

(Convenience translation into English from the original  
previously issued in Portuguese)

**BANCO PAULISTA S.A.**  
(Corporate Tax ID (CNPJ) No. 61.820.817/0001-09)

**Independent auditor's report**

**Financial statements**  
**As at June 30, 2020**

**BANCO PAULISTA S.A.**

**Financial statements  
As at June 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the  
Management and Shareholders of  
**Banco Paulista S.A.**  
São Paulo - SP

### Disclaimer of opinion

We were engaged to audit the financial statements of **Banco Paulista S.A. (the "Bank")**, which comprise the statement of financial position as at June 30, 2020 and the respective statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, as well as the corresponding notes to the financial statements, including a summary of significant accounting policies.

We do not issue an opinion on the financial statements of Banco Paulista S.A. given that due to the relevance of the matters described in the following section of this report "Basis for disclaimer of opinion", we were unable to obtain proper and sufficient audit evidence to support our audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Investigations from the Federal Public Prosecutor's Office and the Federal Revenue Service

In view of the proceeding filed by the Federal Public Prosecutor's Office (MPF) in respect of the investigations conducted by federal government authorities related to the operation known as "*Operação Lava Jato - Disfarces de Mamom*" (Car Wash Operation - Disguises of Mammon), as presented in Note 2.c, the current Management of the Bank concluded an independent investigation on the service providers appointed in the proceedings filed by Central Bank of Brazil (BACEN) and MPF in order to identify possible violation of laws and regulations from its former executives and service providers related to such Operation. The investigation counted on an independent internal committee guiding the work of the team established for the investigation carried out by a law firm and risk expert company, whose results are presented in Note 2.c. The investigation covered only the service providers included in the investigations conducted by federal government authorities, pointing out that certain service provision expenses arising from commissioning on foreign exchange transactions carried out by the Bank did not present adequate and sufficient evidence to corroborate the actual services rendered, and the identification of expenses without proper formalization in contracts, payments of expenses whose contracts did not stipulate the rationale of remuneration or percentage of commissions and absence of purchase orders or quotations with other suppliers, which resulted in an assessment of tax deficiency drawn up by RFB in the amount of R\$ 55,586 thousand, whose adjusted balance as at June 30, 2020 corresponds to R\$ 31,088 thousand, according to Note 16.a. RFB concluded its assessment on December 03, 2019, filing a new assessment of tax deficiency in view of the conclusion of its investigation, based on the disallowance of deductions made in the calculation of Income tax, Social Contribution Tax and Withholding Income Tax. In respect of this proceeding, the Bank filed an objection supported by its legal counselors, which considered the likelihood of loss for such disallowances remote and possible, as shown in Note 29.c and by the investigation conducted, which did not identify irregularities on those expenses. According to Note 2.c, on July 10, 2020, RFB issued a new assessment of tax deficiency, complementary to the second one, adjusting the assessment resulting from the inspection concluded on December 03, 2019 according to the percentage of the fine applied, for which the legal counselors have the same interpretation as the original assessment.

On September 10, 2020, the 74th phase of the Lava Jato operation was launched, aiming at operations carried out with Petróleo Brasileiro S.A. and Petrobras Biocombustível S.A. (collectively referred to as “Petrobras”) between the period from September 12, 2008 to March 18, 2011, and carried out by Banco Paulista. The object of this phase is to deepen investigations into possible illicit acts practiced in the foreign exchange areas of the parties involved, the Bank and the companies, in contracts that would have been entered into between the parties, leading to their supposed surcharges, having occurred blocking the funds of the executives involved in these operations. Management and its legal counselors understand that the block is sufficient to support any charges arising from surcharges, if they are proved, and that a provision for eventual contingencies is unnecessary. However, there was no position regarding any reimbursements that may be required by the companies involved, called Petrobras, and regarding whether any liabilities could be incurred, which is not possible to be determined through alternative audit procedures. We emphasize that the independent investigations previously carried out by the Bank did not cover all the service providers and, mainly, the operations carried out with Petrobrás, with the objective of investigating possible surcharges practiced, and Management has not initiated a new investigation process on these matters or on any amounts involved. In this sense, we were unable to conclude as to the possible initiation of a lawsuit for misconduct in office against the Bank and the consequent indemnity action, which could give rise to possible contingencies not recognized in the Bank’s financial statements as at June 30, 2020. Consequently, we were unable to measure the possible effects of the operations identified by this phase of the Lava Jato operation, including the proper disclosure in the notes, which may also require or depend on other investigative procedures, not yet considered, to be required as part of the whole investigation process started.

Accordingly, the investigations conducted, for not having included all service providers and operations with Petrobrás, may still require that other investigative procedures, not yet considered, be necessary as part of the whole process of investigation started. Additionally, it is not currently possible to estimate the future development of the investigations from the federal government authorities, which may include new sanctions, or its possible effects on the Bank’s financial statements as at June 30, 2020, considering the current stage of the investigations conducted by the federal government authorities.

#### **Civil Investigation**

As mentioned in Note 2.c, on October 30, 2020, BACEN’s Administrative Sanctioning Process Decision Committee (“COPAS”), unanimously decided to close Administrative Sanctioning Process No. PE 157096, which had been set up to verify the legality of foreign exchange operations for the sale of foreign currency carried out by the Bank abroad, in exchange for Brazilian Reais in cash, received from abroad. However, MPF initiated civil inquiry No. 1.34.001.007268/2019-47 by means of Official Letter No. 13003/2020, in order to conduct its own investigation into these operations. The Bank’s Management, supported by its legal counselors, evaluated that the MPF does not currently have sufficient elements to support the filing of a public civil action, and cannot ascertain the probability of a public civil action arising from this process. In addition, the aforementioned civil investigation is confidential, therefore, we did not have access to the case file. Accordingly, we were unable to conclude on the possible impacts of this investigation on the financial statements ended June 30, 2020, including its disclosure in the notes, as well as on the need for recognizing any contingent liabilities.

### **Confirmation letter replies (external confirmations) and reconciliation from foreign financial institutions**

In accordance with the audit procedure established by NBC TA 55 - External confirmation (confirmation letters), letters were sent to confirm operations conducted with other financial institutions as at June 30, 2019, and December 31, 2019, whose replies were not received in full. Accordingly, we were unable, through the application of alternative audit procedures, to conclude on these audit procedures and on possible impacts of this matter on the Bank's financial statements as at June 30, 2020.

### **Investment in controlled companies and affiliates**

As mentioned in Note 11 to the financial statements, the Bank had an investment in the controlled company SOCOPA - Sociedade Corretora Paulista S.A. ("Investee"), representing one hundred percent (100%) of the capital of that investee and, as described in Note 1, on February 06, 2020, the Bank's shareholders, at an Extraordinary General Meeting, decided in favor of the reduction of the Bank's capital stock through the restitution of the totality of the shares of Singulare Corretora de Títulos e Valores Mobiliários S.A. ("Singulare") (formerly denominated "SOCOPA - Sociedade Corretora Paulista S.A.") to its natural person shareholders, with this operation being ratified by BACEN on July 03, 2020. Accordingly, the Bank refunded the amount of R\$ 60,000 thousand to its shareholders, corresponding to Socopa's equity as at December 31, 2019, whose financial statements were audited by us and the corresponding audit report issued on August 12, 2020, with the following qualifications: i) investigation carried out by Management mentioned in the paragraph above entitled "Investigations from the Federal Public Prosecutor's Office and the Federal Revenue Service"; ii) cash and cash equivalents in foreign currencies with no adequate and sufficient audit evidence to issue an opinion; iii) confirmation letter replies from Brazilian financial institutions not fully received; iv) foreign exchange transactions for which the respective foreign exchange contracts and/or other appropriate and sufficient audit evidence were not presented to support the balances recorded; v) distribution of dividends in the amount of R\$ 38,521 thousand with no sufficient balances of reserve established by the Company's bylaws and statutory reserve, in disagreement with the Brazilian corporate law; vi) insufficient provision for contingencies related to the Brazilian Securities and Exchange Commission (CVM), in the amount of R\$ 1,118 thousand; vii) insufficient provision for contingencies in the amount of R\$ 3,842 thousand; viii) inconsistencies in the study of recoverability of tax credits, recorded in the amount of R\$ 4,102 thousand, which prevented the conclusion on the adequate recognition of this asset; ix) inconsistency in the balance of asset and liability valuation adjustments, which is overstated by the amount of R\$ 609 thousand; and x) inconsistency in the calculation of Corporate Income Tax and Social Contribution Tax, whose expenses are understated by R\$ 1,426 thousand.

Accordingly, we were unable to evaluate the impacts of these matters in relation to the amounts of equity in earnings (losses) of controlled companies recorded as at December 31, 2019, and the amount used as a basis for capital reduction during the six-month period ended June 30, 2020.

### **Allowance for loan losses**

According to Note 8.d to the financial statements as at June 30, 2020, the Bank presented an allowance for loan losses in the amount of R\$ 18,827 thousand, of which R\$ 4,340 thousand refer to credits overdue until December 31, 2019, as these operations did not have guarantees in that year. Management chose not to restate the financial statements for the year ended December 31, 2019, with the necessary corrections, as provided for by CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by the Brazilian Monetary Council (CMN) Resolution No. 4.007/11. As a consequence, the income for the six-month period ended June 30, 2020, is understated by R\$ 4,340 thousand.

### **Calculation of tax credits**

As mentioned in Note 25 to the financial statements, the Bank has recorded tax credits in the amount of R\$ 36,355 thousand, of which R\$ 3,971 thousand did not have adequate and sufficient evidence to corroborate the recognition of this amount. Accordingly, the balances of tax credits and equity are overstated by R\$ 3,971 thousand as at June 30, 2020.

### **Impairment of intangible assets**

According to Note 12 to the financial statements, the Bank has Intangible assets referring to brands and patents in the amount of R\$ 4,000 thousand, which was leased for a period of 240 months, requiring the application of CPC 01 (R1) Impairment of assets, approved by CMN Resolution No. 3.566/08. Management did not perform impairment tests on its cash flows, and our audit pointed out the need for recognizing impairment loss in the amount of R\$ 537 thousand. Consequently, as at June 30, 2020, noncurrent assets and equity are overstated by that amount, whereas the income for the six-month period ended June 30, 2020, is overstated by R\$ 168 thousand.

### **Fines - Brazilian Securities and Exchange Commission (CVM)**

In previous years, the Bank reversed provisions for fines with CVM due to noncompliance with the deadlines for the filing of financial statements of investment funds managed by it, in the amount of R\$ 4,059 thousand, understanding that they must be recognized upon their effective collection, regardless of their statute of limitations, contrary to the provisions of CPC 25 - Provisions, contingent liabilities and contingent assets, approved by CMN Resolution No. 3.823/09. Consequently, as at June 30, 2020, current liabilities are understated by R\$ 4,059 thousand, while equity is overstated by the same amount.

### **Asset and liability valuation adjustment**

As at June 30, 2020, the Bank adjusted marketable securities recorded in equity to their market value in the amount of R\$ 664 thousand. However, our examinations indicated that the amount of this adjustment corresponds to R\$ 5 thousand, net of tax effects, with the difference arising from securities sold in the six-month period, whose asset and liability valuation adjustments were not timely recognized in income (loss). Accordingly, as at June 30, 2020, asset and liability valuation adjustments were overstated by R\$ 659 thousand, whereas income for the six-month period ended on the same date is understated by R\$ 659 thousand.

### **Administrative proceeding**

As described in Notes 2.c and 29.d, BACEN started an administrative proceeding on April 13, 2018 regarding irregularities in compliance with the regulations established by that authority in conducting foreign exchange operations. On a trial taking place on August 03, 2020, a fine of R\$ 9,753 thousand was sentenced, against which the Bank filed an appeal and on which the legal counselors concluded that there is still not sufficient information for disclosure or even determination of whether a provision for losses is required; thus, no provision was recorded in the financial statements as at June 30, 2020. As such, if the fine is collected, equity and income for the year will be overstated by R\$ 9,753 thousand.

### **Uncertainty as to going concern**

As mentioned in Note 2.c, as a result of the administrative proceeding initiated by BACEN on April 13, 2018, and of the investigation process of MPF initiated on May 08, 2019, regarding the alleged involvement of the Bank in the investigation process conducted by federal government authorities in the operation known as “*Disfarces de Mamom*”, the Bank ended its activities in the foreign exchange market during the year ended on December 31, 2019, with the beginning of this closing in April 2019, and the discontinuation of the activities of importation of Brazilian Reais, being these operations responsible for a significant portion of the Bank’s revenue from financial intermediation, according to Note 1. Within the process of corporate restructuring, BACEN ratified the Bank’s capital reduction on July 03, 2020, through the transfer of the shares of its fully-owned controlled company to the shareholders as presented in Note 1 and, as a result, the Bank no longer has the amount of equity in earnings (losses) of controlled companies obtained in previous years, according to Note 11.

