

Financial statements

Banco Paulista S.A.

June 30, 2013 and 2012
with Independent Auditor's Report

Banco Paulista S.A.

Financial statements

June 30, 2013 and 2012

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Independent auditor's report on financial statements

The
Shareholders, Board of Directors and Officers
Banco Paulista S.A.

We have audited the accompanying financial statements of Banco Paulista S.A., which comprise the balance sheet as at June 30, 2013, and the related income statements, statements of changes in equity and cash flow statements for the six-month period then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Paulista S.A. at June 30, 2013, its financial performance and cash flows for the six-month period then ended, in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Emphasis of matter

Without modifying our opinion, we draw attention to the fact that at June 30, 2013, the Bank has income and social contribution tax credits amounting to R\$ 78,118 thousand, as mentioned in Note 24(b) of the financial statements. Realization of these tax credits is conditional on the generation of future taxable profit, in accordance with to the budgetary plan prepared and approved by management.

São Paulo, August 15, 2013.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-6

Eduardo Wellichen
Accountant CRC-1SP184050/O-6

Banco Paulista S.A.

Balance sheets
June 30, 2013 and 2012
(In thousands of reais)

	2013	2012
Assets		
Current	1,329,496	1,415,655
Cash and cash equivalents	215,701	164,222
Local currency	32,982	38,519
Foreign currency	182,719	125,703
Interbank investments	260,740	290,617
Open market investments	199,358	215,964
Interbank deposits	61,382	74,653
Marketable securities and derivative financial instruments	192,644	217,870
Own portfolio	105,202	71,878
Linked to repurchase agreements	61,960	81,549
Linked to guarantees given	8,216	64,061
Derivative financial instruments	17,266	382
Interbank accounts	20,879	27,927
Payments and receipts	759	527
Restricted loans	20,120	27,400
Loans	168,194	180,335
Loans - private sector	177,516	187,063
(-) Allowance for loan losses	(9,322)	(6,728)
Other receivables	470,147	525,849
Foreign exchange portfolio	409,419	451,954
Securities trading and brokerage	13,345	45,721
Sundry	49,472	31,304
(-) Allowance for losses on other receivables	(2,089)	(3,130)
Other assets	1,191	8,835
Prepaid expenses	830	4,301
Other assets	361	4,534
Long-term receivables	230,833	132,261
Marketable securities and derivative financial instruments	132,018	1,245
Own portfolio	42,266	-
Linked to repurchase agreements	3,811	-
Linked to guarantees given	85,941	1,245

Assets (Continued)	<u>2013</u>	<u>2012</u>
Loans	<u>11,431</u>	25,035
Loans - private sector	<u>12,065</u>	33,889
(-) Allowance for loan losses	<u>(634)</u>	(8,854)
Other receivables	<u>87,384</u>	105,981
Sundry	<u>87,384</u>	105,981
Permanent assets	<u>87,316</u>	82,428
Investments	<u>83,749</u>	78,813
Equity pickup in subsidiaries and affiliates	<u>82,610</u>	77,572
Other investments	<u>1,391</u>	1,241
(-) Valuation allowance	<u>(252)</u>	-
Property and equipment in use	<u>2,714</u>	3,011
Properties	<u>957</u>	957
Other property and equipment in use	<u>5,490</u>	5,385
(-) Accumulated depreciation	<u>(3,733)</u>	(3,331)
Intangible assets	<u>853</u>	604
Intangible assets	<u>1,363</u>	871
(-) Accumulated amortization	<u>(510)</u>	(267)
Total assets	<u><u>1,647,645</u></u>	<u>1,630,344</u>

Banco Paulista S.A.

Balance sheets (Continued)
June 30, 2013 and 2012
(In thousands of reais)

	<u>2013</u>	<u>2012</u>
Liabilities and equity		
Current	1,227,665	1,263,783
Deposits	440,408	460,144
Demand deposits	106,494	55,344
Interbank deposits	87,849	96,730
Time deposits	246,065	308,070
Open market funding	232,922	162,674
Own portfolio	65,586	81,027
Third-party portfolio	167,336	81,647
Interbranch and interbank accounts	13,632	17,742
Payments and receipts	229	166
Correspondent banks	805	802
Third-party funds in transit	12,598	16,774
Borrowings and onlending	98,144	90,655
Foreign currency liabilities	52,252	56,595
Local on-lending - official institutions	45,892	34,060
Other liabilities	442,559	532,568
Collection of taxes and levies	647	489
Foreign exchange portfolio	407,521	453,907
Tax and social security	4,721	14,197
Securities trading and brokerage	10,001	40,266
Sundry	19,669	23,709
Long-term payables	275,016	238,714
Deposits	169,715	136,503
Interbank deposits	-	2,004
Time deposits	169,715	134,499
Funds from acceptance and issue of securities	-	20,007
Liabilities due to issue of financial bills	-	20,007
Other liabilities	105,301	82,204
Tax and social security	50,377	53,690
Subordinated debt	49,488	25,632
Sundry	5,436	2,882
Equity	144,964	127,847
Capital - Brazilian residents	127,000	127,000
Capital reserve	97	97
Income reserves	20,471	750
Adjustment to market value - marketable securities and derivatives	(2,604)	-
Total liabilities and equity	1,647,645	1,630,344

See accompanying notes.

Banco Paulista S.A.

Income statements

Six-month periods ended June 30, 2013 and 2012

(In thousands of reais, except earnings per thousand shares)

	<u>2013</u>	<u>2012</u>
Interest income	108,653	136,696
Loans	17,264	28,621
Income (loss) from marketable securities	31,359	42,590
Income (loss) from derivative financial instruments	(4,593)	(6,395)
Income (loss) from foreign exchange transactions	64,623	71,880
Interest expenses	(47,598)	(63,951)
Funding	(29,869)	(41,681)
Borrowings and onlending	(8,390)	(8,590)
Reserve for losses	(9,339)	(13,680)
Gross interest income (losses)	61,055	72,745
Other operating income (expenses)	(42,605)	(54,517)
Income from services rendered	30,143	12,569
Personnel expenses	(22,612)	(19,278)
Other administrative expenses	(30,551)	(26,095)
Tax expenses	(8,480)	(6,170)
Equity pickup in subsidiaries and affiliates	594	(3,481)
Other operating income	8,026	6,580
Other operating expenses	(19,725)	(18,642)
Operating income (expenses)	18,450	18,228
Nonoperating income (expenses)	40	(1,376)
Income before income taxes and profit sharing	18,490	16,852
Income and social contribution taxes	(6,250)	(7,883)
Provision for income tax	(316)	(5,551)
Provision for social contribution tax	(202)	(3,419)
Deferred tax assets	(5,732)	1,087
Statutory profit sharing	(612)	(448)
Net income for the six-month period	11,628	8,521
Earnings per thousand shares - R\$	53	39

