Financial Statements

Banco Paulista S.A.

June 30, 2014 and 2013
with Independent Auditor's Report

Banco Paulista S.A.

Financial statements

June 30, 2014 and 2013

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil

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. ("Bank"), which comprise the balance sheet as at June 30, 2014, and the related income statement, statement of changes in equity and cash flow statement 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 the 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. We conducted our audit 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 the 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 in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's 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 controls. 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 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. as at June 30, 2014, and 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 a matter

Without modifying our opinion, we draw attention to the fact that as at June 30, 2014, the Bank has recorded income and social contribution tax credits amounting to R$73,107 thousand (Note 24(b)). Realization of this credit is conditional on the generation of future taxable profit, in accordance with the budget plan prepared and approved by management.

São Paulo, August 11, 2014.

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

Eduardo Wellichen
Accountant CRC-1SP184050/O-6

Banco Paulista S.A.

Balance sheets
June 30, 2014 and 2013
(In thousands of reais)

	2014	2013
Assets		
Current assets	**1,498,727**	1,329,496
Cash and due from banks	**262,488**	215,701
Local currency	**51,252**	32,982
Foreign currency	**211,236**	182,719
Interbank investments	**383,878**	260,740
Open market investments	**340,731**	199,358
Interbank deposits	**43,147**	61,382
Marketable securities and derivative financial instruments	**222,357**	192,644
Own portfolio	**143,929**	105,202
Linked to repurchase agreements	**38,755**	61,960
Linked to guarantees given	**39,670**	8,216
Derivative financial instruments	**3**	17,266
Interbank accounts	**22,439**	20,879
Unsettled payables and receivables	**636**	759
Restricted loans	**21,803**	20,120
Loans	**229,403**	168,194
Loans - private sector	**242,136**	177,516
(-) Allowance for loan losses	**(12,733)**	(9,322)
Other receivables	**376,759**	470,147
Foreign exchange portfolio	**321,550**	409,419
Securities trading and brokerage	**23,849**	13,345
Sundry	**31,943**	49,472
(-) Allowance for losses on other receivables	**(583)**	(2,089)
Other assets	**1,403**	1,191
Prepaid expenses	**99**	830
Other assets	**1,304**	361
Long-term receivables	**193,161**	230,833
Marketable securities and derivative financial instruments	**85,690**	132,018
Own portfolio	**15,911**	42,266
Linked to repurchase agreements	**38,022**	-
Linked to guarantees given	**31,757**	3,811
Derivative financial instruments	**-**	85,941
Loans	**14,081**	11,431
Loans - private sector	**14,863**	12,065
(-) Allowance for loan losses	**(782)**	(634)
Other receivables	**93,390**	87,384
Sundry	**93,390**	87,384
Permanent assets	**91,533**	87,316
Investments	**87,479**	83,749
Interest in local affiliates and subsidiaries	**86,287**	82,610
Other investments	**1,444**	1,391
(-) Valuation allowance	**(252)**	(252)
Property and equipment in use	**2,942**	2,714
Land and buildings in use	**957**	957
Other property and equipment in use	**5,966**	5,490
(-) Accumulated depreciation	**(3,981)**	(3,733)
Intangible assets	**1,112**	853
Intangible assets	**1,957**	1,363
(-) Accumulated amortization	**(845)**	(510)
Total assets	**1,783,421**	1,647,645

	2014	2013
Liabilities and equity		
Current liabilities	**1,312,777**	1,227,665
Deposits	**402,085**	440,408
Demand deposits	**89,624**	106,494
Interbank deposits	**74,637**	87,849
Time deposits	**237,824**	246,065
Open market funding	**388,628**	232,922
Own portfolio	**76,374**	65,586
Third-party portfolio	**312,254**	167,336
Funds from acceptance and issue of securities	**42,511**	-
Funds from real estate notes, mortgage notes	**42,511**	-
Interdepartmental and interbank accounts	**34,346**	13,632
Unsettled receivables and payables	**609**	229
Correspondent banks	**780**	805
Third-party funds in transit	**32,957**	12,598
Borrowings and onlending	**54,377**	98,144
Foreign currency liabilities	**19,710**	52,252
Local onlending – official institutions	**34,667**	45,892
Other liabilities	**390,830**	442,559
Collection of taxes and other contributions	**587**	647
Foreign exchange portfolio	**341,112**	407,521
Income and social security taxes	**7,317**	4,721
Securities trading and brokerage	**19,530**	10,001
Derivative financial instruments	**1,448**	-
Sundry	**20,836**	19,669
Noncurrent liabilities	**307,067**	275,016
Deposits	**209,825**	169,715
Time deposits	**209,825**	169,715
Funds from acceptance and issue of securities	**105**	-
Funds and real estate notes, mortgage notes	**105**	-
Other liabilities	**97,137**	105,301
Income and social security	**37,519**	50,377
Subordinated debt	**55,099**	49,488
Sundry	**4,519**	5,436
Equity	**163,577**	144,964
Capital – Brazilian residents	**127,000**	127,000
Capital reserve	**97**	97
Income reserves	**40,555**	20,471
Adjustment to market value – marketable securities and derivatives	**(4,075)**	(2,604)
Total liabilities and equity	**1,783,421**	1,647,645

See accompanying notes.