These issues, in addition to the significance of the abovementioned matters, reported in Notes 8.d, 16.c, 12 and 25, related to accounting procedures adopted by Management and carried out in disagreement with Brazilian accounting practices applicable to institutions authorized to operate by BACEN, and which were the subject of the qualifications described, require Management to continue adopting measures to safeguard the Bank's going concern, on the risk of not being able to continue operations if such measures are not successful.

## **Emphasis**

### **Related-party transactions**

As mentioned in Note 22, in the six-month period ended June 30, 2020, the Bank recognized income (loss) from assignments of court-ordered debt securities in the amount of R\$ 2,963 thousand, which were conducted with related parties. Our opinion is not qualified in respect of this matter.

### **Shares in Equity Investment Funds (FIP)**

As at June 30, 2020, the Bank held shares of Industrial Parks Brasil Fundo de Investimento em Participações Multiestratégia ("Invested Fund") in the amount of R\$ 8,299 thousand. The Invested Fund is in the divestment phase, after approval by the Shareholders' General Meeting of the extension of its term until November 18, 2020. Thus, the Invested Fund's going concern, in the coming years, depends on a new extension to be approved by the Shareholders' General Meeting. Our opinion is not modified in respect of this matter.

## **Other matters**

### **Audit of corresponding amounts of December 31, 2019**

The Bank's financial statements for the six-month period ended December 31, 2019, were previously audited by us, and our report thereon, dated July 30, 2020, was qualified regarding the following matters:

#### ***Independent investigations***

*Qualification regarding the same matter described above in the section "Basis for disclaimer of opinion", "Investigations from the Federal Public Prosecutor's Office and the Federal Revenue Service".*

#### ***Basis of presentation of the consolidated financial statements***

*Management did not present the Bank's consolidated financial statements. Therefore, these financial statements must be read in conjunction with the controlled company's financial statements.*

#### ***Confirmation letter replies (external confirmations) and reconciliation from foreign financial institutions***

*Confirmations of operations held with other financial institutions as at December 31, 2019, were not received.*

#### ***Loss on closing of foreign exchange operating activities***

*Losses recognized against income in several accounting items related to the closing of foreign exchange operating activities, resulting in losses of R\$ 10,293 thousand, for which no adequate and sufficient documentation and controls were presented that would enable us to conclude on this procedure, as well as on the proper accrual period of these operations.*

### **Tax credits from previous years**

Recognition of tax credits in the amount of R\$ 12,810 thousand, of which R\$ 2,780 thousand refer to credits taken on operations prior to 2019, for which Management did not make the restatement of the financial statements as required by CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution No. 4.077/11.

### **Investment in controlled companies and affiliates**

These refer to investments of the Bank in the controlled company Singulare Corretora de Títulos e Valores Mobiliários S.A. (formerly denominated "SOCOPA - Sociedade Corretora Paulista S.A.") ("Investee"). The Investee has not completed the audit process of its financial statements until the issue date of our report, thus, we were unable to conclude on the proper presentation of this investment, in the amount of R\$ 63,783 thousand, and of equity in earnings (losses) of controlled companies, in the amount of R\$ 870 thousand, as at December 31, 2019.

### **Calculation of tax credits**

Qualification regarding the same matter described above in the section "Calculation of tax credits".

### **Payment of interest on equity capital**

The Bank paid interest on equity capital in the amount of R\$ 4,539 thousand. However, the Bank did not present any profit for the year or balance of reserves that would enable the payment of interest on equity capital. In addition, the qualifications described in the report indicated that the income for the six-month period and for the year ended December 31, 2019 were overstated. Accordingly, the balance of statutory reserve was not properly presented.

### **Impairment of intangible assets**

Qualification regarding the same matter described above in the section "Impairment of intangible assets".

### **Allowance for loan losses**

The Bank had an allowance for loan losses in the amount of R\$ 24,912 thousand, while our audit pointed to the amount of R\$ 29,252 thousand, indicating an understatement of R\$ 4,340 thousand, due to the lack of guarantees to operations and considering that they were fully provisioned by means of subsequent events. Consequently, as at December 31, 2019, assets and equity are overstated, as well as income for the six-month period and for the year by the amount of R\$ 4,340 thousand.

### **Fines - Brazilian Securities and Exchange Commission (CVM)**

Qualification regarding the same matter described above in the section "Fines - Brazilian Securities and Exchange Commission (CVM)".

### **Asset and liability valuation adjustment**

The Bank recognized an adjustment as revenue related to the fair value of marketable securities available for sale in the amount of R\$ 2,983 thousand, resulting from securities traded and settled before 2019. As a result, income for the six-month period and for the year ended December 31, 2019, were overstated by R\$ 2,983 thousand.

### **Loss on derivatives**

*In the six-month period ended December 31, 2019, the Bank recognized loss on derivative financial instruments in the amount of R\$ 13,282 thousand, of which R\$ 3,547 thousand refer to expenses incurred in the six-month period ended June 30, 2019. As a result, income for the six-month period ended December 31, 2019 was understated by R\$ 3,547 thousand.*

### **Going concern**

*Qualification regarding the same matter described above in the section “Uncertainty as to going concern”.*

Additionally, the audit report of the financial statements for the six-month period ended December 31, 2019 had the following emphasis paragraphs:

### **Related-party transactions**

*In the six-month period and year ended December 31, 2019, the Bank recognized income (loss) from assignments of court-ordered debt securities in the amount of R\$ 5,243 thousand, which were conducted with related parties. Our opinion is not qualified in respect of this matter.*

### **Uncertainty on the realization of assets**

*As at December 31, 2019, the Bank held shares of Industrial Parks Brasil Fundo de Investimento em Participações Multiestratégia (“Invested Fund”) in the amount of R\$ 7,494 thousand. The financial statements of the Invested Fund for the year ended February 28, 2019 were audited by us and our report thereon, dated July 26, 2019, had the following paragraph on material uncertainty as to going concern:*

*“We draw attention to Note 4, which describes that the Fund has investments in the companies GPR Empreendimentos (GPR20), GPR Empreendimentos (GPR23), GPR Empreendimentos (GPR28) and GPR Empreendimentos (GPR29), which are currently on the development stage of their operations with revenue cycle not yet started. The revenues to be obtained by these Companies will depend on the success of the operations still being developed. In this context, until these operations become profitable, the Companies will depend on the financial support of shareholders and/or third-party funds. Accordingly, the continuity of the Companies depends on the success of the plan developed by management. The financial statements of the companies do not include any adjustments referring to the recovery and classification of assets or to the values and classification of liabilities, which would be required to solve such uncertainty. Our opinion is not modified in respect of this matter.*

*Consequently, in case the actions developed by the management of the Companies Invested by the Invested Fund are not confirmed, the value recorded for this investment will be different from the value estimated as at December 31, 2019. Our opinion is not modified in respect of this matter.*

### **Audit of corresponding amounts of June 30, 2019**

The Bank’s financial statements for the six-month period ended June 30, 2019, were previously audited by us, and our report thereon, dated May 15, 2020, contained a disclaimer of opinion regarding the following matters:

### **Independent investigations**

Qualification regarding the same matter described above in the section “Basis for qualified opinion”, “Investigations from the Federal Public Prosecutor’s Office and the Federal Revenue Service”.

### **Supporting documentation of foreign exchange operations**

The Bank has foreign exchange operations recorded in the accounts “Sundry debtors - domestic”, “Demand deposits - Foreign currency” and “Items to be settled - Foreign Exchange”, in the amounts of R\$ 21,825 thousand, R\$ 15,064 thousand, and R\$ 3,242 thousand, respectively, for which we were not provided with the respective documentation and/or internal controls that would allow us to obtain other appropriate and sufficient audit evidence to support the balances accounted for under those captions.

### **Confirmation letters from financial institutions**

Confirmations of operations held with other financial institutions as at June 30, 2019, were not received.

### **Confirmation letters on lending operations**

Confirmations of lending operations as at June 30, 2019, were not received.

### **Recognition of results**

The Bank recognized income from derivative financial instruments and service revenue in the amounts of R\$ 12,244 thousand and R\$ 32,130 thousand, respectively, for which we were not provided with appropriate and sufficient documentation and controls that would allow us to conclude on those amounts, and we were unable to do so by following alternative audit procedures.

### **Going concern**

Qualification regarding the same matter described above in the section “Uncertainty as to going concern”.

### **Investment in controlled companies and affiliates**

As mentioned in Note 12, as at June 30, 2019, the Bank has investments of R\$ 70,491 thousand in SOCOPA - Sociedade Corretora Paulista S.A. (“Invested company”), representing one hundred percent (100%) of the capital of that investee. The financial statements of the “Invested company” were audited by us and our report thereon, dated May 14, 2020, had a disclaimer of opinion related to the investigation conducted by Management and on the following matters: i) Confirmation letter replies from Brazilian financial institutions not received in totality; ii) Cash and cash equivalents in foreign currencies with no audit evidence appropriate and sufficient to issue an opinion; iii) Foreign exchange operations recorded in “Foreign exchange portfolio - assets”, “Sundry debtors - domestic”, “Foreign exchange portfolio - liabilities” and “Commissions payable on foreign exchange operations”, for which we were not provided with the respective foreign exchange contracts and/or other audit evidence appropriate and sufficient to support the balances accounted for; iv) Record in the captions “Investment fund shares”, “Income receivable”, “National Treasury trustee fees” and “Sundry creditors”, with no presentation of the supporting documentation for such records; v) Recognition of income (loss) from “Marketable securities”, “Service revenues”, “Other operating revenues” and “Other operating expenses”, with no presentation of supporting documentation; vi) Insufficiency of the provision for contingencies related to the Brazilian Securities and Exchange Commission (CVM), in the amount of R\$ 2,653 thousand, net of tax effects.

*Consequently, we were unable to conclude, by means of alternative audit procedures, on the proper presentation of this investment as at June 30, 2019, as well as on the corresponding equity in earnings (losses) of controlled companies for the six-month period then ended totaling R\$ 5,929 thousand.*

#### **Derivatives**

*As mentioned in Note 7, as at June 30, 2019, the Bank has derivative asset positions related to foreign currency in the amount of R\$ 1,383 thousand, although the custody statements issued by the brokers where these operations were conducted indicated that the Bank had a liability position of R\$ 2,041 thousand. Consequently, as at June 30, 2019, the Bank's current assets are overstated by R\$ 1,383 thousand, current liabilities are understated by R\$ 672 thousand, net of tax effects, whereas equity and income for the six-month period on that date are overstated by R\$ 2,055 thousand, net of tax effects.*

Additionally, the audit report of the financial statements for the six-month period ended June 30, 2019 had the following emphasis paragraphs:

#### **Restatement of the financial statements**

*Restatement of the financial statements due to rectification of errors. The corresponding amounts for the six-month period ended June 2018, presented for comparison purposes, were adjusted and are being restated as provided for in CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution No. 4.007/11.*

#### **Material uncertainty as to going concern of Invested Fund**

*Qualification regarding the same matter described above in the section "Emphasis", "Shares in Equity Investment Funds (FIP)".*

### **Responsibilities of Management for the financial statements**

The Bank's Management is responsible for the preparation and fair presentation of these financial statements in accordance with Brazilian accounting practices applicable to the institutions authorized by the Central Bank of Brazil to operate and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our responsibility is to conduct an audit of the financial statements in accordance with Brazilian and international accounting practices and to issue an audit report on such statements.



However, due to the matters described in the section “Basis for disclaimer of opinion”, we were unable to obtain proper and sufficient audit evidence to support our audit opinion on these financial statements.

We are independent of the Bank in accordance with the relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 01, 2021.