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
Six-month periods ended June 30, 2013 and 2012
(In thousands of reais)

	Capital Capital	Capital reserve	Income reserves		Adjustment to market value	Retained earnings/ (Accumulate d losses)	Total
			Legal reserve	Statutory reserve			
Balances at December 31, 2011	127,000	97	-	-	-	(7,771)	119,326
Net income for the six-month period	-	-	-	-	-	8,521	8,521
Set up of reserves							
Legal reserve	-	-	37	-	-	(37)	-
Statutory reserve	-	-	-	713	-	(713)	-
Balance at June 30, 2012	127,000	97	37	713	-	-	127,847
Changes for six-month period	-	-	37	713	-	7,771	8,521
Balances at December 31, 2012	127,000	97	818	8,025	459	-	136,399
Net income for the six-month period	-	-	-	-	-	11,628	11,628
Legal reserve	-	-	581	-	-	(581)	-
Statutory reserve	-	-	-	11,047	-	(11,047)	-
Adjustment to market value - marketable securities	-	-	-	-	(3,063)	-	(3,063)
Balance at June 30, 2013	127,000	97	1,399	19,072	(2,604)	-	144,964
Changes for six-month period	-	-	581	11,047	(3,063)	-	8,565

See accompanying notes.

Banco Paulista S.A.

Cash flow statements Six-month periods ended June 30, 2013 and 2012 (In thousands of reais)

	2013	2012
Cash flow from operating activities		
Adjusted net income for six-month period	23,128	21,172
Net income for six-month period	11,628	8,521
Adjustments to reconcile net income to net cash	11,500	12,651
Allowance for loan losses	9,339	13,680
Provisions for deferred income and social contribution taxes	5,732	(1,087)
Depreciation and amortization	496	504
Equity pickup in subsidiaries	(594)	3,481
Reversal of provisions for tax risks	(2,285)	(4,943)
Reversal of provision for loans assigned with guarantee - retail	(3,226)	-
Provisions for tax, civil and labor contingencies	1,493	-
Monetarily restated advances on assigned credits - retail	545	1,016
Changes in assets and liabilities		
(Increase) decrease in short-term interbank investments	(12,781)	2,622
(Increase) decrease in marketable securities	(78,852)	36,395
(Increase) Decrease in derivative financial instruments - assets	(16,129)	1,242
Reduction in interbank accounts	3,995	52,260
(Increase) Decrease in loans	(35,144)	88,228
(Increase) in other receivables	(140,485)	(358,894)
Decrease in other assets	1,260	10,863
Increase in other liabilities	136,212	302,729
Increase (decrease) in deposits	31,600	(68,256)
Increase (decrease) in liabilities for repurchase transactions	80,186	(48,906)
Net cash generated by (used in) operating activities	(30,138)	39,455
Cash flow from investing activities		
Acquisition of property and equipment in use	(395)	(310)
Investments in intangible assets	(112)	(107)
Disposal of property and equipment in use	89	60
Investments	(48)	-
Net cash (used in) investing activities	(466)	(357)
Cash flow from financing activities		
Increase in funds from acceptance and issue of securities	-	20,007
Increase (decrease) in borrowings and onlending	34,587	25,060
Net cash generated by (used in) financing activities	34,587	45,067
Increase (decrease) in cash and cash equivalents	27,111	84,165
Cash and cash equivalents		
Cash and cash equivalents at beginning of six-month period	418,160	365,156
Cash and cash equivalents at end of six-month period	445,271	449,321
	27,111	84,165

See accompanying notes.

Banco Paulista S.A.

Notes to financial statements
June 30, 2013 and 2012
(In thousands of reais)

1. Operations

Banco Paulista (Bank) is a privately-held company established as a commercial bank and engaged in loan transactions with average-sized to large legal entities, international trade and financial exchange transactions and the provision of fund management and custody services, in addition to the structuring of sale and distribution operations.

Operations are conducted in the financial market through a group of entities in an integrated manner, where certain operations have the joint participation or intermediation of subsidiary Socopa – Sociedade Corretora Paulista S.A. and of other companies owned by the controlling shareholders.

2. Presentation of financial statements

The financial statements were prepared in accordance with accounting practices adopted in Brazil, pursuant to the accounting guidelines stemming from Brazilian Corporation Law (Law No. 6404/76), changes introduced by Laws No. 11638/07 and No. 11941/09 and the Central Bank of Brazil rules, and are presented pursuant to the Accounting Chart for Institutions of the National Financial System (COSIF).

Accounting estimates are determined by management, considering factors and assumptions set up based on its judgment. Significant items subject to these estimates and assumptions include: provisions for adjustment of assets to probable realizable or recoverable amounts, allowances for losses, provisions for contingencies, mark-to-market (MTM) of financial instruments, deferred taxes, among others. Settlement of transactions involving these estimates may result in amounts different from those estimated, due to inaccuracies inherent in the estimate process. Management reviews these estimates and assumptions at least on a half-yearly basis.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices

a) Determination of profit and loss

Revenues and expenses are recorded on the accrual basis, using the *pro rata* day criterion for financial operations.

Financial income and expenses are calculated on a compound basis, except for those related to discounted notes or to foreign transactions, which are calculated by the straight line method. Fixed rate transactions are recorded at redemption value and income and expenses corresponding to future periods are recognized as a reduction of respective assets or liabilities. Floating rate transactions are restated up to the balance sheet date based on agreed-upon rates.

b) Cash and cash equivalents

In accordance with Brazilian Monetary Council (CMN) Resolution No. 3604/08, cash and cash equivalents includes cash, bank deposits and highly liquid short-term investments posing low risk of change in value or limits, redeemable within 90 days from investment date.

c) Interbank investments

Fixed rate investments are stated at redemption value, less unearned income, whereas those at floating rates are recorded at cost plus income earned through balance sheet date, less valuation allowance, when applicable. Repurchase agreements are classified over contractually established terms, irrespective of the maturity of the underlying securities.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments

In accordance with BACEN Circular No. 3068, marketable securities in the portfolio are classified into three different categories, according to management's intention, as follows:

- Held for trading;
- Available for sale; and
- Held to maturity.

