' equity hedged. The main limitation that the bank faced after 1999 was the low ratio of its risk assets to capital, that inhibited growth. This problem was solved in April this year when the controlling company injected R\$ 65.8 million in the bank through a subordinated debt, which can also be used as the basis for operational leverage, raising its capital base. In general, the bank continues operating with an adequate structure, with growing profits, low risk assets and a comfortable level of liquidity, assuring a good risk classification in RISKbank. Its head office also showed growing profit in the second quarter of 2001. Since the year 2000 BNL in Italy has been the target of potential purchasers.

Structure Data		Performance Ratios*	
Branches in Brazil	4	Net Income / Branch	
Branches RJ-SP	2	Net Income / Employee	224
Foreign Branches	0	Deposits / Branch	
Number of Employees	222	Deposits / Employee	2.676
Number of Clients	ND	Loans / Branch	
		Loans / Employee	4.497

*(Thousand R\$)

Ownership (%)	COM	PREF	TOTAL
BNL International Investments (*)	99,96	99,96	99,96
Others	0,04	0,04	0,04

(*) It's a wholly subsidiary of Banca Nazionale del Lavoro S.p.a

Main Directors	Position and Time of Service	
Fausto Salvati	President	2 years
Progresso Vañó Puerto	Director	12 years
Ovídio Spadim	Director	12 years
Francisco P. Maciel Filho	Director	9 years
Cláudio Stocco Lellis	Director	3 years
Mauro Simonato	Director	2 years

History

The existence of Banco BNL do Brasil S.A originates from the acquisition, in August 1986, of Banco Denasa de Investimento S.A., by Banca Nazionale del Lavoro S.p.A., which is a financial institution headquartered in Italy. In Brazil it operates as a merchant bank, financing medium size and large companies and managing assets. Since 1997 it has also offered credit direct to individual consumers.

Principal Subsidiaries	%	Shareholders' Equity*	Net Income*
BNL Consultoria e Serviços Ltda	99,99	34.187	351
BNL DTVM S.A	99,99	12.703	256

R\$ mil - Jun/01

Associated Group

In the year 2,000 Banca Nazionale del Lavoro S.p.A., was Italy's 5th largest bank as measured in assets, having a then valuation of US\$ 86 billion, and shareholders' equity of US\$ 4.2 billion. It was privatized in 1997 control passing to a group formed by the Banco Bilbao Vizcaya (with 10% of the capital, and the largest single shareholder), the regional bank BPV (Banca Popolare Vicentina) with 7.84% of the share capital, INA - Istituto Nazionale di Assicurazioni - with 7.43%, and the Treasury of the Italian Government with 8.12%. The long term rating of Banca Nazionale del Lavoro S.p.A., defined by Fitch IBCA is BBB+. Moody's classify it with A2, and S&P with BBB+.

Independent Auditor: Deloitte Touche Tohmatsu

Disclosure: Good

BNL DO BRASIL

BALANCE SHEET	JUN/01	DEZ/00	JUN/00	DEZ/99
CASH	24.726	25.014	13.941	11.578
INTERBANK INVESTMENTS	592.741	10.645	11.751	145.652
SECURITIES	719.302	675.687	523.820	562.186
CREDIT OPERATIONS	998.421	836.056	624.489	550.004
Overdue and Doubtful Loans	0	0	0	27.113
Allowance for Loan Losses	17.825	12.531	22.548	28.073
LEASE FINANCE RECEIVABLES	0	0	0	0
OTHER RECEIVABLES	616.529	331.189	341.431	285.490
Foreign Exchange Portfolio	550.428	287.485	275.212	214.971
OTHER ASSETS	4.103	5.493	7.104	10.716
PERMANENT ASSETS	54.204	50.804	48.698	37.140
TOTAL ASSETS/TOTAL LIABILITIES	3.025.814	1.937.206	1.578.354	1.603.553
TOTAL DEPOSITS	594.093	436.872	472.838	363.541
Demand Deposits	4.278	4.888	4.358	4.006
Time Deposits	575.716	415.332	360.021	334.900
Saving Deposits	0	0	0	0
Interbank Deposits	14.099	16.652	108.459	24.635
OPEN MARKET FUNDING	708.158	381.716	157.520	344.047
BORROWINGS AND RELENDING	1.035.054	829.643	562.226	602.786
Local	93.200	81.643	76.267	65.422
Foreign	941.854	748.000	485.960	537.363
OTHER LIABILITIES	471.693	126.133	219.428	146.001
Foreign Exchange Portfolio	336.157	89.430	174.167	79.378
SHAREHOLDERS' EQUITY	185.586	160.527	156.900	143.427
INCOME STATEMENT	JUN/01	DEZ/00	JUN/00	DEZ/99
INCOME FROM LENDING AND TRADING ACTIVITIES	296.670	292.221	121.209	518.785
Credit Operations	153.496	126.151	46.979	249.476
Securities	101.049	135.354	62.836	201.546
EXPENSES	239.475	218.861	88.146	435.575
Interest on Deposit, Loans, Assignments and Relending	234.179	217.270	90.594	421.466
Allowance for Loan Losses	5.296	1.591	-2.448	14.109
GROSS INCOME FROM FINANCIAL INTERMEDIATION	57.195	73.360	33.063	83.210
COMMISSIONS AND FEE	949	1.603	762	821
EQUITY IN THE EARNINGS OF SUBSIDIARIES	790	4.572	2.836	4.149
ADMINISTRATIVE EXPENSES	19.961	37.267	16.349	41.373
OPERATING INCOME	38.525	39.451	19.998	48.727
NON- OPERATING INCOME	-635	-591	-137	-149
NET INCOME FOR THE PERIOD	24.911	31.280	13.473	40.041
RISK AND PERFORMANCE RATIOS	JUN/01	DEZ/00	JUN/00	DEZ/99
LIQUIDITY	1,17	1,18	1,24	1,66
SHORT TERM LIQUIDITY	0,81	0,57	0,77	0,82
SOLVENCY	1,05	1,06	1,08	1,07
NON-PERFORMING LOANS/ GROSS LOANS	0,03	0,02	0,06	0,04
NON-PERFORMING LOANS/ EQUITY	0,21	0,14	0,24	0,18
RETURN ON EQUITY (PROFITABILITY)	31,0%	24,2%	18,8%	38,7%
EFFICIENCY RATIO	0,34	0,49	0,45	0,46
CASH GENERATION	0,12	0,01	0,02	0,14
LEVERAGE	11,41	8,60	7,95	7,69
LOANS/TOTAL ADJUSTED ASSETS	50,6%	52,7%	48,4%	43,7%
SECURITIES/TOTAL ADJUSTED ASSETS	24,0%	29,5%	30,2%	31,4%
FOREIGN EXCHANGE PORTFOLIO/TOTAL ADJUSTED ASSETS	17,8%	12,3%	14,9%	11,5%
TOTAL CAPITAL BIS RATIO	19,0%	11,7%	13,3%	13,7%
CASH FREE / EQUITY	239,1%	146,1%	162,0%	191,5%
CASH FREE CHANGED / TOTAL ADJUSTED ASSETS	14,5%	2,5%	-6,6%	-2,0%
CASH FREE (Thousand R\$)	443.808	234.460	254.165	274.676
TOTAL ADJUSTED ASSETS (Thousand R\$)	2.535.097	1.858.951	1.512.246	1.449.455