**BDO RCS Auditores Independentes SS**  
**CRC 2 SP 013846/O-1**

  
**Paulo Sérgio Barbosa**  
**Accountant CRC 1 SP 120359/O-8**

## Banco Paulista S.A.

### Statements of financial position As at June 30, 2020 and December 31, 2019 (In thousands of Brazilian Reais)

	Notes	2020	2019
Assets			
<b>Current</b>		<b>1,078,942</b>	<b>1,165,787</b>
<b>Cash and cash equivalents</b>		<b>502,608</b>	<b>689,888</b>
Cash and cash equivalents	4	2,610	26,490
Short-term interbank investments	4/5	499,998	663,398
<b>Financial instruments</b>		<b>539,706</b>	<b>446,249</b>
Investments in interbank deposits	5	2,007	1,808
Marketable securities	6	228,615	118,456
Derivatives	7	10,690	3,247
Interbank accounts		19,443	17,996
Lending operations – Private sector	8	238,841	214,715
Securities and receivables from credit granting	8	39,339	60,325
Foreign exchange portfolio	9	-	24,879
Income receivable		90	-
Trading account		655	4,797
Securities and receivables with no relation to credit granting		26	26
<b>Allowance for loan losses on credit risk</b>		<b>(9,497)</b>	<b>(10,998)</b>
(-) Lending operations	8	(9,104)	(10,300)
(-) Securities and receivables from credit granting	8	(393)	(603)
(-) Securities and receivables with no relation to credit granting		-	(95)
<b>Other assets</b>		<b>46,125</b>	<b>40,648</b>
Prepaid expenses		72	135
Assets not for own use		4,820	2,525
Sundry	10	41,233	37,988
<b>Noncurrent</b>		<b>548,793</b>	<b>873,576</b>
<b>Financial instruments</b>		<b>443,697</b>	<b>775,141</b>
Marketable securities	6	183,450	473,385
Lending operations – Private sector	8	242,251	291,986
Securities and receivables from credit granting	8	9,671	-
Securities and receivables with no relation to credit granting		8,325	9,770
<b>Other assets</b>		<b>4,527</b>	<b>4,351</b>
Sundry	10	4,527	4,351
<b>Tax credits</b>	25b	<b>36,355</b>	<b>33,979</b>
<b>Allowance for loan losses on credit risk</b>		<b>(9,410)</b>	<b>(14,009)</b>
(-) Lending operations	8	(9,233)	(14,009)
(-) Securities and receivables from credit granting	8	(97)	-
(-) Securities and receivables with no relation to credit granting		(80)	-

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
Assets - Continued			
<b>Investments</b>		<b>66,529</b>	66,335
Ownership interest in Brazilian controlled companies and affiliates	11	63,783	63,783
Other investments		2,998	2,804
(-) Valuation allowances		(252)	(252)
<b>Fixed assets</b>		<b>1,445</b>	1,846
Land and buildings in use		957	957
Other fixed assets		6,494	7,116
(-) Accumulated depreciation		(6,006)	(6,227)
<b>Intangible assets</b>		<b>5,650</b>	5,933
Intangible assets	12	9,193	9,192
(-) Accumulated amortization	12	(3,543)	(3,259)
Total assets		<b>1,627,735</b>	2,039,363

	Notes	2020	2019
Liabilities			
<b>Current</b>		<b>1,105,162</b>	<b>1,377,276</b>
<b>Deposits and other financial instruments</b>		<b>1,029,790</b>	<b>1,339,075</b>
Deposits	13	414,214	358,891
Open market funding	14	534,342	867,120
Funds from acceptance and issue of securities	15	73,607	29,602
Borrowings and onlendings	15	6,818	7,218
Interbranch and interbank accounts		809	608
Foreign exchange portfolio	9	-	13,123
Trading account		-	62,513
<b>Provisions</b>		<b>10,434</b>	<b>6,797</b>
For Income and Social Contribution taxes		4,397	-
For payments to be made		5,164	5,983
For financial guarantees offered		873	814
<b>Other liabilities</b>		<b>64,938</b>	<b>31,404</b>
Collection of taxes and other contributions		6	1
Tax and social security	16a	2,027	11,621
Social and established by the Company's bylaws		-	681
Miscellaneous	16b	62,905	19,101
<b>Noncurrent</b>		<b>353,205</b>	<b>452,787</b>
<b>Deposits and other financial instruments</b>		<b>317,924</b>	<b>422,616</b>
Deposits	13	238,700	293,344
Funds from acceptance and issue of securities	15	47,531	98,209
Subordinated debts	15	31,693	31,063
<b>Provisions</b>		<b>4,193</b>	<b>3,477</b>
For payments to be made		60	60
For contingent liabilities	29b	4,133	3,417
<b>Other liabilities</b>		<b>31,088</b>	<b>26,694</b>
Tax and social security	16a	31,088	26,694
<b>Equity</b>		<b>169,368</b>	<b>209,300</b>
Capital stock – Brazilian residents	17	206,300	206,300
Capital increase		38,000	-
Unpaid capital		(19,000)	-
Capital reduction		(60,000)	-
Income reserves		3,404	1,218
Market value adjustment – marketable securities and derivatives		664	1,782
<b>Total liabilities</b>		<b>1,627,735</b>	<b>2,039,363</b>

The accompanying notes are an integral part of these financial statements.

## Banco Paulista S.A.

### Statements of income

For the six-month periods ended June 30, 2020 and 2019

(In thousands of Brazilian Reais, except earnings per thousand shares)

	Notes	2020	2019
<b>Trading revenues</b>		<b>53,293</b>	173,974
Lending operations	8h	25,854	35,274
Income from interbank investments and marketable securities		23,069	52,142
Income (loss) from derivatives	7d	(4,085)	12,244
Exchange rate gains (losses)		8,455	74,314
<b>Trading expenses</b>		<b>(31,190)</b>	(84,829)
Expenses on market funding	18	(25,179)	(71,529)
Borrowings and onlendings		(4,327)	(9,289)
Allowance for loan losses	8e	(1,684)	(4,011)
<b>Trading gross profit</b>		<b>22,103</b>	89,145
<b>Other operating revenues (expenses)</b>		<b>(16,714)</b>	(65,915)
Service revenues	19	2,544	2,677
Banking fee income	19	24,061	29,453
Personnel expenses	20	(20,995)	(40,755)
Administrative expenses	21	(15,627)	(54,214)
Tax expenses		(5,102)	(8,904)
Equity in earnings (losses) of controlled companies and affiliates	11	-	5,929
Provision expenses	23	(1,258)	(1,355)
Other operating revenues	22	7,657	14,180
Other operating expenses	24	(7,994)	(12,926)
<b>Operating income</b>		<b>5,389</b>	23,230
<b>Non-operating income (loss)</b>		<b>(202)</b>	573
<b>Income before taxes on income and profit sharing</b>		<b>5,187</b>	23,803
<b>Income and Social Contribution taxes</b>	25	<b>(2,758)</b>	(5,672)
Provision for Income Tax		(2,411)	(4,783)
Provision for Social Contribution Tax		(1,889)	(2,425)
Deferred tax assets		1,542	1,536
<b>Profit sharing</b>		<b>(243)</b>	(3,759)
<b>Net income for the six-month period</b>		<b>2,186</b>	14,372
<b>Earnings per thousand shares – R\$</b>		<b>7.33</b>	48.22

The accompanying notes are an integral part of these financial statements.

## Banco Paulista S.A.

Statements of comprehensive income

For the six-month periods ended June 30, 2020 and 2019

(In thousands of Brazilian Reais, except earnings per thousand shares)

	<u>2020</u>	<u>2019</u>
<b>Net income for the six-month period</b>	<b>2,186</b>	14,372
<b>Other comprehensive income (loss)</b>	<b>(1,118)</b>	1,201
Financial instruments available for sale	<b>(1,855)</b>	2,003
Income and Social Contribution taxes	<b>737</b>	(802)
<b>Net comprehensive income for the six-month period</b>	<b><u>1,068</u></b>	<u>15,573</u>

## Banco Paulista S.A.

Statements of changes in equity  
For the six-month periods ended June 30, 2020 and 2019  
(In thousands of Brazilian Reais)

	Capital stock	Capital increase	Unpaid capital	Capital reduction	Income reserves		Market value adjustment	Retained earnings	Total
					Statutory reserve	Reserve established by the Bank's bylaws			
<b>Balances as at December 31, 2018</b>	<b>193,500</b>	<b>12,800</b>	-	-	<b>9,077</b>	-	<b>3,357</b>	-	<b>218,734</b>
Capital increase	12,800	(12,800)	-	-	-	-	-	-	-
Net income for the six-month period	-	-	-	-	-	-	-	14,372	14,372
Statutory reserve	-	-	-	-	718	-	-	(718)	-
Reserve established by the Bank's bylaws	-	-	-	-	-	13,654	-	(13,654)	-
Market value adjustment – marketable securities and derivatives	-	-	-	-	-	-	1,010	-	1,010
Market value adjustment – marketable securities and derivatives – Controlled company	-	-	-	-	-	-	191	-	191
<b>Balances as at June 30, 2019</b>	<b>206,300</b>	-	-	-	<b>9,795</b>	<b>13,654</b>	<b>4,558</b>	-	<b>234,307</b>
<b>Changes for the six-month period</b>	<b>12,800</b>	<b>(12,800)</b>	-	-	<b>718</b>	<b>13,654</b>	<b>1,201</b>	-	<b>15,573</b>
<b>Balances as at December 31, 2019</b>	<b>206,300</b>	-	-	-	<b>1,218</b>	-	<b>1,782</b>	-	<b>209,300</b>
Capital increase	-	38,000	(19,000)	-	-	-	-	-	19,000
Capital reduction	-	-	-	(60,000)	-	-	-	-	(60,000)
Net income for the six-month period	-	-	-	-	-	-	-	2,186	2,186
Statutory reserve	-	-	-	-	109	-	-	(109)	-
Reserve established by the Bank's bylaws	-	-	-	-	-	2,077	-	(2,077)	-
Market value adjustment – marketable securities and derivatives	-	-	-	-	-	-	(498)	-	(498)
Market value adjustment – marketable securities and derivatives – Controlled company	-	-	-	-	-	-	(620)	-	(620)
<b>Balances as at June 30, 2020</b>	<b>206,300</b>	<b>38,000</b>	<b>(19,000)</b>	<b>(60,000)</b>	<b>1,327</b>	<b>2,077</b>	<b>664</b>	-	<b>169,368</b>
<b>Changes for the six-month period</b>	-	<b>38,000</b>	<b>(19,000)</b>	<b>(60,000)</b>	<b>109</b>	<b>2,077</b>	<b>(1,118)</b>	-	<b>(39,932)</b>

The accompanying notes are an integral part of these financial statements.

## Banco Paulista S.A.

### Statement of cash flows - indirect method

For the six-month periods ended June 30, 2020 and 2019

(In thousands of Brazilian Reais)

	2020	2019
<b>Adjusted net income for the six-month period</b>	<b>3,983</b>	12,929
<b>Net income for the six-month period</b>	<b>2,186</b>	14,372
<b>Adjustments to reconcile net income to net cash</b>	<b>1,797</b>	(1,443)
Allowance for loan losses (Note 8e)	1,684	4,011
Provisions for deferred Income and Social Contribution taxes	(1,542)	(1,536)
Depreciation and amortization (Note 24)	435	726
Equity in earnings (losses) of controlled companies (Note 11)	-	(5,929)
Monetary adjustment of court deposits	(38)	(70)
Reversals of court deposits	36	147
Provisions for contingencies	903	579
Provision for pledges	59	99
Other monetary adjustments	260	530
<b>Changes in assets and liabilities</b>		
(Increase) in investments in interbank deposits	(199)	(302)
Decrease in marketable securities	178,658	16,082
(Increase) in interbranch and interbank accounts	(1,246)	(57,580)
Decrease in lending operations	17,953	117,355
(Increase) decrease in other assets	(5,742)	31,519
Decrease in trading account	(58,371)	8,039
(Increase) decrease in derivative financial instruments	(7,443)	1,200
(Increase) decrease in tax credits	(834)	1,886
Decrease in securities and receivables	12,632	40,684
Decrease in foreign exchange portfolio	11,756	15
Increase (decrease) in deposits	679	(249,808)
(Decrease) in market funding operations	(332,778)	(545,774)
(Decrease) in other liabilities	(16,872)	(14,279)
(Decrease) in tax and social security obligations	(5,200)	(7,425)
Increase (decrease) in provisions	3,132	(10,445)
<b>Net cash from operating activities</b>	<b>(199,892)</b>	(655,904)
<b>Cash flows from investing activities</b>		
Acquisitions of fixed assets	-	(391)
Investments in intangible assets	(1)	(745)
Disposals of fixed assets	250	386
Additions to investments	(194)	(378)
Write-off of investments	-	38,521
<b>Net cash from investing activities</b>	<b>55</b>	37,393
<b>Cash flows from financing activities</b>		
Increase in capital (Note 17a)	19,000	-
Decrease in borrowings and onlendings	(400)	(33,578)
(Decrease) increase in funds from acceptance and issue of securities	(6,673)	19,968
Increase in subordinated debts	630	1,035
<b>Net cash from financing activities</b>	<b>12,557</b>	(12,575)
<b>(Decrease) in cash and cash equivalents</b>	<b>(187,280)</b>	(631,086)
Cash and cash equivalents		
Cash and cash equivalents at beginning of six-month period (Note 4)	689,888	1,459,777
Cash and cash equivalents at end of six-month period (Note 4)	502,608	828,691
	<b>(187,280)</b>	<b>(631,086)</b>

The accompanying notes are an integral part of these financial statements.

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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### **1. Operations**

Banco Paulista S.A. ("Bank") is a privately-held company controlled by Mr. Alvaro Augusto Vidigal and established as a multipurpose bank, primarily engaged in providing loans to medium-sized and large legal entities, rendering services and in providing sale and distribution transaction structuring services.