Marketable securities classified as held for trading are recorded in current assets, regardless of their maturity dates, and consist of securities acquired for active and frequent trading. They are carried at market value and valuation gains and losses are posted to the income statement.

Marketable securities are classified as available for sale when not acquired for frequent trading and are used for other purposes such as providing liquidity reserve, guarantees and hedging against risks. Gains earned based on acquisition rates as well as any permanent losses thereon are recorded in the income statement. These securities are carried at market value with gains or loss from appreciation or depreciation recorded against a specific account in equity (net of tax effects) and posted to the income statement upon realization thereof.

Marketable securities classified as held to maturity are those relating to which management has a positive intention and the financial capacity to hold until maturity. They are carried at acquisition cost plus gains earned. Any permanent losses are immediately recorded in the income statement.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

Derivative financial instruments which include futures, forward and swap transactions are carried under the following criteria:

- Future transactions – daily adjustments are recorded as assets or liabilities and appropriated as income or expenses on a daily basis;
- Forward transactions - by the final value of the contract less the difference between this value and the market price of the asset or right, and recognizing income and expenses over the term of the contracts through balance sheet date;
- Swap transactions – differential receivable or payable is recorded as assets or liabilities at market value, respectively, and appropriated to income or expenses on a *pro rata* basis through balance sheet date.

Transactions involving derivative financial instruments not considered under hedge accounting are marked to market at balance sheet date, and the related gain or loss is recognized in the income statement for the period.

e) Loans and allowance for loan losses

Loans are classified according to management 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 Resolution No. 2682/99, which requires regular analyses of the portfolio and its grading into nine rating levels, from “AA” (minimum risk) to “H” (loss).

Receivables from operations overdue for more than 60 days, regardless of the underlying risk level, are only recognized as income upon effective receipt.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

e) Loans and allowance for loan losses (Continued)

H loans remain rated as such for 180 days, when they are charged against the existing allowance and controlled in memorandum accounts for a minimum period of five years, no longer appearing in the balance sheet.

Renegotiated transactions are kept at least at the same level they had been rated. Loan renegotiation that had already been charged 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 Resolution No. 2682/99 to determine the risk level for above-36-month-term operations. The allowance for loan losses is deemed sufficient by management and complies with the requirements established by Resolution No. 2682/99 (Note 9).

f) Impairment of nonfinancial assets

The accounting record of an asset must evidence events or changes in economic, operating or technological circumstances that could indicate its deterioration or impairment. When such evidence is identified and the net book value exceeds the recoverable amount, a provision adjusting the net book value is set up. These provisions are recognized in the income statement for the period/year, in accordance with Resolution No. 3566/08.

Nonfinancial assets are reviewed on an annual basis, except for tax credits, whose realization is measured on a semiannual basis.

g) Investments

Investments in subsidiaries are measured by the equity method.

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

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

h) Property and equipment, deferred charges and intangible assets

These refer to rights represented by tangible and intangible assets intended for the maintenance of the Bank activities or exercised for such purposes.

Property and equipment items (tangible assets) and deferred charges (intangible assets) are stated at acquisition cost. Depreciation of property and equipment is calculated by the straight-line method, at the rates of 20% p.a. for vehicles and EDP systems and 10% p.a. for other items.

Intangible assets comprise acquired rights over these assets intended or exercised for maintaining Bank activities. They are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. 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.

i) Deposits, open market funding, funds from acceptance and issue of securities, and borrowing and onlending obligations

These are stated at the amounts payable plus contractually established interest payable through balance sheet date, recognized on a daily pro rata basis. Open market funding is classified under current liabilities considering maturities and irrespective of the maturity of the operations supporting the transactions.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

j) Income and social contribution taxes

When provisions for Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) are applicable, they are calculated based on the book profit or loss and adjusted considering permanent and temporary additions and exclusions. Income tax is determined at the rate of 15%, plus a surtax of 10% on taxable income exceeding R\$ 240 in the year (R\$ 120 in a six-month period) and social contribution at the rate of 15%.

Income and social contribution tax credits were calculated on temporary exclusions/ additions. Tax credits on temporary additions and exclusions will be realized upon use and/or reversal of respective provisions for which they were set up. Tax credits are based on current expected realization and take into account technical studies and management analysis

k) Foreign exchange operations

These are stated at realizable amounts, including gains earned (on a pro rata basis), exchange fluctuations and allowance for losses (where applicable), as established by Resolution No. 2682/99.

l) Contingent assets and liabilities and legal, tax and social security obligations

Recognition, measurement and disclosure of contingent assets and liabilities, and legal obligations follow the criteria described in Resolution No. 3823/09 and Technical Pronouncement CPC 25, issued by the Brazilian FASB (CPC), as follows:

Contingent assets – these are only recognized in the financial statements upon existence of evidence that provides assurance as to their realization, upon which no further appeals can be filed.

Contingent liabilities - these are recognized in the financial statements when, in the opinion of legal counsel and management, the likelihood of loss on judicial or administrative proceedings is deemed probable, implying a probable outflow of funds for the settlement of obligations, and when the amounts involved are measurable in a sufficiently reliable manner. Contingent liabilities classified by legal advisors as possible are only disclosed in notes to financial statements, whereas those classified as remote loss require neither provision nor disclosure.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

l) Contingent assets and liabilities and legal, tax and social security obligations
(Continued)

Legal, tax and social security obligations – these refer to litigation challenging the lawfulness and constitutionality of certain taxes (or taxes and contributions). The amount under dispute is quantified, accounted for and restated on a monthly basis.

m) Prepaid expenses

These refer mostly to the following prepaid amounts:

- commissions paid on loans and financing taken out, allocated to the income statement under “Other operating expenses”, over the same term of contracts originating them, or in full, when these facilities are granted;
- amount paid in regard to a special agreement for assigned credits overdue - from loans and financing operations carried out by the Bank - referring to the price equalization result, calculated based on the history of default on the portfolio subject of the assignment, posted to the income statement under “Other operating expenses” as the special agreement credits reach their maturities.