Banco Paulista S.A.

Income statements
Six-month periods ended June 30, 2014 and 2013
(In thousands of reais, except earnings per thousand shares)

	2014	**2013**
Interest from financial intermediation	**123,728**	108,653
Loans	**24,264**	17,264
Income from marketable securities	**36,230**	31,359
Income from/(loss on) derivative financial instruments	**13,799**	(4,593)
Income from foreign exchange transactions	**49,435**	64,623
Expenses from financial intermediation	**(55,693)**	(47,598)
Open market funding	**(49,612)**	(29,869)
Borrowings and onlending	**(2,788)**	(8,390)
Allowance for loan losses	**(3,293)**	(9,339)
Gross profit from financial intermediation	**68,035**	61,055
Other operating (expenses)	**(39,450)**	(42,605)
Service income	**23,625**	30,143
Personnel expenses	**(24,471)**	(22,612)
Other administrative expenses	**(27,626)**	(30,551)
Tax expenses	**(7,588)**	(8,480)
Equity pickup in affiliates and subsidiaries	**2,960**	594
Other operating income	**3,735**	8,026
Other operating expenses	**(10,085)**	(19,725)
Operating income	**28,585**	18,450
Nonoperating income	**48**	40
Income before taxes and profit sharing	**28,633**	18,490
Income and social contribution taxes	**(9,830)**	(6,250)
Provision for income tax	**(3,325)**	(316)
Provision for social contribution tax	**(2,052)**	(202)
Deferred tax assets	**(4,453)**	(5,732)
Profit sharing	**(940)**	(612)
Net income for the six-month period	**17,863**	11,628
Earnings per thousand shares – R$	**82**	53

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
Six-month periods ended June 30, 2014 and 2013
(In thousands of reais)

			Income reserves				
	Capital	**Capital reserve**	**Legal reserve**	**Statutory reserve**	**Adjustment to market value**	**(Retained earnings) / Accumulated losses**	**Total**
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 and derivatives	-	-	-	-	(3,063)	-	(3,063)
Balances at June 30, 2013	**127,000**	**97**	**1,399**	**19,072**	**(2,604)**	**-**	**144,964**
Changes in the six-month period	**-**	**-**	**581**	**11,047**	**(3,063)**	**-**	**8,565**
Balances at December 31, 2013	**127,000**	**97**	**1,860**	**20,832**	**(2,836)**	**-**	**146,953**
Net income for the six-month period	**-**	**-**	**-**	**-**	**-**	**17,863**	**17,863**
Legal reserve	**-**	**-**	**893**	**-**	**-**	**(893)**	**-**
Statutory reserve	**-**	**-**	**-**	**16,970**	**-**	**(16,970)**	**-**
Adjustment to market value – marketable securities and derivatives	**-**	**-**	**-**	**-**	**(1,239)**	**-**	**(1,239)**
Balances at June 30, 2014	**127,000**	**97**	**2,753**	**37,802**	**(4,075)**	**-**	**163,577**
Changes in the six-month period	**-**	**-**	**893**	**16,970**	**(1,239)**	**-**	**16,624**

See accompanying notes.

Banco Paulista S.A.

Cash flow statements
Six-month periods ended June 30, 2014 and 2013
(In thousands of reais)