The Bank's operations are conducted through an integrated group of institutions participating in the financial market. Certain operations have joint participation or intermediation of its former controlled company Singulare Corretora de Títulos e Valores Mobiliários S.A. (previously denominated "SOCOPA - Sociedade Corretora Paulista S.A.") and of other companies belonging to the controlling shareholders. However, as from the corporate restructuring involving the Bank and Singulare, described below, Singulare will no longer be part of this integrated group of institutions.

On February 06, 2020, at the Extraordinary General Meeting then held, the shareholders decided on the corporate restructuring of the Bank, reducing its capital stock, with no cancellation of shares and refund of the totality of shares of Singulare Corretora de Títulos e Valores Mobiliários S.A. to its shareholders, maintaining the percentage of ownership interest of the current shareholders in the capital stock of the Bank.

The purpose of the capital stock reduction is to make the corporate structures of the Bank and Singulare independent by the transfer of the totality of shares issued by Singulare to the shareholders, resulting in the company no longer being a wholly-owned controlled company of the Bank, and considering the following sequence of events:

- Singulare reduced its capital by R\$ 3,783, with no cancellation of shares and refund to Banco Paulista of the corresponding value funds;
- The Bank reduced its capital stock by R\$ 60,000, with no cancellation of shares, refund of the totality of shares of Singularity to its shareholders, and maintaining the percentage of ownership interest of the current shareholders in the capital stock of the Bank;
- The Bank's capital increase was decided upon, in the amount of R\$ 38,000, fully subscribed by the shareholder Álvaro Augusto Vidigal, and paid in domestic currency, with R\$ 19,000 paid in on February 13, 2020 and the remainder, equivalent to R\$ 19,000, to be paid on the business day following the approval of the capital increase by the Central Bank of Brazil (BACEN), in domestic currency.

These decisions were approved by BACEN through Official Letter No. 12.778/2020 - BCB/Deorf/GTSP1 on July 03, 2020.

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

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In view of the matter described in Note 2 below, in the second half of 2019, the Bank ceased its foreign exchange operations and carried out an administrative and governance restructuring with focus on its lending portfolio and rendering of services besides constantly seeking new business opportunities based on market expectations, for having adequate structure for such, which cannot currently be defined by Management.

Considering the relevance of the matters referred to above, Management continues to adopt immediate measures intended to safeguard its going-concern capacity, such as adjusting its organizational structure, due to the discontinuity of foreign exchange operations, at the risk of losing such capacity if unsuccessful in its measures.

### **2. Presentation of the financial statements**

- a) The financial statements have been prepared and are being presented in accordance with Brazilian accounting policies applicable to the financial institutions authorized to operate by BACEN, in compliance with the regulations established in the Accounting Chart for Institutions of the National Financial System (COSIF), regulations of the Brazilian Monetary Council (CMN) and BACEN and with the provisions of Brazilian Corporate Law.

Management makes accounting estimates considering factors and assumptions established based on its judgment. Significant items subject to these estimates and assumptions include provisions for the adjustment of assets to their realization or recoverable value, allowance for losses, provisions for contingencies, mark-to-market of financial instruments, deferred taxes and others. Transaction settlement involving those estimates may result in values different from estimates due to the inherent inaccuracy of the process, being such estimates are periodically reviewed.

In order to gradually reduce the difference in the disclosure of the financial statements between the accounting standard established in COSIF and the International Financial Reporting Standards (IFRS), BACEN, through CMN Resolution No. 4.720/19, regulated new procedures for the preparation and disclosure of financial statements and, through Circular Letter No. 3.959/2019, established the guidelines that started to be applied as from January 01, 2020. The main change implemented was the presentation of the accounts of the statement of financial position in order of liquidity and enforceability, this procedure being applied to the financial statements of the amounts corresponding to the previous period, presented for comparison purposes.

Management declares that the disclosures of the financial statements evidence all relevant information used in its administration and that the accounting practices were consistently applied between the periods.

In view of the process of conversion to the international accounting standards, pronouncements, guidelines and interpretations issued by the Committee of Accounting Pronouncements (CPC), approved by CMN and BACEN, are adopted when effective.

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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The financial statements were approved on January 28, 2021.

- b) These financial statements are being presented in Brazilian Reais, which is the functional currency of the Bank. All financial information presented in Brazilian Reais was converted to thousands, unless otherwise stated.
- c) For concluding the analyses of the financial statements for the six-month period ended June 30, 2020, it is necessary to mention the following facts that were mostly object of consideration in the preparation of the financial statements as at December 31, 2019 and June 30, 2019:
- On April 13, 2018, an administrative proceeding was initiated by BACEN, in which the Bank's statements and disputes were presented. In August 2020, BACEN judged the proceeding and decided on a monetary fine (see Note 29).
  - On February 08, 2018, an assessment by the Brazilian Revenue Service (RFB) was started, resulting in the Bank being assessed for tax deficiency by the end of 2018, in relation to Corporate Income Tax (IRPJ), Social Contribution Tax (CSLL) and Withholding Income Tax (IRRF) referring to Administrative Proceeding No. 16327-721.025/2018-35 filed for the reason of disallowance of expenses included in the calculation basis of those taxes. The debt was agreed to be paid in installments as formalized with the RFB and it is being paid regularly (see Note 16.a and 29.c);
  - On May 08, 2019, the Bank was a target of the 61<sup>st</sup> phase of "*Operação Lava Jato*" (Operation Car Wash), named "*Disfarces de Mamom*", in which the Federal Public Prosecutor's Office (MPF) and the Federal Police investigate money laundering through foreign exchange operations related to members of the "Structured Operations Sector" of Grupo Odebrecht, which resulted in a search and seizure raid at the headquarters of the Bank to identify possible irregular service contracts. Until the conclusion of these financial statements, there was no new decision or requirement from that body;
  - In December 2019, as per Note 29.c, the assessment from RFB was concluded. Despite the conclusion of the inspection, in July 2020, Management became aware of a complementary assessment of tax deficiency, in which RFB, for having wrongly applied the fine in the original tax assessment of December 2019, filed this supplementary tax assessment, for which the Bank has already filed objections;
  - In July 2020, BACEN approved a corporate restructuring involving the Bank and Singulare, as described in Note 1.

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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- In September 2020, the Bank was once more a target of the *Lava Jato* operation, in its 74<sup>th</sup> phase, being subject to a search and seizure of data related to foreign exchange operations carried out with Petrobrás, in the period from 2008 to 2011, with the allegation that they were carried out with a surcharge, for which Banco Paulista readily made itself available to provide elucidations and the necessary information. So far, nothing concrete has been determined and, for this reason, the legal body of the Bank has not been engaged and the operations and their possible effects have not been analyzed.
- In October 2020, BACEN unanimously decided to close administrative sanctioning process No. 157096 that had been initiated to verify the legality of foreign exchange sales transactions of foreign currency carried out by Banco Paulista abroad in exchange for Brazilian Reais in cash received from abroad.
- On the same subject, in a civil proceeding, MPF sent a letter requesting elucidations from the Bank, which will present a statement in a proper moment. The Bank will inform about the unanimous termination of the abovementioned administrative sanctioning process.

The current Management of Banco Paulista is unaware of the investigated operations and restates that the Bank has always been guided by legality and follows all the rules and guidelines of BACEN.

Considering the events described, the Bank's Management discharged and dismissed directors and employees involved in the denunciation and decided to establish an Investigation Committee, formed by the law firm Felsberg Advogados, and by independent and Bank members, to supervise and conduct an investigation on the operations object of the 61<sup>st</sup> phase of "*Lava Jato* operation", denominated "Disfarces de Mamom", concerned with the secrecy of all information, documents and reports generated by the investigation team. This investigation did not cover all the operations carried out by the foreign exchange department, nor the operations carried out with Petrobrás.

On March 26, 2020, the law firm Felsberg Advogados issued a Final Report on the investigative process presenting in detail all the bases and data gathered for the conclusion of the investigation.

In brief, the report presents the following data:

- The objective was to verify information on specific transactions conducted between Banco Paulista and third parties, considering all companies included in the proceedings filed by MPF, BACEN and RFB and occurred between January 2007 and May 2019;
- Related documents were analyzed, including electronic messages, financial proposals, contracts, opinions, reports, access through turnstiles to the building where the Bank's headquarters are located, and others;

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

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- Forensics collection services were performed allowing the recovery and analysis of a significant volume of data from different sources of electronic data, including personal computers, servers, mobile phones, and others, as well the analysis of mass denouncements;
- Accounting and finance analyses were made with the identification of the amounts paid to the main entities involved and comparison with the allegations from the MPF;
- Interviews with key employees part of the staff at the time were also conducted, according to their possible participation in the cases under analysis, in addition to legal entities and natural persons considered for the purpose of background check.

The report also shows that during the investigative process, it was possible to verify a series of mitigation measures taken by the Bank, such as:

- Review of the governance system;
- Creation of an Ethics Channel;
- Hire of independent consulting companies and new professionals to reinforce the departments;
- System for monitoring of transactions; and
- New internal procedures for obtaining and checking information from clients, suppliers and partners.

We highlight that the issue of the Final Report of Investigation, including the group of denounced companies, brought no indication of new cases, in addition to those publicly known and object of the assessment of tax deficiency mentioned in Note 16.a and of the 74<sup>th</sup> phase of the *Lava Jato* operation, which leads to the conclusion that the Bank faced a specific issue, restricted to the foreign exchange department.

the Bank's management and its legal counselors understand that, until the disclosure of these Financial Statements, there are no elements, facts or circumstances that input to the Bank, due to the import of currencies and the 74<sup>th</sup> phase of the *Lava Jato* operation, any contingency that justifies the provisioning of any amount, considering that:

- The Bank was not subject to coercive measures in the ongoing criminal proceedings;
- In these proceedings, when any possible damage was noted in the records, there was a blockage of the assets of the natural persons mentioned;

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

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- In order for the filing of a public civil action for misconduct in office in relation to the operations of importing foreign currency or to those involving PETROBRÁS to be applicable, it would be necessary to prove the existence of an illegal act causing damages. Considering the unanimous termination of the administrative sanctioning process by BACEN, the likelihood of an unfavorable decision on a public civil action for misconduct in office is considered remote.

The Bank reaffirms its commitment with society, clients and authorities and, to that end, the new Management maintains its focus on the adoption of severe measures, particularly measures for the strengthening of governance and Compliance, such as management, control, audit and transparency of information.

### **3. Summary of significant accounting practices**

#### a) Results of operations

Revenues and expenses are recognized on the accrual basis, considering the pro rata basis for financial revenues and expenses. Fees and commissions received are recognized over the period in which services are rendered (on an accrual basis).

Financial revenues and expenses are calculated based on the compound interest rate method. Operations with fixed rates are recorded at the redemption value and the corresponding future revenues and expenses are recognized as a reduction of the respective assets and liabilities. Operations bearing interest at floating rates are restated up to reporting date based on agreed-upon rates. Fees and commissions arising from third-party transactions, such as brokerage, are recognized upon completion of service or operation.

#### b) Cash and cash equivalents

Cash and cash equivalents, as per Resolution No. 3.604/08, include money in cash, bank deposits and highly liquid short-term investments, with an immaterial risk of change in value and limits, and maturing within 90 days from the investment date.

#### c) Short-term interbank investments

Fixed rate investments are stated at redemption value, less unearned income, whereas floating rate investments are recorded at cost plus income earned through the reporting date, less valuation allowance, when applicable.

Repurchase agreements are classified according to their maturity term, regardless of the term of the securities backing such transactions.

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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### d) Financial instruments

#### Marketable securities and derivative financial instruments

As established by Circular letter No. 3.068/01, marketable securities part of a portfolio are classified into three different categories, according to Management's intention, as follows:

**Trading securities:** These are presented in current assets, regardless of the respective maturity dates, comprising securities intended to be actively and frequently traded. They are stated at market value and valuation gains or losses recorded in income (loss).

**Available-for-sale securities:** These are securities not acquired for frequent trading and used for other purposes such as providing liquidity reserve, guarantees and hedging against risks. Income earned based on acquisition rates as well as any permanent losses thereon are recorded in income (loss). These securities are carried at market value and their appreciation or devaluation is matched against a specific account in equity (net of tax effects) and transferred to income (loss) upon realization thereof.

**Held-to-maturity securities:** These are securities for which Management has the intention and financial capacity to hold until maturity. They are stated at acquisition cost, plus income earned. Any permanent losses are immediately recorded in income (loss).

Derivative financial instruments comprising future, forward and swap operations are recorded in accordance with the following criteria:

- *Futures contract* – the amounts from market adjustments are daily accounted for in asset and liability accounts and daily recognized as revenue or expense;
- *Forward contract* – at the final value of the contract deducted from the difference between this value and the market value of the asset or right, recognizing revenues or expenses resulting from the flow of these contracts up to reporting date;
- *Swap contracts* – the difference receivable or payable is accounted for at market value in an asset or liability account, respectively, and recognized as revenue or expense, on a pro rata basis, up to reporting date.

Derivative transactions, not considered for hedge accounting, are stated at market value, at reporting date, recording the appreciation or devaluation in a specific revenue or expense account in income (loss) for the period.