4. Cash and cash equivalents

At June 30, 2013 and 2012, cash and cash equivalents were as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents - local currency	32,982	38,519
Cash and cash equivalents - foreign currency	182,719	125,703
Open market investments	199,358	215,964
Interbank deposits	30,212	69,135
Cash and cash equivalents	445,271	449,321

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

5. Interbank investments

a) Repurchase agreements

	2013		2012
	1 to 30 days	Total	Total
Open market			
investments			
Self-funded position:	32,022	32,022	134,317
National Treasury Bills (LTN)	787	787	99,765
National Treasury Notes (NTN)	31,235	31,235	27,729
Agrarian Debt Bonds (TDA)	-	-	6,823
Financed position:	167,336	167,336	81,647
Financial Treasury Bills (LFT)	-	-	81,647
National Treasury Bills (LTN)	119,237	119,237	-
National Treasury Notes (NTN)	48,099	48,099	-
Total	199,358	199,358	215,964

In the six-month period ended June 30, 2013, income from repurchase agreements amounted to R\$8,339 (R\$11,119 in 2012).

b) Interbank deposits

	2013	2012
Within 90 days	47,278	69,135
90 - 360 days	14,104	5,518
Total	61,382	74,653

In the six-month period ended June 30, 2013, income from interbank investments amounted to R\$1,003 (R\$2,841 in 2012).

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

6. Marketable securities

a) Marketable securities - Breakdown by type

	2013		2012	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Trading securities				
Own portfolio - free	105,076	105,202	68,462	71,878
Financial Treasury Bills (LFT)	5,843	5,844	5,221	5,227
National Treasury Bills (LTN)	94,507	94,589	29,963	31,232
National Treasury Notes (NTN)	-	-	32,405	34,478
Agrarian Debt Bonds (TDA)	95	138	499	567
Shares of listed companies	4,346	4,346	-	-
Investment fund shares	285	285	374	374
Linked to repurchase agreements	62,470	61,960	77,360	81,549
Financial Treasury Bills (LFT)	-	-	2,485	2,489
National Treasury Bills (LTN)	62,470	61,960	28,020	29,207
National Treasury Notes (NTN)	-	-	46,855	49,853
Linked to guarantees given	8,228	8,216	61,431	64,061
Financial Treasury Bills (LFT)	4,061	4,061	20,600	20,618
National Treasury Bills (LTN)	4,167	4,155	-	-
National Treasury Notes (NTN)	-	-	40,831	43,443
Total trading securities	175,774	175,378	207,253	217,488
Securities available for sale				
Own portfolio - free	40,763	42,266	-	-
National Treasury Notes (NTN)	40,763	42,266	-	-
Linked to repurchase agreements	3,675	3,811	-	-
National Treasury Notes (NTN)	3,675	3,811	-	-
Linked to guarantees given	82,885	85,941	-	-
National Treasury Notes (NTN)	82,885	85,941	-	-
Total securities available for sale	127,323	132,018	-	-
Total	303,097	307,396	207,253	217,488

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

6. Marketable securities (Continued)

a) Marketable securities - Breakdown by type (Continued)

(i) *Cost value*

In the case of fixed-rate bonds, this refers to acquisition cost, plus earnings through balance sheet date; for shares, this is based on acquisition cost.

(ii) *Market value*

The market value of government bonds is determined as per information disclosed on a daily basis by the Brazilian Association of Financial and Capital Markets Entities (ANBIMA). Shares are stated at the last-day-traded close price at the Stock Exchange. Corporate bonds are stated at cost, plus accrued daily earnings and adjusted at market value.

b) Marketable securities - Breakdown by maturity

	2013		2012		Total	Total
	No maturity	Up to 3 months	From 3 to 12 months	Over 12 months		
Financial Treasury Bills (LFT)	-	1,443	3,999	4,463	9,905	28,335
National Treasury Bills (LTN)	-	64,981	75,734	19,989	160,704	60,439
National Treasury Notes (NTN)	-	-	-	132,018	132,018	127,773
Agrarian Debt Bonds (TDA)	-	-	-	138	138	567
Shares of listed companies	4,346	-	-	-	4,346	-
Investment fund shares	285	-	-	-	285	374
Total	4,631	66,424	79,733	156,608	307,396	217,488

In the six-month period ended June 30, 2013, income from marketable securities amounted to R\$21,336 (R\$28,630 in 2012).

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

7. Derivative financial instruments

The Bank is engaged in derivative financial instrument operations, which are recorded in balance sheet and memorandum accounts, aimed to meet its own requirements and to manage its overall risk exposure.

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

At June 30, 2013 and 2012, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2013				2012			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Swap	14,600	2,370	-	2,370	14,600	1,245	-	1,245
Forwards (NDF)	83,229	473	-	473	45,272	382	-	382
Forwards (Gold)	14,478	14,423	-	14,423	-	-	-	-
Total	112,307	17,266	-	17,266	59,872	1,627	-	1,627

a) Breakdown of transactions

Description	Notional value	Equity value receivable / (payable)
Swap	14,600	2,370
IPCA/CDI	14,600	2,370
Gold	14,478	14,423
14,478	14,478	14,423
Forwards	83,229	473
USD/EUR	32,707	(44)
USD/CAD	1,808	80
USD/AUD	163	20
USD/GBP	2,863	68
USD/JPY	379	32
USD/CHF	1,166	21
USD/NOK	44	3
USD/NZD	120	6
USD/XAU (gold)	2,389	287
In USD	41,590	-
Total	112,307	17,266

Banco Paulista S.A.

Notes to financial statements (Continued)
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7. Derivative financial instruments (Continued)

a) Breakdown of transactions (Continued)

The Bank carries out transactions involving derivative financial instruments in the futures market - Stock Exchange, Commodities and Future (BM&FBOVESPA), which are exclusively tied to future foreign currency indexes for which notional value at June 30, 2013 totals R\$73,644 (R\$75,402 in 2012), and an adjustment payable of R\$1,886 (R\$2,369 in 2012).

b) The derivative financial instruments mature as follows:

Description	2013			Total	2012
	Within 3 months	From 3 to 12 months	Over 12 months		Total
Swaps	-	2,370	-	2,370	1,529
Forwards (NDF)	473	-	-	473	(1,250)
Forwards (Gold)	14,422	-	-	14,422	-

The market value of these derivative financial instruments is calculated based on Specialized Exchange quotes and, in certain cases, pricing techniques are used.

Market prices were determined based on the following:

Futures, NDFs and options: market quotes provided by Stock Exchanges;

Swaps: the cash flow of each counterparty was discounted to present value, according to the respective interest curves obtained from BM&FBOVESPA interest rates.