	2014	2013
Cash flow from operating activities		
Adjusted net income for the six-month period	**22,744**	23,128
Net income for the six-month period	**17,863**	11,628
Adjustments to reconcile net income to net cash	**4,881**	11,500
Allowance for loan losses	**3,293**	9,339
Provision for deferred income and social contribution taxes	**4,453**	5,732
Depreciation and amortization	**546**	496
Equity pick-up in subsidiaries	**(2,960)**	(594)
Reversal of provision for labor contingencies	**(78)**	(2,285)
Reversal of allowance for loan losses on assigned credits – retail	**-**	(3,226)
Provisions for civil, tax and labor contingencies	**487**	1,493
Monetary restated judicial deposits	**(396)**	
Provision for guarantees given	**674**	-
Monetarily restated advances received on assigned credits - retail	**-**	545
MTM adjustment	**(1,138)**	
Changes in assets and liabilities		
(Increase) in interbank investments	**(14,481)**	(12,781)
(Increase) in marketable securities	**(51,923)**	(78,852)
(Increase) decrease in derivative financial instruments	**3,352**	(16,129)
Decrease in interbank accounts	**8,024**	3,995
(Increase) in loans	**(22,314)**	(35,144)
(Increase) in other receivables	**(173,411)**	(140,485)
Decrease in other assets	**85**	1,260
Increase in other liabilities	**183,190**	136,212
Increase in deposits	**55,889**	31,600
Increase in repurchase agreements	**148,947**	80,186
Net cash from (used in) operating activities	**160,102**	(7,010)
Cash flow from investing activities		
Acquisition of property and equipment in use	**(313)**	(395)
Investments in intangible assets	**(191)**	(112)
Disposal of property and equipment in use	**39**	89
Investing activities	**(9)**	(48)
Net cash (used in) investing activities	**(474)**	(466)
Cash flow from financing activities		
(Decrease) in funds from acceptance and issue of securities	**(2,094)**	-
Increase in borrowings and onlending	**1,479**	34,587
Net cash from (used in) financing activities	**(615)**	34,587
Increase in cash and cash equivalents	**159,013**	27,111
Cash and cash equivalents		
Cash and cash equivalents at beginning of six-month period	**454,315**	418,160
Cash and cash equivalents at end of six-month period	**613,328**	445,271
	159,013	27,111

See accompanying notes.

1. Operations

Banco Paulista is a privately-held company established as a commercial bank, primarily engaged in providing loans to medium-sized and large-sized legal entities, in foreign exchange operations (basically in regard to foreign trade and financing operations) and providing custody, fund management, and sale and distribution transaction structuring services.

Bank operations are conducted through an integrated group of institutions participating in the financial market. Certain operations have joint participation or intermediation from subsidiary SOCOPA – Sociedade Corretora Paulista S.A. and 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, which include the accounting guidelines contained in the Corporation Law (Law No. 6404/76), amendments introduced by Law No.11638/07 and 11941/09, and the Central Bank of Brazil (BACEN) rules, and are presented in accordance with the Chart of Accounts for Institutions of the National Financial System (COSIF).

Accounting estimates are determined by management, considering factors and assumptions established based on judgments. Significant items subject to these estimates and assumptions include: provisions for adjustment of assets to probable realizable or recoverable values, 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 such estimates and assumptions at least on a semiannual basis.

3. Summary of significant accounting practices

a) Determination of profit or loss

Revenues and expenses are recorded on the accrual basis, using the daily pro rata criterion for those of a financial nature.

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 future income and expenses are recognized as a reduction of the respective assets or liabilities. Transactions based on floating rates are restated up to the balance sheet date at rates agreed upon.

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, maturing within 90 days from the investment date.

c) Interbank investments

Fixed rate investments are stated at redemption value, less unearned income, whereas those at variable rates are recorded at cost plus income earned through the balance sheet date, less valuation allowance, when applicable. Repurchase agreements are classified according to their maturity term, regardless of the term of the securities backing such operations.

d) Marketable securities and derivative financial instruments

As established by Letter No. 3068/01, portfolio marketable securities are classified into the following categories in accordance with management’s intention:

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

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

Marketable securities classified as held for trading are presented in current assets, irrespective of their maturities, and consist of securities acquired for active and frequent trading. These 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.

Derivative financial instruments which include option, future and swap transactions are recorded 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 – these are recorded at final contract value, less the difference between this amount and market price of the asset or right. Income and expenses are recorded over the terms of the contracts through balance sheet date;

Swap transactions – differences receivable or payable are recorded as assets or liabilities at market value, respectively, and appropriated to income or expenses on a pro rata basis through the balance sheet date.

Transactions involving derivative financial instruments not qualified for hedge accounting are marked to market at balance sheet date, and the related valuation gains and losses are recorded as income or expense, in the income statement for the period.

3. Summary of significant accounting practices (Continued)

e) Loans and allowance for loan losses

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 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 loans overdue for over 60 days, irrespective of the risk level, are only recorded as revenue when effectively received.

Operations classified as rating "H" remain rated as such for 180 days, when they are charged against the existing allowance and controlled in memorandum accounts for 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, considered sufficient by management, meets the requirements set forth in Resolution No. 2682/99 (Note 9).

f) Impairment of nonfinancial assets

The book value of assets should evidence events or changes in economic, operating, or technological circumstances that may indicate impairment. When such evidence is identified and the net book value exceeds the recoverable amount, a provision is set up in order to adjust net book value. These provisions are accounted for in the income statement for the period, as provided by Resolution No. 3566/08.