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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### Lending operations and allowance for loan losses

Loans and financing and other credits (credit assignment without joint obligation) are recorded at present value, calculated on a daily pro rata basis based on the index variation and agreed-upon interest rate, to be restated up to the sixtieth day of delay, observing the expectation of receipt.

Loans are classified according to Management's judgment as to their underlying risk level taking into consideration the economic situation, past experience and specific risks related to the operation, debtors and guarantors, in accordance with the parameters established by BACEN Resolution No. 2.682/99, which requires regular analyses of the portfolio and its grading into 9 rating levels, from "AA" (minimum risk) to "H" (loss).

Receivables from loans that are 60 days or more past due, regardless of the underlying risk level, are only recognized as income upon effective receipt.

Loan transactions rated "H" remain rated as such for 180 days, when they are charged against the existing allowance and controlled in memorandum accounts for at least 5 years, no longer appearing in the statement of financial position.

Renegotiated transactions are kept at least at the same level in which they had been rated before renegotiation. Loan renegotiation that had already been written off against the respective allowance, and controlled in memorandum accounts, are rated as "H" and any gains therefrom will only be recognized as income when effectively received.

The Bank opted for the 'double count of terms' prescribed in BACEN Resolution No. 2.682/99 to determine the risk level for above-36-month-term operations. The allowance for loan losses, deemed sufficient by Management, meets the requirements set forth in Resolution No. 2.682/99, as described in Note 9.

### Foreign exchange operations

These are stated at their realization value, including earnings (on a pro rata basis), exchange rate gains (losses), and the recognition of estimated losses, when applicable, as per Resolution No. 2.682/99. These operations were discontinued during the second half of 2019 as described in Note 1.

#### e) Impairment of nonfinancial assets

The accounting recognition of an asset shall demonstrate events or changes in economic, operational or technological circumstances that may indicate deterioration or loss of its recoverable value. When such evidence is identified and the net book value exceeds recoverable value, an impairment charge is recognized by adjusting the net book value. These provisions are recognized in income (loss) for the period/year, as provided for by Resolution No. 3566/08.

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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The amounts of nonfinancial assets are annually reviewed, except for tax credits, whose realization is evaluated every six months.

f) Investments

Due to the corporate restructuring involving the Bank and its wholly-owned controlled company Singulare as described in Note 1, the Financial Statements are being presented individually and because the base date of the statements of financial position used being that of December 31, 2019, in the six-month period of 2020 there was no recognition of equity in earnings (losses) of controlled companies.

Other investments are stated at cost, net of valuation allowance, when applicable.

g) Fixed and intangible assets

These refer to rights to both tangible and intangible assets intended for the maintenance of the Company's activities or exercised for such purpose.

Fixed asset items (tangible assets) are stated at acquisition cost. Depreciation of fixed assets is calculated by the straight-line method at the rates of 20% p.a. for vehicles and EDP systems and 10% p.a. for the other items.

Intangible assets represent acquired rights whose subject matters are items that lack physical substance and are used for the Company's maintenance or exercised to that end. They are stated at acquisition cost, net of accumulated amortization. Intangible assets having a finite useful life are amortized based on their effective use or by a method which reflects their economic benefits, whereas those with an indefinite useful life are annually tested for impairment.

h) Deposits, open market funding, funds from acceptance and issue of securities, borrowings and onlending

These are stated at the amounts payable, considering interest payable through the reporting date and recognized on a daily pro rata basis. Foreign currency liabilities are restated at the official exchange rates prevailing on the reporting date. Open market funding is classified in current liabilities considering their maturities, regardless of the term of the securities backing such transactions.

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

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### i) Current and deferred Income and Social Contribution taxes

#### Current

When provisions for Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) are applicable, they are calculated based on the book income or loss and adjusted considering permanent and temporary add-backs and deductions. Income tax is determined at the rate of 15%, plus a 10% surtax on taxable income exceeding R\$ 240 in the year (R\$ 120 in a six-month period), whereas Social Contribution Tax was calculated at the rate of 15% until August 2015. For the period from September 2015 to December 2018, CSLL rate was changed to 20%, in accordance with Law No. 13.169/15 and will return to 15% from January 2019 onwards. With the enactment of Constitutional Amendment No. 103, Art. 32, as from March 2020, the effective CSLL rate for Banks will be 20%.

#### Deferred

Deferred taxes were calculated on temporary add-backs and deductions. Deferred taxes are calculated on add-backs, deductions or temporary income (losses) to be realized upon the use and/or reversal of the bases for recognition, according to current expected realization and considering Management's analysis and technical studies.

### j) Contingent assets and liabilities and legal, tax and social security obligations

The recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are made according to criteria established in Resolution No. 3.823/09 and Technical Pronouncement CPC 25, issued by the Committee of Accounting Pronouncements (CPC), as follows:

Contingent assets - these are not recognized in the financial statements, except when there is evidence that guarantees their realization, with no further chance of appeal.

Contingent liabilities - these are recognized in the financial statements when, according to the opinion of legal counselors and Management, the risk of loss for a court or administrative proceeding is considered probable, a probable outflow of resources will be required to settle the obligation, and the amounts of the obligation can be reliably measured. Contingent liabilities classified as possible losses by legal counselors are only disclosed in the notes, and those classified as remote losses do not require provision or disclosure.

Legal obligations - tax and social security – these refer to proceedings questioning the legality and constitutionality of certain taxes (or taxes and contributions). The amount discussed is quantified, recorded and monthly adjusted.

## Banco Paulista S.A.

Notes to the financial statements

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### k) Other current and noncurrent assets and liabilities

These are stated at realizable or payable values, including earnings, charges, monetary variations or exchange rate gains (losses) incurred up to reporting date, calculated on a pro rata basis, less estimated losses to reflect realization value, when applicable. Realizable and payable balances within 12 months are classified in current assets and liabilities, respectively.

### l) Earnings or losses per share

Earnings or losses per share are calculated according to the number of shares at reporting date.

## 4. Cash and cash equivalents

As at June 30, 2020 and 2019, cash and cash equivalents were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents in domestic currency	2,000	25,140
Cash and cash equivalents in foreign currency	610	1,350
Open market investments (Note 5a)	499,998	663,398
<b>Cash and cash equivalents</b>	<b><u>502,608</u></b>	<b><u>689,888</u></b>

## 5. Short-term interbank investments

### a) Open market investments

	<u>2020</u>		<u>2019</u>
	<u>1 to 30 days</u>	<u>Total</u>	<u>Total</u>
<b>Open market investments</b>			
<b>Own resources:</b>	<b>138,086</b>	<b>138,086</b>	111,127
Zero coupon fixed rate bills (LTN)	-	-	13,400
National Treasury Notes (NTN)	138,086	<b>138,086</b>	97,727
<b>Financed position:</b>	<b>361,912</b>	<b>361,912</b>	552,271
Zero coupon fixed rate bills (LTN)	-	-	-
National Treasury Notes (NTN)	361,912	<b>361,912</b>	552,271
<b>Total</b>	<b><u>499,998</u></b>	<b><u>499,998</u></b>	<b><u>663,398</u></b>

In the six-month period ended June 30, 2020, income from repurchase agreements amounted to R\$ 9,347 (R\$ 35,241 in 2019).

## Banco Paulista S.A.

Notes to the financial statements

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### b) Investments in interbank deposits

	<u>2020</u>	<u>2019</u>
Maturity within 90 days	<b>2,007</b>	1,808
<b>Total</b>	<b><u>2,007</u></b>	<u>1,808</u>

In the six-month period ended June 30, 2020, income from investments in interbank deposits amounted to R\$ 10 (R\$ 10 in 2019).

## 6. Marketable securities

### a) Marketable securities - breakdown by type

	<u>2020</u>		<u>2019</u>	
	<u>Cost (i)</u>	<u>Market (ii)</u>	<u>Cost (i)</u>	<u>Market (ii)</u>
<b>Trading securities</b>				
<b>Own portfolio - free</b>	<b>22,473</b>	<b>22,493</b>	26,351	28,020
Zero coupon floating rate bills (LFT)	128	128	272	272
Zero coupon fixed rate bills (LTN)	-	-	400	400
National Treasury Notes (NTN)	473	551	469	581
Agrarian Debt Bonds (TDA)	138	110	133	109
Investment fund shares	10,947	10,917	9,917	9,917
Agribusiness Receivables Certificate (CRA)	7,463	7,463	9,580	9,580
Shares issued by publicly-held companies	87	87	635	2,216
Investments in marketable securities abroad	-	-	1,720	1,720
Real Estate Receivables Certificates (CRI)	3,237	3,237	3,225	3,225
<b>Linked to repurchase agreements</b>	-	-	5,192	5,192
Zero coupon floating rate bills (LFT)	-	-	5,192	5,192
<b>Total trading securities</b>	<b>22,473</b>	<b>22,493</b>	31,543	33,212
<b>Available-for-sale securities</b>				
<b>Own portfolio - free</b>	<b>142,397</b>	<b>142,414</b>	187,312	188,983
Zero coupon floating rate bills (LFT)	137,101	137,117	155,194	155,210
Zero coupon fixed rate bills (LTN)	-	-	258	260
National Treasury Notes (NTN)	690	725	23,778	25,448
Agrarian Debt Bonds (TDA)	192	158	99	82
Investment fund shares	4,414	4,414	7,983	7,983
<b>Linked to repurchase agreements</b>	<b>172,495</b>	<b>172,495</b>	310,201	310,306
Zero coupon floating rate bills (LFT)	172,495	172,495	310,201	310,306
<b>Linked to guarantees</b>	<b>74,671</b>	<b>74,663</b>	59,344	59,340
Zero coupon floating rate bills (LFT)	59,592	59,584	44,671	44,667
Investment fund shares	15,079	15,079	14,673	14,673
<b>Total available-for-sale securities</b>	<b>389,563</b>	<b>389,572</b>	556,857	558,629
<b>Total</b>	<b>412,036</b>	<b>412,065</b>	588,400	591,841

## Banco Paulista S.A.

### Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

#### (i) Cost value

In the case of fixed-rate securities, this refers to the acquisition cost plus gains earned through the reporting date; for shares, this is based on acquisition cost.

#### (ii) Market value

The market value of government bonds is calculated according to disclosures in the daily bulletins informed by the Brazilian Financial and Capital Markets Association (ANBIMA). Shares and debentures are measured at the last-day-traded close price on the Stock Exchange. Corporate bonds are stated at cost, plus accrued daily earnings and adjusted to market value. The fund shares are restated by the share value provided by the Administrator.

#### b) Marketable securities - breakdown by maturity

	2020					Total	2019 Total
	With no maturity	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years		
<b>Trading securities</b>							
Zero coupon floating rate bills (LFT)	-	-	-	-	128	<b>128</b>	5,464
Zero coupon fixed rate bills (LTN)	-	-	-	-	-	-	400
National Treasury Notes (NTN)	-	-	-	-	551	<b>551</b>	581
Agrarian Debt Bonds (TDA)	-	-	1	1	108	<b>110</b>	109
Investment fund shares	10,917	-	-	-	-	<b>10,917</b>	9,917
Agribusiness Receivables Certificate (CRA)	-	-	-	7,463	-	<b>7,463</b>	9,580
Shares issued by publicly-held companies	87	-	-	-	-	<b>87</b>	2,216
Investments in marketable securities abroad	-	-	-	-	-	-	1,720
Real Estate Receivables Certificates (CRI)	-	-	-	-	3,237	<b>3,237</b>	3,225
<b>Total trading securities (i)</b>	<b>11,004</b>	-	<b>1</b>	<b>7,464</b>	<b>4,024</b>	<b>22,493</b>	33,212
<b>Available-for-sale securities</b>							
Zero coupon floating rate bills (LFT)	-	64,609	121,308	61,821	121,458	<b>369,196</b>	510,183
Zero coupon fixed rate bills (LTN)	-	-	-	-	-	-	260
National Treasury Notes (NTN)	-	-	712	-	13	<b>725</b>	25,448
Agrarian Debt Bonds (TDA)	-	-	-	1	157	<b>158</b>	82
Investment fund shares	19,493	-	-	-	-	<b>19,493</b>	22,656
<b>Total available-for-sale securities (i)</b>	<b>19,493</b>	<b>64,609</b>	<b>122,020</b>	<b>61,822</b>	<b>121,628</b>	<b>389,572</b>	558,629
<b>Total</b>	<b>30,497</b>	<b>64,609</b>	<b>122,021</b>	<b>69,286</b>	<b>125,652</b>	<b>412,065</b>	591,841

(i) The maturity of the notes, regardless of their accounting classification, was considered in their distribution through time.

In the six-month period ended June 30, 2020, income from marketable securities amounted to R\$ 13,712 (R\$ 16,891 in 2019).

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Government securities are kept under custody at the Special Clearing and Custody System (SELIC), while corporate bonds and fund shares are held in custody under B3.