All derivatives operations carried out by the Bank are recorded at BM&FBOVESPA or Brazil's OTC Clearing House (CETIP). DI and foreign-currency-denominated forward contracts are mostly used as instruments to limit fund-raising rates due to mismatches between terms, currencies, and/or indices and active operations.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

7. Derivative financial instruments (Continued)

c) Guarantee margin

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

	<u>2013</u>	<u>2012</u>
Financial Treasury Bills (LFT)	4,061	20,618
National Treasury Bills (LTN)	4,155	-
National Treasury Notes (NTN)	85,941	43,443
Gold	-	40,289
Other	-	3,063
	<u>94,157</u>	<u>107,413</u>

d) Income (loss) from derivative financial instruments

Income (loss) from derivatives operations in the six-month periods ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Futures	(6,989)	(5,152)
Swap	1,342	787
Nondeliverable forwards (NDF)	1,017	(2,030)
Nondeliverable forwards (Gold)	37	-
	<u>(4,593)</u>	<u>(6,395)</u>

8. Risk management

The Bank's credit risk management is a key element of the decision-making process and for periodical monitoring of its business performance in the various segments in which it operates.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

8. Risk management (Continued)

The Bank uses three components to organize the activities related to risk management: operating and business context, governance structure and flowchart of the areas:

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

The Executive Board is comprised of statutory officers who share the responsibility for making decisions that will have a business impact. In these forums, decisions are made based on majority of votes.

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 and operating risk.

a) Liquidity Risk

This risk derives from volume and term mismatches between rights and obligations, which prevent financial obligations from being honored and settled. In order to mitigate liquidity 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 horizons. In the short-term, the diversification of fund sources is prioritized whereas in the long-term, the temporary matching between funding and investments is prioritized. The practices adopted comply the criteria set forth by Resolution No. 2804/00, revoked by CMN Resolution No. 4090/12.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

8. Risk management (Continued)

b) Credit risk

Credit risk derives from the non-receipt of a financial reward and from disbursements made for the purpose of settling financial obligations. In order to mitigate this risk, the Bank periodically assesses its exposure, as well as the credit rating of customers and counterparties, thus setting limits and guarantees to cover any losses.

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 CMN Resolution No. 3721/09.

c) Market Risk

Market risk occurs when the value of the positions held change due to market price fluctuation. To mitigate this risk, the Bank periodically assesses the trend and behavior of financial indicators and market prices and its exposure to them, also checking the need to sell or trade new operations.

The purpose of market risk management is to maximize the ratio between financial return and risks arising from changes in the market value of exposures, in a manner compatible with the strategy and term of these exposures, whether banking or trading. The practices adopted comply with CMN Resolution No. 3464/07.

d) Operating risk

Operating risk arises from internal and external frauds, labor claims, inadequate processes and practices adopted for clients or in relation to products and services, undue interruption of Bank activities, system and process failures and non-compliance with contractual or regulatory terms. In order to mitigate this risk, the Bank periodically compiles and categorizes these events and monitors the efficiency of the improvement plans adopted.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

8. Risk management (Continued)

d) Operating plan (Continued)

The purpose of operating risk management is to gather information on weaknesses in the operating processes, in order to evaluate and adopt the adequate improvement plans. The practices adopted comply with CMN Resolution No. 3380/06.

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 trade and business strategies, for coverage of the risks thereof.

Capital is to be understood as the set of the entity's or third-party's long-term funds making up the Minimum Required Capital (PRE), specifically authorized by the Brazilian Central Bank (BACEN) for this purpose, and which enable the absorption of risks, analysis and compliance with the required leverage indices and limits.

The purpose of capital management is to monitor, plan and maintain capital at levels compatible with the incurred risks, consistently with the budget plan, business goals and strategies. The practices adopted comply with CMN Resolution No. 3490/07 and 3988/11.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

9. Loans

At June 30, 2013 and 2012, loan transactions are broken down as under:

a) By type

	<u>2013</u>	<u>2012</u>
Loans:		
Discounted securities and loans	180,601	187,227
Financing	4,983	22,073
Financing - Export credit notes	3,012	-
Financing - foreign currency	985	11,652
	189,581	220,952
Other:		
Advances on exchange contracts (Note 10)	6,659	10,353
Debtors for purchase of assets (Note 11)	-	3,621
	6,659	13,974
Total	196,240	234,926
Allowance for loan losses	(9,956)	(15,582)
Allowance for other losses	(2,089)	(3,130)
Total	(12,045)	(18,712)
	184,195	216,214

b) By business segment

	<u>2013</u>	<u>2012</u>
Private sector		
Manufacturing	84,169	107,908
Trade	49,999	60,679
Services	55,900	47,773
Individuals	6,172	18,566
Total	196,240	234,926

Banco Paulista S.A.

Notes to financial statements (Continued)

June 30, 2013 and 2012

(In thousands of reais)

9. Loans (Continued)

c) By maturity

	2013	2012
Amounts overdue	3,731	10,569
Amounts falling due		
up to 90 days	101,979	107,913
from 91 to 180 days	43,660	88,823
from 181 to 360 days	34,805	-
over 360 days	12,065	27,621
Total	196,240	234,926

d) Portfolio broken down by risk level

Level	Portfolio balances					
	2013				2012	
	Ordinary course	Overdue	Total	%	Total	%
A	2,351	-	2,351	1.20	4,831	2.06
B	79,141	206	79,347	40.43	82,689	35.20
C	94,026	1,868	95,894	48.87	118,954	50.63
D	1,401	701	2,102	1.07	6,628	2.82
E	8,010	1,632	9,642	4.91	7,936	3.38
F	2,274	347	2,621	1.34	2,380	1.01
G	465	647	1,112	0.57	4,832	2.06
H	2	3,169	3,171	1.61	6,676	2.84
	187,670	8,570	196,240	100.00	234,926	100.00

Level	Provision						
	2013				2012		
	Provision %	Ordinary course	Overdue	Total	%	Total	%
A	0.50	12	-	12	0.10	24	0.13
B	1.00	791	2	793	6.58	827	4.42
C	3.00	2,820	56	2,876	23.88	3,569	19.07
D	10.00	140	70	210	1.75	663	3.54
E	30.00	2,403	491	2,894	24.02	2,381	12.72
F	50.00	1,137	174	1,311	10.88	1,190	6.36
G	70.00	326	452	778	6.46	3,382	18.08
H	100.00	2	3,169	3,171	26.33	6,676	35.68
		7,631	4,414	12,045	100.00	18,712	100.00

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

9. Loans (Continued)

e) Changes in allowance for loan losses

	<u>2013</u>	<u>2012</u>
Balance at beginning of six-month period	14,929	23,580
As set up, net of reversals	9,339	13,680
Loans written-off against losses	<u>(12,223)</u>	<u>(18,548)</u>
Balance at end of six-month period	<u>12,045</u>	<u>18,712</u>

f) Renegotiated and recovered loans

Renegotiated loans in the six-month period ended June 30, 2013 amount to R\$13,271 (R\$7,398 in 2012).

Recovered loans in the six-month period ended June 30, 2013 amount to R\$3,630 (R\$3,882 in 2011).

g) Credit assignments

In the six-month period ended June 30, 2013 and 2012, the Bank did not assign credit operations with guarantee.

In accordance with Resolution No. 2686/00 issued by the National Monetary Council, in the six-month period ended June 30, 2013 the Bank transferred matured loans without guarantees in the amount of R\$2,415 (R\$8,218 in 2012) from its loan and financing operations to Paulista Companhia Securitizadora de Créditos Financeiros, a related party whose restated amounts totaled R\$2,415 (R\$8,218 in 2012).

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

9. Loans (Continued)

g) Assignment of credits (Continued)

At June 30, 2013, credits assigned with guarantees recorded in memorandum accounts amount to R\$7,096 (R\$35,812 in 2012). An allowance for loans losses was recorded for these operations, based on the same criteria established in Resolution No. 2682/99 and totaling R\$1,533 (R\$7,854 in 2012), recorded under "Other obligations - sundry" (Note 17c).

h) Income from loans

	<u>2013</u>	<u>2012</u>
Discounted securities and loans	12,597	21,447
Financing	308	1,895
Recovery of loans written off to loss	3,630	3,885
Financing - foreign currency	557	1,247
Advances to deposit holders	189	65
Other	-	82
Income/(Loss) from assigned credits	(17)	-
Total income from loans	<u>17,264</u>	<u>28,621</u>

10. Foreign exchange portfolio

	<u>2013</u>	<u>2012</u>
Assets		
Current		
Foreign exchange receivable	204,411	251,007
Rights on foreign exchange sales	243,751	218,856
Advances received - foreign and local currency	(39,457)	(18,448)
Income receivable from advances granted (Note 9a)	714	539
	<u>409,419</u>	<u>451,954</u>
Liabilities		
Current		
Foreign exchange payable	243,591	213,943
Advances paid - foreign currency	(30,027)	-
Foreign exchange purchase payable	199,902	249,776
Advances on foreign exchange contracts (Note 9a)	(5,945)	(9,814)
Other	-	2
	<u>407,521</u>	<u>453,907</u>

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Notes to financial statements (Continued)
June 30, 2013 and 2012
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11. Other receivables - sundry

	<u>2013</u>	<u>2012</u>
Current		
Taxes recoverable	16,642	7,522
Tax credits (Note 24b)	10,274	5,727
Debtors for purchase of assets (Note 9a)	-	3,621
Sundry debtors - domestic	21,396	12,955
Securities and receivables	598	540
Other	562	939
	<u>49,472</u>	<u>31,304</u>
Noncurrent		
Tax credits (Note 24b)	67,844	92,203
Debtors for guarantee deposits (Note 27b)	14,153	8,919
Securities and receivables	5,387	4,859
	<u>87,384</u>	<u>105,981</u>

12. Other assets

	<u>2013</u>	<u>2012</u>
Current		
Assets not in use - vehicles	361	6,392
Prepaid expenses (*)	830	4,301
(-) Valuation allowance - assets not in use	-	(1,858)
	<u>1,191</u>	<u>8,835</u>

(*) This includes the amount of R\$678 (R\$3,714 in 2012), referring to the amount paid due to a special agreement related to overdue credit rights from loan and financing transactions carried out by the Bank (Notes 3m and 26).

13. Investments in subsidiaries and affiliates

This refers substantially to interest held in subsidiary SOCOPA - Sociedade Corretora Paulista S.A.

Detailed information on this subsidiary is as follows:

	<u>2013</u>	<u>2012</u>
Number of shares held	3,200	3,200
Capital	66,000	66,000
Equity	81,985	81,028
Net income/(loss) for the six-month period	546	(3,503)
Interest percentage	100%	100%
Investment balance	82,531	77,525
Equity pickup	546	(3,503)

Banco Paulista S.A.

Notes to financial statements (Continued)

June 30, 2013 and 2012

(In thousands of reais)

14. Deposits

	2013				2012	
	No maturity	From 1 to 90 days	From 91 to 360 days	Over 360 days	Total	Total
Demand	106,494	-	-	-	106,494	49,364
Interbank	-	87,349	500	-	87,849	98,734
Time	-	68,678	177,387	169,715	415,780	442,569
Other	-	-	-	-	-	5,980
	106,494	156,027	177,887	169,715	610,123	596,647

15. Open market funding

	2013	2012
Own portfolio		
Financial Treasury Bills (LFT)	-	2,482
National Treasury Bills (LTN)	61,787	29,073
National Treasury Notes (NTN)	3,799	49,472
	65,586	81,027
Third-party portfolio		
Financial Treasury Bills (LFT)	-	81,647
National Treasury Bills (LTN)	119,237	-
National Treasury Notes (NTN)	48,099	-
	167,336	81,647
Total	232,922	162,674

16. Borrowings and on-lending obligations, funds from acceptance and issue of securities

	2013			2012	
	No maturity	From 1 to 90 days	From 91 to 360 days	Total	Total
Borrowings					
Foreign borrowings (i)	-	11,387	40,885	52,252	56,595
On-lending					
Local on-lending - official institutions (ii)	45,892	-	-	45,892	34,060
	45,892	11,387	40,885	98,144	90,655

Banco Paulista S.A.

Notes to financial statements (Continued)

June 30, 2013 and 2012

(In thousands of reais)

16. Borrowings and on-lending obligations, funds from acceptance and issue of securities (Continued)

- (i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rates used ranged from 3.24% to 6.00% per annum, depending on volumes, terms and market conditions. These interest rates apply solely on the amount of R\$52,141. The remaining balance is only subject to exchange rate fluctuation, since it refers to BRL (R\$) purchase obligations not yet delivered by the selling banks.
- (ii) Local borrowings 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.