There was no reclassification in the securities category for the six-month period ended June 30, 2020 and December 31, 2019.

### 7. Derivatives

The Bank conducts operations involving derivative financial instruments, which are recorded in asset, liability and memorandum accounts to manage its overall risk exposure.

The trading of derivative financial instruments with counterparties is preceded by an assessment of underlying credit risks.

As at June 30, 2020 and December 31, 2019, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2020				2019			
	Reference value	Assets	Liabilities	Net	Reference value	Assets	Liabilities	Net
Forwards (NDF)	63,223	10,690	-	10,690	71,494	3,247	-	3,247
Total	63,223	10,690	-	10,690	71,494	3,247	-	3,247

#### a) Breakdown of transactions

Description	Reference value (In Brazilian Reais)	Net value receivable/ (payable)
<b>Forwards</b>		
Brazilian Real x USD	63,223	10,690
<b>Total</b>	<b>63,223</b>	<b>10,690</b>

#### b) The derivatives have the following maturities:

Description	2020			Total	2019
	Up to 3 months	From 3 to 12 months	Over 12 months		Total
Forward contracts - NDF	10,690	-	-	10,690	3,247

The market value of these derivative financial instruments is calculated based on specialized exchange quotations and, in certain cases, through the use of pricing techniques.

## Banco Paulista S.A.

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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The Bank carries out transactions involving derivative financial instruments in future market - B3, which are exclusively tied to future foreign currency indexes for which reference value at June 30, 2020 totals R\$ 194,061 (R\$ 94,577 as at December 31, 2019), and an adjustment receivable of R\$ 83 (R\$ 348 receivable as at December 31, 2019) was computed.

All derivatives operations carried out by the Bank are recorded at B3. DI and foreign currency-denominated forward contracts are mostly used as instruments to limit fundraising rates due to mismatches between terms, currencies, and/or indexes and active operations.

c) Guarantee margin

The following assets are pledged as guarantee margin for transactions involving derivative financial instruments to be carried out:

	<u>2020</u>	<u>2019</u>
Zero coupon floating rate bills (LFT)	15,961	15,693
Fund shares	15,079	1,360
	<u><b>31,040</b></u>	<u><b>17,053</b></u>

d) Income (loss) from derivatives

Income (loss) from derivative financial instrument transactions for the six-month periods ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Futures	(19,799)	13,870
Forward transactions - NDF	15,714	(1,626)
	<u><b>(4,085)</b></u>	<u><b>12,244</b></u>

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Notes to the financial statements

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### 8. Lending operations

As at June 30, 2020 and December 31, 2019, lending operations breakdown as follows:

a) By type of transaction

	<u>2020</u>	<u>2019</u>
<b>Lending operations:</b>		
Loans and discounted notes	290,859	292,411
Financing - Export credit notes	190,233	214,290
	<b>481,092</b>	506,701
<b>Other receivables:</b>		
Credit assignment with no joint obligation	49,010	60,325
	<b>49,010</b>	60,325
<b>Total lending operations</b>	<b>530,102</b>	567,026
Allowance for loan losses	(18,337)	(24,309)
Allowance for other loan losses	(490)	(603)
<b>Total allowance for loan losses</b>	<b>(18,827)</b>	(24,912)
	<b>511,275</b>	542,114

b) By sector

	<u>2020</u>	<u>2019</u>
Private sector		
Manufacturing	104,035	133,076
Trade	230,981	236,663
Services	185,629	188,396
Natural persons	9,457	8,891
Total	<b>530,102</b>	567,026

c) By maturity

	<u>2020</u>	<u>2019</u>
Amounts overdue	28,192	26,077
Amounts falling due		
Within 90 days	75,970	75,741
From 91 to 180 days	65,172	78,864
From 181 to 360 days	108,846	94,358
Over 360 days	251,922	291,986
Total	<b>530,102</b>	567,026

## Banco Paulista S.A.

Notes to the financial statements

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### d) Breakdown of portfolio by risk level

Level	Portfolio balances				2019	
	2020				Total	%
	Ordinary course	Overdue	Total	%	Total	%
A	29,229	-	29,229	5.51	52,121	9.19
B	441,955	910	442,865	83.54	443,556	78.23
C	26,275	8,370	34,645	6.54	38,043	6.71
D	3,821	4,756	8,577	1.62	4,526	0.80
E	622	1,835	2,457	0.46	4,122	0.73
F	-	1,420	1,420	0.27	14,531	2.56
G	-	4	4	-	21	-
H	7	10,898	10,905	2.06	10,106	1.78
	<b>501,909</b>	<b>28,193</b>	<b>530,102</b>	<b>100.00</b>	<b>567,026</b>	<b>100.00</b>

Level	Allowance						2019	
	2020						Total	%
	Allowance %	Ordinary course	Overdue	Total	%	Total	%	
A	0.5	146	-	146	0.78	261	1.05	
B	1.0	4,420	9	4,429	23.52	4,435	17.80	
C	3.0	788	251	1,039	5.52	1,141	4.58	
D	10.0	382	476	858	4.56	453	1.82	
E	30.0	186	551	737	3.91	1,236	4.96	
F	50.0	-	710	710	3.77	7,265	29.16	
G	70.0	-	3	3	0.02	15	0.06	
H	100.0	7	10,898	10,905	57.92	10,106	40.57	
		<b>5,929</b>	<b>12,898</b>	<b>18,827</b>	<b>100.00</b>	<b>24,912</b>	<b>100.00</b>	

### e) Changes in allowance for loans losses

	2020	2019
<b>Balance at beginning of six-month period /year</b>	<b>24,912</b>	12,662
Net recognitions	1,684	14,065
Loans written off against losses	(7,769)	(1,815)
<b>Balance at end of six-month period/year</b>	<b>18,827</b>	<b>24,912</b>

### f) Renegotiated and recovered loans

There were no renegotiated loans for the six-month period ended June 30, 2020 (R\$ 7,562 for the year ended December 31, 2019).

Recovered loans in the six-month period ended June 30, 2020 total R\$ 2,339 (R\$ 623 in 2019).

### g) Credit assignments

In the six-month period ended June 30, 2020 and December 31, 2019, the Bank did not engage in assignment of loans with joint obligation.

## Banco Paulista S.A.

Notes to the financial statements

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### h) Income from lending operations

	<u>2020</u>	<u>2019</u>
Loans and discounted notes	16,719	26,779
Financing	6,673	7,812
Recovery of loans written off as loss	2,339	623
Advances to deposit holders	123	60
Total income from lending operations	<u>25,854</u>	<u>35,274</u>

## 9. Foreign exchange portfolio

<b>Assets</b>	<u>2020</u>	<u>2019</u>
<b>Current</b>		
Foreign exchange purchase pending settlement	-	18,909
Rights on foreign exchange sales	-	5,970
	<u>-</u>	<u>24,879</u>
<b>Liabilities</b>		
<b>Current</b>		
Foreign exchange sale pending settlement	-	13,123
	<u>-</u>	<u>13,123</u>

As described in Note 2, in the second half of 2019, the Bank ceased its foreign exchange operations and carried out an administrative and governance restructuring with focus on its lending portfolio and rendering of services besides constantly seeking new business opportunities based on market expectations, for having adequate structure for such, which cannot currently be defined by Management.

## 10. Other assets - Sundry

	<u>2020</u>	<u>2019</u>
<b>Current</b>		
Taxes to offset (i)	35,316	35,355
Prepaid exchange funds	1,501	673
Sundry debtors – domestic	2,181	52
Receivables from court deposits (Note 29b)	1,585	1,641
Others	650	267
	<u>41,233</u>	<u>37,988</u>
<b>Long-term assets</b>		
Receivables from court deposits (Note 29b)	4,527	4,351
	<u>4,527</u>	<u>4,351</u>

(i) Prepayments of IRPJ and CSLL from previous years not offset.

## Banco Paulista S.A.

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### 11. Investment in controlled companies and affiliates

This mainly refers to the ownership interest in the controlled company Singulare Corretora de Títulos e Valores Mobiliários S.A.

Main information on this controlled company is as follows:

	<u>2020</u>	<u>2019</u>
Number of shares held	<b>3,200</b>	3,200
Capital stock	<b>66,000</b>	66,000
Initial equity	<b>63,783</b>	102,892
Capital reduction	(3,783)	-
Market value adjustment – marketable securities and derivatives	(620)	191
Dividends	-	(38,521)
Income for the six-month period	4,538	5,929
Percentage of participation	<b>100%</b>	100%
Final equity	<b>63,918</b>	70,491
Equity in earnings of controlled companies	-	5,929

As per Note 1, on February 06, 2020, the Bank reduced its capital stock, offering as payment the shares held of the controlled company, no longer being its Parent company.

### 12. Intangible assets

	<b>Amortization rate</b>	<b>Cost</b>	<b>Amortization</b>	<b>06/30/2020</b>	<b>12/31/2019</b>
Software	<b>20%</b>	5,193	(3,543)	<b>1,650</b>	1,933
Other intangible assets (*)	-	4,000	-	<b>4,000</b>	4,000
	-	<b>9,193</b>	<b>(3,543)</b>	<b>5,650</b>	5,933

(\*) It refers to the acquisition of trademarks, domain and email addresses, procedures manuals, including all copyrights to explore a new product.

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### 13. Deposits

a) By maturity:

	2020				Total	2019
	With no maturity	1 to 90 days	91 to 360 days	Over 360 days		Total
Demand – domestic currency	211,040	-	-	-	<b>211,040</b>	139,260
Demand – foreign currency	3	-	-	-	<b>3</b>	36
Interbank	-	61,330	-	-	<b>61,330</b>	75,368
Time	-	29,499	112,342	238,700	<b>380,541</b>	437,571
	<b>211,043</b>	<b>90,829</b>	<b>112,342</b>	<b>238,700</b>	<b>652,914</b>	652,235

In the six-month period ended June 30, 2020, expenses on “Deposits” totaled R\$ 9,862 (R\$ 29,643 in 2019) and expenses on “Credit Guarantee Fund (FGC)” totaled R\$ 423 (R\$ 537 in 2019) (Note 18).

b) Average rate used:

	2020		2019	
	Fixed rate	Floating rate	Fixed rate	Floating rate
Interbank	n/a	<b>99.01</b>	n/a	99.01
Time	<b>6.66</b>	<b>111.81</b>	9.60	114.25

### 14. Open market funding

	2020		2019
	From 1 to 30 days	Total	Total
<b>Own portfolio</b>			
Zero coupon floating rate bills (LFT) (Note 26)	172,430	<b>172,430</b>	314,849
	<b>172,430</b>	<b>172,430</b>	314,849
<b>Third-party portfolio</b>			
National Treasury Notes (NTN)	361,912	<b>361,912</b>	552,271
	<b>361,912</b>	<b>361,912</b>	552,271
<b>Total</b>	<b>534,342</b>	<b>534,342</b>	867,120

In the six-month period ended June 30, 2020, expenses on “Open market funding” totaled R\$ 12,274 (R\$ 37,078 in 2019) (Note 18).

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Notes to the financial statements

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### 15. Borrowings and onlendings, funds from acceptance and issue of securities and subordinated debts

	2020					Total	2019
	With no maturity	1 to 90 days	From 91 to 180 days	From 181 to 360 days	Over 360 days		Total
<b>Onlending</b>							
Domestic onlendings – official institutions (i)	6,818	-	-	-	-	<b>6,818</b>	7,218
<b>Funds from acceptance and issue of securities</b>							
Obligations due to issue of Agribusiness Credit Bills (LCA) (ii)	-	2,613	806	53,470	35,926	<b>92,815</b>	93,806
Obligations due to issue of Real Estate Equity Securities (LCI) (iii)	-	-	-	16,718	10,505	<b>27,223</b>	32,928
Obligations due to issue of Financial Bills (iv)	-	-	-	-	1,100	<b>1,100</b>	1,077
<b>Subordinated debts</b>							
Capital-eligible subordinated debts (v) (Note 26)	-	-	-	-	31,693	<b>31,693</b>	31,063
	<b>6,818</b>	<b>2,613</b>	<b>806</b>	<b>70,188</b>	<b>79,224</b>	<b>159,649</b>	<u>166,092</u>

(i) Domestic onlendings refer to funds from the Ministry of the Cities and Associated Agencies (i.e., State, Local and the Federal District Government Agencies and Housing Cooperatives) related to Brazil's Social Interest Housing (PSH) Subsidy Program;

(ii) These refer to Agribusiness Credit Bills (LCA). The rate used ranged from 95% to 116% of the Interbank Deposit Rate (CDI);

(iii) These refer to Real Estate Equity Securities with the Bank's controlling shareholder (Note 26);

(iv) These refer to Financial Bills (LF). The rate used was 122% of CDI maturing on 11/08/2021 (Note 25);

(v) This refers to 6-year-term Financial Bills providing for subordination clauses, corresponding to Tier II eligible instruments authorized pursuant to Resolution No. 4.192/13. This operation bears interest at 115.00% of CDI.

In the six-month period ended June 30, 2020, expenses on "Funds from acceptance and issue of securities" totaled R\$ 1,967 (R\$ 3,199 in 2019) (Notes 18 and 26), and expenses on "Subordinated debts" totaled R\$ 653 (R\$ 1,072 in 2019) (Note 18).

## Banco Paulista S.A.

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### 16. Other liabilities

#### a) Tax and social security

	<u>2020</u>	<u>2019</u>
<b>Current</b>		
Taxes and contributions payable	2,027	11,621
	<u>2,027</u>	<u>11,621</u>
<b>Long-term liabilities</b>		
Taxes and contributions payable (i)	31,088	26,694
	<u>31,088</u>	<u>26,694</u>

(i) It refers to the assessment of tax deficiencies of IRPJ, CSLL and IRRF, in the amount of R\$ 31,088 related to Administrative Proceeding No. 16327-721.025/2018-35 filed for the reason of disallowance of expenses included in the calculation basis of those taxes. The debt was agreed to be paid in 60 months as formalized with the RFB and it is being paid regularly.

#### b) Miscellaneous

	<u>2020</u>	<u>2019</u>
<b>Current</b>		
Items to be settled - foreign exchange	-	18,719
Charges on funds received - PSH	9	9
Capital stock reduction	60,000	-
Other amounts payable	2,896	373
	<u>62,905</u>	<u>19,101</u>

### 17. Equity

#### a) Capital stock

At the Extraordinary General Meeting held on February 06, 2020, it was decided the reduction of the Capital Stock by R\$ 60,000, with no cancellation of shares and with the refund of the totality of Singulare's shares to its shareholders, keeping the ownership interest of the current shareholders unchanged in the Bank's capital stock, in addition to an increase of R\$ 38,000 in capital stock, fully subscribed by the shareholder Álvaro Augusto Vidigal, and paid in domestic currency, being R\$ 19,000 paid in on February 13, 2020 and the remainder, equivalent to R\$ 19,000, paid on the business day following the approval of the capital increase by BACEN, in domestic currency, which occurred on July 03, 2020.

## **Banco Paulista S.A.**

Notes to the financial statements

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As at June 30, 2020, the Company's fully subscribed and paid-in capital of R\$ 206,300 (R\$ 206,300 in 2019) is represented by 298,031,760 (298,031,760 in 2019) registered shares with no par value, of which 149,015,880 (149,015,880 in 2019) are common shares and 149,015,880 (149,015,880 in 2019) are preferred shares.

b) Dividends and interest on equity capital

The Bank's bylaws provide for mandatory minimum dividends of 25% on net income, calculated under the terms of Brazilian Corporate Law. In the six-month period ended June 30, 2020, by decision of the board of directors, no dividends and interest on own capital were allocated and paid.

c) Statutory reserve

The Bank shall allocate 5% of net income each year to the statutory reserve, which shall not exceed 20% of paid-in capital.

d) Reserve established by the Bank's bylaws

The Bank must allocate ten percent (10%) of the net income to set up a reserve established by the Bank's bylaws, intended to ensure an adequate operating margin for the Bank, up to the limit of one hundred percent (100%) of the capital stock.

The balance of Net Income, verified after the distributions provided for in the Bank's Bylaws, will have the destination proposed by the Executive Board and approved by the General Meeting, and one hundred percent (100%) may be allocated to the Income Reserve established by the Bank's bylaws.

e) Retained earnings

According to Resolution No. 3.605/08, the income earned and not distributed in the year, after the allocation of the statutory reserve, was allocated to the income reserve established by the Bank's bylaws. As at June 30, 2020, income earned in the six-month period totals R\$ 2,186 (R\$ 14,372 in 2019).

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### 18. Expenses on market funding

	<u>2020</u>	<u>2019</u>
Time deposits (Note 13)	8,526	22,783
Open market funding (Note 14)	12,274	37,078
Contributions to Credit Guarantee Fund (FGC) (Note 13)	423	537
Interbank deposits (Note 13)	1,333	4,794
Financial bills (Notes 15 and 26)	653	1,072
Agribusiness Credit Bills (LCA) (Notes 15 and 26)	1,436	2,337
Real Estate Equity Securities (LCI) (Notes 15 and 26)	531	862
Exchange rate gains (losses) on foreign currency deposits (Note 13)	3	2,066
	<u><b>25,179</b></u>	<u><b>71,529</b></u>

### 19. Service revenues and bank fee income

	<u>2020</u>	<u>2019</u>
Foreign exchange operation charges	-	1,921
Bank service charges	24,146	29,476
Custody services	324	562
Other services	2,135	171
	<u><b>26,605</b></u>	<u><b>32,130</b></u>

### 20. Personnel expenses

	<u>2020</u>	<u>2019</u>
Proceeds	10,276	15,699
Social charges	5,161	9,231
Benefits	2,590	4,011
Fees	2,909	11,145
Trainings	37	624
Interns compensation	22	45
	<u><b>20,995</b></u>	<u><b>40,755</b></u>

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### 21. Administrative expenses

	<u>2020</u>	<u>2019</u>
Transport of currency - Exchange	1	24,361
Transport of currency - Other	75	1,048
Specialized technical services	5,354	8,338
Data processing	4,818	8,406
Rents	1,257	1,973
Financial system	1,334	4,862
Communications	425	784
Third-party services	354	530
Notarial fees	423	591
Surveillance and security services	85	122
Materials	29	155
Advertising and publicity	69	40
Others	1,403	3,004
	<u><b>15,627</b></u>	<u><b>54,214</b></u>

### 22. Other operating revenues

	<u>2020</u>	<u>2019</u>
Income from pledges given	821	206
Monetary variation gains	793	1,183
Interest on National Treasury – Court-ordered debt securities	1,007	1,630
Assignment of court-ordered debt securities (i)	2,963	-
Monetary gains on court deposits	38	67
Monetary gains on guarantees	164	-
Recovery of charges and expenses	299	689
Reversal of provisions for contingencies	67	122
Reversal of lawyer fees	87	-
Reversal of provisions for tax risks	-	1,476
Reversal of provisions for RFB proceeding - Interest	1,052	820
Interest on equity - Shares	8	20
Exchange rate gains (losses) on foreign currency deposits	16	5,805
Exchange rate gains (losses) on foreign loans	-	2,078
Others	342	84
	<u><b>7,657</b></u>	<u><b>14,180</b></u>

- (i) (i) These Refer to income (loss) from operations for the acquisition of public court-ordered debt securities (Federal, State and Local) - see Note 10.

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### 23. Provision expenses

	<u>2020</u>	<u>2019</u>
Monetary adjustments of taxes and contributions (Note 29)	10	39
Contingencies - judicial and legal obligations (Note 29)	6	344
Provisions for labor contingencies (Note 29)	887	323
Reversals of court deposits	36	
Expenses on assessment of tax deficiency by RFB (Note 16a)	260	530
Contingency fees	-	20
Provision for pledges given	59	99
	<u>1,258</u>	<u>1,355</u>

### 24. Other operating expenses

	<u>2020</u>	<u>2019</u>
Loan consulting	1,509	5,740
Expenses on gold transactions	21	783
Loan loss provision	18	17
Expenses on Direct Consumer Credit (CDC) contract recovery	646	965
Exchange rate gains and losses	-	563
Prepaid card	49	457
Amortization and depreciation	435	726
Interbank fees	48	144
Financial expenses - PSH	226	245
Commissions on financing agreements	-	24
Other expenses – Fund controllership	-	502
Legal expenses	615	2,223
Expenses on discounts granted in renegotiations	2,969	-
Expenses on restatement of court-ordered debt securities	28	1
Loss on fees	822	-
Others	608	536
	<u>7,994</u>	<u>12,926</u>

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### 25. Income and Social Contribution taxes

#### a) Reconciliation of expenses on income and social contribution taxes

	<u>2020</u>	<u>2019</u>
Income before taxes on income and profit sharing	5,187	23,803
(-) Profit sharing	(243)	(3,759)
Income before taxes and after profit sharing	<u>4,944</u>	<u>20,044</u>
Temporary add-backs and deductions	<u>3,426</u>	<u>3,841</u>
Marketable securities marked to market	1,760	1,278
Allowance for loan losses (Note 8e)	1,684	4,011
Provision for tax risks (Note 29b.3)	(876)	(1,782)
Provisions for contingent liabilities (Note 23)	858	334
Permanent add-backs and deductions	<u>1,559</u>	<u>(872)</u>
Equity in earnings (losses) of controlled company (Note 11)	-	(5,929)
Other permanent add-backs and deductions	1,559	5,057
Calculation basis	<u>9,929</u>	<u>23,013</u>
Income Tax/ Social Contribution Tax	4,360	7,346
Deductions - tax incentives	(60)	(138)
Income and Social Contribution taxes	<u>4,300</u>	<u>7,208</u>
Deferred tax assets	(1,542)	(1,536)
Total Income and Social Contribution taxes	<u><u>2,758</u></u>	<u><u>5,672</u></u>

#### b) Tax credits

The bases for recognition of tax credit were as follows:

	<u>2020</u>	<u>2019</u>
Provision for expected losses	60,669	58,985
Provision for contingencies and tax risks	10,770	10,788
Market value adjustment – Trading/ Available-for-sale marketable securities	1,817	(1,798)
Income Tax loss/ Social Contribution Tax loss	7,533	7,532
	<u><u>80,789</u></u>	<u><u>75,507</u></u>

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The changes in tax credits for the year were as follows:

	12/31/2018	Recognition	Realization/ Reversal	Reclassification (i)	12/31/2019
Allowance for losses on other receivables	17,463	12,288	(532)	(2,675)	<b>26,544</b>
Provision for contingencies and tax risks	1,966	1,006	(1,826)	3,708	<b>4,854</b>
Market value adjustment – Trading/ Available-for-sale marketable securities	501	3,992	(879)	(4,423)	<b>(809)</b>
Income Tax loss/ Social Contribution Tax loss	-	-	-	3,390	<b>3,390</b>
<b>Total tax credits (*)</b>	<b>19,930</b>	<b>17,286</b>	<b>(3,237)</b>	<b>-</b>	<b>33,979</b>

(i) In 2019, there were reclassifications between line items, with no impact on income (loss), for better adherence of the information.

	12/31/2019	Recognition	Realization / Reversal	06/30/2020
Allowance for loan losses (i)	26,544	1,306	(548)	<b>27,302</b>
Provision for contingencies and tax risks	4,854	386	(395)	<b>4,845</b>
Market value adjustment – Trading/ Available-for-sale marketable securities	(809)	2,226	(599)	<b>818</b>
Income Tax loss/ Social Contribution tax loss	3,390	-	-	<b>3,390</b>
<b>Total tax credits (*)</b>	<b>33,979</b>	<b>3,918</b>	<b>(1,542)</b>	<b>36,355</b>

(i) From the balance of the provision for expected losses, R\$ 18,793 is represented by tax credits on operations written-off to loss.

(\*) Tax credits comprise the following amounts:

	2020	2019
Other sundry credits - Tax credits	36,355	33,979
<b>Total tax credits</b>	<b>36,355</b>	<b>33,979</b>

Tax credits are expected to be offset within the term allowed by Resolution No. 3.355/06, according to their nature. The credits from taxes and contributions were recorded solely on temporarily nondeductible differences.

There are no other tax credits to be recognized.

Present value of tax credits at June 30, 2020 amounts to R\$ 27,415, as determined by reference to the CDI/B3 rates prevailing in the related periods. Tax credits are assessed periodically based on the generation of taxable income for income and social contribution tax purposes at an amount that renders it justifiable to record such amounts as assets.

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Based on projected results, which include developments in the business plan, Management understands that the Bank will realize taxable profits within the term not yet barred by statute to absorb the tax credits recorded in its financial statements. This estimate is periodically reviewed so that any changes in the expected recovery of such credits are timely considered in the financial statements.