17. Other liabilities

a) Income and social security taxes

	<u>2013</u>	<u>2012</u>
Current		
Taxes and contributions payable	4,203	5,227
Taxes and contributions on income	518	8,970
	<u>4,721</u>	<u>14,197</u>
Noncurrent		
Taxes and contributions payable	45,095	4,802
Provision for tax contingencies (Note 27b)	5,282	48,888
	<u>50,377</u>	<u>53,690</u>

b) Subordinated debts

	<u>2013</u>	<u>2012</u>
Noncurrent		
Capital-eligible subordinated debts (i)	21,669	25,632
Capital-eligible subordinated debts (ii)	27,819	-
	<u>49,488</u>	<u>25,632</u>

- (i) This refers to 6-year-term Financial Bills providing for subordination clauses with the Bank's controlling shareholder pursuant to Resolution No. 3444 in June, 2010. This operation is remunerated at 118.00% of CDI.
- (ii) This refers to 6-year-term Financial Bills providing for subordination clauses with the Bank's controlling shareholder pursuant to Resolution No. 3444 in June, 2012. This operation is remunerated at 115.00% of CDI.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
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17. Other liabilities (Continued)

c) Sundry

	<u>2013</u>	<u>2012</u>
Current		
Provision for credits assigned with guarantee (Note 9g)	1,533	7,854
Provisions for amounts payable	11,305	6,563
Items to be settled - Foreign Exchange	-	4,130
Brokerage to credit - Foreign Exchange	1,404	1,118
Charges on funds received (PSH)	2,055	2,492
Other amounts payable	3,372	1,552
	<u>19,669</u>	<u>23,709</u>
Noncurrent		
Provisions for amounts payable	3,508	985
Provision for contingent liabilities (Note 28b)	1,928	1,897
	<u>5,436</u>	<u>2,882</u>

18. Equity

a) Capital

At June 30, 2013, Company fully subscribed and paid-up capital is represented by 218,731,760 registered shares with no par value, divided into 109,365,880 common shares and 109,365,880 preferred shares.

b) Dividend and interest on equity

Bank Articles of Incorporation provide for mandatory minimum dividends of 25% on net income, calculated under the terms of corporate law.

c) Retained earnings/(Accumulated losses)

As per Resolution No. 3605/08, net income calculated and not distributed in the six-month period shall be allocated to the income reserve. At June 30, 2013, income earned in the six-month period amounted to R\$11,628 (R\$8,521 in 2012).

d) Legal reserve

The Bank must allocate 5% of net income each six-month period to the legal reserve, which shall not exceed 20% of paid-up capital.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

19. Market funding expenses

	<u>2013</u>	<u>2012</u>
Time deposits	14,926	24,076
Open market funding	8,535	8,818
Contributions to Central Bank deposit reserves (FGC)	699	1,114
Interbank deposits	3,789	6,343
Financial bills	1,920	1,330
	<u>29,869</u>	<u>41,681</u>

20. Service revenues

	<u>2013</u>	<u>2012</u>
Foreign exchange operation charges	1,374	3,061
Bank charges	5,287	3,496
Business development	13,068	950
Custody services	5,986	4,778
Commission fees for investment funds administration	4,263	126
Other services	165	158
	<u>30,143</u>	<u>12,569</u>

21. Other administrative expenses

	<u>2013</u>	<u>2012</u>
Transport	12,680	13,666
Specialist technical services	7,505	2,788
Data processing	5,554	4,508
Communications	748	819
Financial System	693	769
Rent	1,296	774
Advertising and promotion	41	369
Third-party services	454	341
Surveillance and security services	114	100
Materials	106	117
Other	1,360	1,844
	<u>30,551</u>	<u>26,095</u>

22. Other operating income

	<u>2013</u>	<u>2012</u>
Reversal of operating provisions	3,226	4,944
Reversal of provision for tax contingencies	2,285	-
Interest on National Treasury securities issued to cover court-ordered debts	265	264
Recovered charges and expenses	176	383
Monetary variations on judicial deposits	185	225
Income from guarantees provided	827	122
Monetary variation gains	66	98
Other	996	544
	<u>8,026</u>	<u>6,580</u>

Banco Paulista S.A.

Notes to financial statements (Continued)

June 30, 2013 and 2012

(In thousands of reais)

23. Other operating expenses

	<u>2013</u>	<u>2012</u>
Loan consulting	9,945	5,908
Financial expenses - PSH	2,084	305
Expenses with Direct Consumer Credit (CDC) contract recovery	1,614	3,938
Equalization of assignment price (Note 3m)	1,333	2,775
Monetarily restated advances received on assigned credits	545	1,016
Monetarily restated taxes and contributions	1,340	2,044
Provision for loan losses	865	473
Exchange rate fluctuation	503	547
Amortization and depreciation	495	504
Commission on financing agreements	131	828
Other	870	304
	<u>19,725</u>	<u>18,642</u>

24. Income and social contribution taxes

a) Reconciliation of expenses with provisions for income and social contribution taxes

	<u>2013</u>	<u>2012</u>
Income (loss) before taxes and profit sharing	19,102	17,301
(-) Profit sharing	(612)	(449)
Income (loss) before income taxes	18,490	16,852
Temporary additions and exclusions	(18,237)	2,692
Provision for credits assigned with guarantee	(3,074)	(4,108)
Marketable securities marked to market	(61)	(4,946)
Allowance for loan losses	9,339	13,680
Reversal of allowance for loan losses	(19,667)	-
Provision for tax contingencies	400	(1,583)
Profit sharing - 2012	(1,793)	-
Other temporary additions and exclusions	(3,381)	(351)
Permanent additions and exclusions:	1,092	3,252
Equity pick-up - subsidiary	(594)	3,481
Other permanent additions and exclusions	1,686	(229)
	<u>1,345</u>	<u>22,796</u>
Tax base		
Income and social contribution taxes	526	(9,105)
Deductions - tax incentives	(8)	136
Income and social contribution taxes	518	(8,969)
Deferred tax assets	5,732	1,087
	<u>6,250</u>	<u>7,882</u>
Total income and social contribution taxes		

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
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24. Income and social contribution taxes (Continued)

b) Tax credits

Changes in tax credits in the six-month period were as follows:

	12/31/2012	Setting up	Realization/ Reversal	Other	06/30/2013
Allowance for other losses	65,940	3,736	(7,867)	-	61,809
Provision for tax contingencies (i)	18,522	1,487	(1,326)	(16,958)	1,725
Provision for credits assigned with guarantee	1,103	613	(1,843)	-	(127)
Other (i)	(3,451)	413	(944)	16,958	12,976
Marketable securities marked to market	-	1,735	-	-	1,735
Total tax credits	82,114	7,984	(11,980)	-	78,118

(i) The amount of R\$ 16,958 refers to reclassification of federal contribution taxes on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) paid installments in accordance with Law No. 11941/2009.

Tax credits will be offset within the term provided by Resolution No. 3355, according to their nature. Income and social contribution tax credits were set up solely on temporarily non-deductible differences. The Bank recorded no income and social contribution tax losses.