Tax credits are expected to be realized as follows:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Allowance for loan losses	1,365	2,730	2,730	2,730	2,730	2,730	2,730	2,730	2,730	4,098	27,303
Provision for contingencies and tax risks	-	-	1,615	1,615	1,615	-	-	-	-	-	4,845
Market value adjustment – Trading/ Available-for-sale marketable securities	204	409	204	-	-	-	-	-	-	-	817
Income Tax loss/ Social Contribution Tax loss	629	1,469	1,292	-	-	-	-	-	-	-	3,390
<b>Total</b>	<b>2,198</b>	<b>4,608</b>	<b>5,841</b>	<b>4,345</b>	<b>4,345</b>	<b>2,730</b>	<b>2,730</b>	<b>2,730</b>	<b>2,730</b>	<b>4,098</b>	<b>36,355</b>
<b>Present value</b>	<b>2,154</b>	<b>4,357</b>	<b>5,205</b>	<b>3,589</b>	<b>3,312</b>	<b>1,915</b>	<b>1,758</b>	<b>1,605</b>	<b>1,479</b>	<b>2,041</b>	<b>27,415</b>

## 26. Related-party transactions

Transactions involving related parties were carried out on an arm's length basis as for charges and terms, as follows:

	Assets (Liabilities)		Revenues (Expenses)	
	2020	2019	2020	2019
Demand deposits	(37,341)	(15,054)	-	-
Time deposits	(69,632)	(84,836)	(1,361)	(5,634)
Interbank deposits	(61,330)	(60,136)	(1,189)	(4,334)
Open market funding (Note 14)	(88,600)	(54,001)	(1,082)	(874)
Debtors – account "Pending settlements"	83	(1,066)	-	-
Financial bill - Subordinated debt (Note 15)	(31,693)	(31,063)	(631)	(1,035)
Real Estate Equity Securities (LCI) (Notes 15 and 18)	(27,223)	(32,928)	(531)	(862)
Agribusiness Credit Bills (LCA) (Notes 15 and 18)	(83,945)	(91,509)	(1,357)	(2,238)

### a) Compensation of key Management personnel

As per the Bank's Articles of Incorporation and bylaws, the overall annual management compensation amount is set by decision of the Annual General Meeting (AGM). The Bank paid its management personnel the following short-term benefits:

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	<u>2020</u>	<u>2019</u>
Fixed compensation	<b>2,909</b>	11,145
Social charges	<b>655</b>	2,508
<b>Total</b>	<b><u>3,564</u></b>	<u>13,653</u>

The Bank offers no long-term or post-employment benefits, relating to termination or share-based payment, to its key management personnel.

## 27. Risk management

### Risk Appetite

The Board of Directors is responsible for the approval of the guidelines and limits of risk appetite, carrying out its responsibilities with the support of the Risk and Control Committee and Chief Risk Officer (CRO).

Risk appetite limits are frequently monitored and reported to the Risk and Control Committee and Board of Directors, responsible for guiding preventive measures to be taken in order to guarantee that Banco Paulista and Singulare exposure are in line with their strategies.

There is a centralized structure for management and control of risks, independent of business units, which determines the limits and mechanisms established to reduce risk, besides establishing processes and instruments to measures, monitor and control risks.

The Bank uses three components for the organization of activities related to risk management: operational and business scenario; governance structure; and functional organization chart of the areas.

- Operational and business context, in order to identify, analyze, assess, address, communicate and monitor risks;
- Governance structure comprising committees and executive forums, which are specialized and have periodically-scheduled meetings followed by formalization of significant decisions; and
- Organizational structure based on functional roles, assuring independence and segregation of duties.

The Bank manages risks, minimum capital requirements and financial capacity in an integrated manner. Risks are broken down based on their nature: liquidity, credit, market, operational and capital management risks.

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### Types of risks:

#### a) Liquidity risk

Liquidity risk results from the possibility of the Bank not being able to efficiently honor its expected and unexpected, current and future obligations, with no damage to its daily operations and not incurring in significant losses. In order to mitigate this risk, the Bank periodically assesses its exposures and defines a security cushion, or minimum liquidity, which must be set and maintained by the Bank.

Liquidity risk is managed for funding purposes and for managing investments and funding over short- and long-term threshold. In the short-term threshold, diversification of fund sources is prioritized, whereas in the long-term, temporary matching between funding and investments is prioritized. The practices adopted comply with the criteria set forth by CMN Resolution No. 4.557/17.

#### b) Credit risk

Credit risk derives from noncompliance by the issuer, borrower or counterparty of their respective agreed financial obligations. In order to mitigate this risk, the Bank periodically assesses its exposure, as well as the credit rating of clients and counterparties, thus setting limits and guarantees to cover possible losses by the Bank.

The purpose of credit risk management is to previously measure risk level and to monitor the diversification and guarantees set up, enabling the mitigation of financial losses. The practices adopted comply with the criteria set forth by CMN Resolution No. 4.557/17.

#### c) Market risk

Market risk occurs when the value of the positions held by the Bank change due to market price fluctuations. These losses may be subject to parity of exchange rates, interest rates, share prices, price indexes and merchandise prices (commodities).

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The management of such risks aims to balance the Bank's business objectives in Banking and Trading portfolios considering, among others: political, economic and market outlook, portfolio profile and the Bank's capacity to operate in specific markets. The practices adopted comply with the criteria set forth by CMN Resolution No. 4.557/17.

d) Operational risk

Operational risk arises from internal and external frauds, labor claims and weak security of the work place, inadequate processes and practices adopted for clients or in relation to products and services, damage to own physical assets or to assets used by the Bank, situations that lead to undue interruption of Bank activities, and failures to systems, processes or infrastructure of information technology. In order to mitigate this risk, the Bank periodically compiles and categorizes these events and monitors the efficiency of the improvement plans adopted.

The purpose of operational risk management is to gather information on weaknesses in the operating processes in order to evaluate and adopt adequate improvement plans. The practices adopted comply with the criteria set forth by CMN Resolution No. 4.557/17.

e) Capital management

Capital management includes the prospective process to monitor and control Bank capital, including the planning and projection of capital requirement goals, consistently with the budget plan and trade and business strategies, for coverage of the risks thereof.

Capital is to be understood as the set of own and third-party's long-term funds, subdivided into Tier I (Principal capital and supplementary capital) and Tier II (Hybrid instruments) specifically classified and authorized by BACEN for this purpose, and which enable absorption of risks, analysis and compliance with the required leverage ratios and limits. The practices adopted comply with CMN Resolution No. 4.557/17.

## **28. Sureties, pledges and guarantees to third parties**

The responsibility for sureties, pledges and guarantees granted to third parties, including joint obligation on credits assigned, as at June 30, 2020, corresponded to R\$ 29,874 (R\$ 25,222 as at December 31, 2019), with a recognized provision for possible losses in the amount of R\$ 873 (R\$ 814 as at December 31, 2019).

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### **29. Contingent assets and liabilities and legal, tax and social security obligations**

#### a) Contingent assets

As at June 30, 2020 and December 31, 2019, the Bank had no contingent assets accounted for.

#### b) Contingent liabilities assessed as probable loss and legal obligations

##### b.1) Labor provisions

These basically refer to claims filed by former employees seeking overtime payment and by former employees of outsourced labor firms seeking recognition of employment relationship and the respective severance pay amounts. Contingent amounts are accrued based on analyses of the potential for loss on claims, on a case-by-case basis, considering claim current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors. A provision is recorded for proceedings whose likelihood of loss is assessed as probable in an amount that may be reliably estimated, including applicable charges.

##### b.2) Provisions for civil contingencies

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, property damage and other proceedings claiming indemnification. Provisions for CDC related claims, the amounts of which are not individually significant, are set up based on the historical average of losses on dismissed cases. The historical average of losses is reviewed semiannually. For other civil proceedings, contingent amounts are accrued based on analyses of the potential for loss on claims, considering claim current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors.

##### b.3) Provisions for tax and social security proceedings

These refer to legal and administrative proceedings substantially based on Constitutional Amendment No. 10/96, which aims at (i) ensuring the right to pay Social Contribution Tax (CSLL) calculated at the same rate applicable to other companies not operating in the financial segment; and (ii) avoiding payment of CSLL on income calculated at 30% in the period from 01/01/1996 to 06/07/1996, in which the Company computed and paid CSLL at 18% based on Law No. 9.249/95.

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Changes in provisions for contingencies and legal obligations for the six-month period and for the year are as follows:

	Provisions for contingencies			2020	2019
	Labor	Civil	Tax		
Balance at beginning of six-month period /year	805	1,366	1,246	<b>3,417</b>	4,232
Recognitions	887	6	-	<b>893</b>	1,657
Realizations	-	(33)	-	<b>(33)</b>	(599)
Adjustments	-	-	10	<b>10</b>	56
Reversals	-	(67)	-	<b>(67)</b>	(1,950)
Fees	-	(87)	-	<b>(87)</b>	21
Balance at end of six-month period/year	<b>1,692</b>	<b>1,185</b>	<b>1,256</b>	<b>4,133</b>	3,417

  

	Court deposits				2020	2019
	Labor	Civil	Tax	Others		
Balance at beginning of six-month period /year	63	1,092	4,290	548	<b>5,993</b>	5,188
Adjustments	-	-	38	-	<b>38</b>	128
Recognitions	137	-	-	-	<b>137</b>	1,123
Reversals	-	(36)	-	-	<b>(36)</b>	(156)
Withdrawals	-	(20)	-	-	<b>(20)</b>	(291)
Balance at end of six-month period/year	<b>200</b>	<b>1,036</b>	<b>4,328</b>	<b>548</b>	<b>6,112</b>	5,992

#### c) Contingent liabilities assessed as possible losses

At June 30, 2020, contingent liabilities classified as possible losses refer to 18 proceedings (17 proceedings in 2019) of civil nature totaling R\$ 8,090 (R\$ 8,052 in 2019), 15 proceedings (19 proceedings in 2019) of labor nature totaling R\$ 3,939 (R\$ 2,690 in 2019) and 15 proceedings (14 proceedings in 2019) of tax nature totaling R\$ 4,069 (R\$ 4,633 in 2019), all based on the amounts attributed to respective proceedings filed by claimants (and not necessarily representing the possible loss value) and which are mostly represented by the following:

- Actions for review of loan and financing contractual clauses;
- Actions for indemnification in connection with financial transactions;
- Labor claims.

In addition to the proceedings referred to above, in December 2019, RFB filed an assessment of tax deficiency related to disallowance of administrative expenses in the calculation of IRPJ, CSLL and IRRF in the amount of R\$ 32,761, which were considered possible loss by the Bank's legal advisors.

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In the same assessment, the tax authority also disallowed expenses in the amount of R\$ 62,413, for which the likelihood of loss is considered remote, as supported by two different opinions from legal counselors, as well as by the result of the independent investigation described in Note 2.d, which has not identified irregularities on such expenses. For both cases, the Bank filed objections.

### d) Regulatory agencies

The administrative proceeding, started on April 13, 2018, was judged on August 03, 2020, and after the end of this proceeding, BACEN decided on a fine in the total amount of R\$ 9,753, with Banco Paulista filing an appeal, assessed by the lawyers who defend the case with likelihood of possible loss. However, it is not possible to determine whether a provision would be required.

## 30. Operating limits

Minimum Required Capital (MRC), in accordance with the standards in force, is stated as follows:

<b>Risk Weighted Assets (RWA) and Basel index</b>	<b>06/30/2020</b>	<b>12/31/2019</b>
<b>Base Capital (BC)</b>	<b>145,283</b>	198,571
<b>BC - tier I</b>	138,944	192,358
<b>Main Capital</b>	138,944	192,358
<b>BC - tier II</b>	6,339	6,213
<b>RWA calculated using the standardized approach (Cpad) - Credit</b>	749,574	811,427
<b>RWA using Credit Approval Memorandums (Cam) - Foreign exchange</b>	513	40,053
<b>RWA Trading - Interest, Commodities, Shares</b>	-	-
<b>RWA for operational risks (Opad) - Operational</b>	618,722	660,085
<b>RWA - Total</b>	<b>1,368,809</b>	1,511,565
<b>Minimum BC</b>	<b>109,505</b>	120,925
<b>Basel index (BC/RWA Total)</b>	<b>10.61%</b>	13.14%
<b>Tier I index (BC tier I / RWA Total)</b>	<b>10.15%</b>	12.73%
<b>Principal Capital ratio (PC/RWA Total)</b>	<b>10.15%</b>	12.73%

The Basel index for the Financial Conglomerate at June 30, 2020, determined in accordance with the provisions set forth in Resolution No. 2.099/94, as amended by Resolutions Nos. 4.192/13 and 4.193/13, is 10.61%.

## **Banco Paulista S.A.**

Notes to the financial statements

As at June 30, 2020 and December 31, 2019

(In thousands of Brazilian Reais)

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### **31. Rendering of other services and auditor's independence policy**

In compliance with CMN Resolution No. 3.198, the Bank has not hired services from BDO RCS Auditores Independentes related to the Bank, other than external audit services. The adopted policy sticks to the principles that safeguard auditor's independence, in accordance with effective standards that mainly determine that the auditor shall not audit its own work, exercise managerial functions for its client, or promote its client's interests.

### **32. Subsequent events**

#### **Effect of the Coronavirus on the financial statements**

The Bank, in observation to the instructions from governments and mainly from health agencies, has been adopting the required measures to support the prevention to COVID-19.

To that end, it has intensified its communications for the awareness of all employees and adopted administrative measures, such as flexibility of working hours, working from home regime, and online meetings.

Management has not identified any significant change in its operational processes, with the Company continuing to operate normally.

Default peaks in the Bank's credit portfolio have also not been verified so far, and the levels of funding from the market continue to evolve, providing an excellent level of liquidity, which was verified until the publication of these financial statements.