Present value of the tax credits at June 30, 2013 is R\$58,792, as determined by reference to the CDI/CETIP rates prevailing in the related periods. Tax credits are assessed periodically based on the generation of taxable profit for income and social contribution tax purposes in an amount that renders it justifiable to record such amounts as assets.

Based on projected results, which consider the business plan development, management believes 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 considered in a timely fashion in the financial statements.

Banco Paulista S.A.

Notes to financial statements (Continued)
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24. Income and social contribution taxes (Continued)

b) Tax credits (Continued)

Tax credits are expected to be realized as follows:

	2013	2014	2016	2017	2018	2021	Total
Allowance for loan losses	13,526	12,036	12,891	14,335	9,021	-	61,809
Provision for tax contingencies	-	-	-	-	-	1,725	1,725
Provision for credits assigned with guarantee	(127)	-	-	-	-	-	(127)
Marketable securities marked to market	1,735	-	-	-	-	-	1,735
Other	(3,125)	363	359	359	-	15,020	12,976
Total	12,009	12,399	13,250	14,694	9,021	16,745	78,118
Present value	11,306	10,876	10,773	11,080	6,563	8,020	58,618

25. Transactions with related parties

Transactions with related parties were carried out under usual market conditions, with regard to interest rates and terms, and are broken down as follows:

	Assets (Liabilities)		Income / (Expense)	
	2013	2012	2013	2012
Prepaid expenses (*)	678	3,714	(1,333)	(2,775)
Demand deposits	(545)	(614)	-	-
Time deposits	(111,045)	(112,498)	(4,570)	(9,661)
Interbank deposits	(53,912)	(46,233)	(2,266)	(3,368)
Open market funding	(3,799)	(18,317)	(148)	(401)
Debtors/(creditors) - account pending settlement	(1,886)	2,369	-	-
Financial Bill - subordinated debt	(49,488)	(25,632)	(1,093)	(1,330)

(*) In December 2010, the Bank entered into a partnership with Paulista Companhia Securitizadora de Créditos Financeiros, related party, for assignment of overdue credit rights - arising from loan and financing transactions carried out by the Bank. The Bank prepaid the amount of R\$ 15,258, referring to the price equalization, computed based on the default history on the portfolio subject to assignment, which will be allocated to income under "other operating expenses", to the extent that the credits subject to referred to agreement mature, which substantially occurred up until December 2012.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
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25. Transactions with related parties (Continued)

a) Key management personnel compensation

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

	<u>2013</u>	<u>2012</u>
Fixed compensation	2,883	2,742
Social charges	649	617
Total	<u>3,532</u>	<u>3,359</u>

The Group offers no long-term or post-employment benefits, relating to termination or share-based payment to management.

26. Collateral securities, pledges and guarantees to third parties

At June 30, 2013, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R\$39,089 (R\$62,212 in 2012). Any losses on these items are duly provided for.

27. Contingent assets and liabilities, and legal, tax and social security obligations

a) Contingent assets

At June 30, 2013 and 2012, there are no proceedings whose likelihood of loss is estimated as probable by management.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
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27. Contingent assets and liabilities, and legal, tax and social security obligations (Continued)

b) Contingent liabilities classified as probable loss and legal obligations

b.1) *Labor*

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) *Civil*

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, damages and other proceedings claiming indemnification. Civil proceedings have their potential for loss analyzed individually, considering current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors. The historical average of losses is reviewed semiannually.

b.3) *Income and social security*

These refer to legal and administrative proceedings substantially based on Supplementary Amendment No. 10/96, which aims at (i) ensuring the right to pay Social Contribution tax calculated at the same rate applicable to other companies not operating in the financial segment; (ii) avoiding payment of Social Contribution tax on income calculated at 30% in the period from 01/01/1996 to 03/07/1996 and in the ninety-day period from 03/07/1996 to 06/07/1996, during which the Company computed and paid Social Contribution on Net Profit (CSLL) at 18% based on Law No. 9249/95.

Banco Paulista S.A.

Notes to financial statements (Continued)
June 30, 2013 and 2012
(In thousands of reais)

27. Contingent assets and liabilities, and legal, tax and social security obligations (Continued)

b) Contingent liabilities classified as probable loss and legal obligations (Continued)

b.3) *Income and social security* (Continued)

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and elected the apportionment provided for by Law No. 11941/09. In 2012, the amount of R\$46,495 was reallocated to “Other taxes payable”.

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

	Provision for contingencies			2013	2012
	Labor	Civil	Tax		
Balance at beginning of six-month period	307	1,268	7,210	8,785	49,555
Setting up	422	867	204	1,493	2,655
Reversals	-	-	(2,285)	(2,285)	-
(Realization)/Restatements	(14)	(921)	153	(782)	(1,425)
Balance at end of six-month period	715	1,214	5,282	7,211	50,785

	Judicial deposits				2013	2012
	Labor	Civil	Tax	Other		
Balance at beginning of six-month period	169	2,585	7,596	2,000	12,350	8,004
Restatements	-	-	185	-	185	445
Setting up	-	618	-	1,000	1,618	470
Balance at end of six-month period	169	3,203	7,781	3,000	14,153	8,919

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Notes to financial statements (Continued)
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27. Contingent assets and liabilities, and legal, tax and social security obligations (Continued)

c) Contingent liabilities classified as possible loss

At June 30, 2013, contingent liabilities classified as possible losses are represented by 1,271 proceedings of a civil nature totaling R\$31,631; 08 proceedings of a labor nature totaling R\$182 and 13 proceedings of a tax nature totaling R\$6,162, based on the amounts attributed to respective suits brought by claimants (and not necessarily representing any possible loss) 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.

d) Regulatory agencies

There are no significant administrative proceedings in progress on the part of the National Financial System that could significantly impact net income and operations of Banco Paulista.

28. Operating limits

Required Capital (PRE) in accordance with the standards in force is stated as follows:

Credit risk	50,856
Currency risk	2,455
Operating risk	17,043
Required capital base	<u>70,354</u>
Capital Base (PR)	172,230
Portfolio risk - Banking	<u>2,989</u>
Equity margin	<u>98,887</u>

The Basel index for the Financial Conglomerate as at June 30, 2013, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 3444/07 and 3490/07, and Circular No. 3360/07, is 25.83%.

Banco Paulista S.A.

Notes to financial statements (Continued)

June 30, 2013 and 2012

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28. Operating limits (Continued)

In June 2012, Banco Paulista S.A. - the Conglomerate leader - raised funds through issue of Financial Bills with subordination provisions, to be considered as Level II capital, according to Resolution No. 3444/07 (Note 17b).