Non-financial assets are reviewed on an annual basis, except for tax credits, whose realization is assessed semiannually.

3. Summary of significant accounting practices (Continued)

g) Investments

Investments in subsidiaries are measured by the equity method.

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

h) Property and equipment, deferred charges and intangible assets

These refer to rights to both tangible and intangible assets intended or exercised for maintaining Bank activities.

Property and equipment items (tangible assets) are stated at acquisition cost. Depreciation 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 to assets of this nature 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, borrowings and onlending obligations

These are stated at the amounts payable, considering interest payable through balance sheet date, recognized on a daily pro rata basis. Foreign currency liabilities are restated at the official exchange rates prevailing on balance sheet dates. Funds obtained in the open market are classified under current liabilities according to their maturity term, irrespective of the maturity of the underlying backing papers.

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 determined on temporary additions and exclusions. Tax credits on temporary additions will be realized upon use and/or reversal of respective provisions, are based on current expectations and take into account technical studies and management analysis.

k) Foreign exchange operations

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

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

Recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are carried out pursuant to the following criteria defined in Resolution No. 3823/09 and Technical Pronouncement CPC 25, issued by the Brazilian FASB (CPC):

Contingent assets – these are only recognized in financial statements upon existence of evidence guaranteeing their realization, on which no further appeals can be filed.

Contingent liabilities - these are recognized in the financial statements when, based on the opinion of legal advisors and Management, the likelihood of an unfavorable outcome of a legal or administrative proceeding is considered probable, implying a probable cash outflow for their settlement, and when the amounts involved can be reliably measured. Contingent liabilities classified as possible by legal advisors are only disclosed in the notes to financial statements, whereas those rated as remote loss require neither a provision nor disclosure.

(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 legal proceedings in which the lawfulness and constitutionality of some taxes and contributions have been challenged. The amount under dispute is measured, recorded 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 credit 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, 2014 and 2013, cash and cash equivalents are as follows:

	2014	2013
Cash and cash equivalents - local currency	**51,252**	32,982
Cash and cash equivalents - foreign currency	**211,236**	182,719
Open market investments	**340,731**	199,358
Interbank deposits	**10,109**	30,212
Cash and cash equivalents	**613,328**	445,271

(In thousands of reais)

5. Interbank investments

a) Repurchase agreements

	2014		2013
	1-30 days	**Total**	**Total**
Open market investments			
Self-funding position:	**28,477**	**28,477**	32,022
Financial Treasury Bills (LFT)	**4,611**	**4,611**	787
National Treasury Bills (LTN)	**22,745**	**22,745**	-
National Treasury Notes (NTN)	**1,121**	**1,121**	31,235
Financed position:	**312,254**	**312,254**	167,336
National Treasury Bills (LTN)	**312,254**	**312,254**	119,237
National Treasury Notes (NTN)	**-**	**-**	48,099
Total	**340,731**	**340,731**	199,358

In the six-month period ended June 30, 2014, income from repurchase agreements amounted to R$14,456 (R$8,339 in 2013).

b) Interbank deposits

	2014	**2013**
Within 90 days	**10,109**	47,278
90 – 360 days	**33,038**	14,104
Total	**43,147**	61,382

In the six-month period ended June 30, 2014, income from interbank investments amounted to R$806 (R$1,003 in 2013).

(In thousands of reais)

6. Marketable securities

a) Marketable securities – Breakdown by type

	2014		2013	
	Cost (i)	**Market (ii)**	**Cost (i)**	**Market (ii)**
Trading securities				
Own portfolio - free	**83,341**	**83,130**	105,076	105,202
Financial Treasury Bills (LFT)	**75,537**	**75,533**	5,843	5,844
National Treasury Bills (LTN)	**219**	**219**	94,507	94,589
Agrarian Debt Bonds (TDA)	**104**	**178**	95	138
Shares issued by publicly-held companies	**4,329**	**4,075**	4,346	4,346
Investment fund shares	**791**	**791**	285	285
ADRs	**2,361**	**2,334**	-	-
Linked to repurchase agreements	**-**	**-**	62,470	61,960
National Treasury Bills (LTN)	**-**	**-**	62,470	61,960
Linked to guarantees given	**2,260**	**2,260**	8,228	8,216
Financial Treasury Bills (LFT)	**2,260**	**2,260**	4,061	4,061
National Treasury Bills (LTN)	**-**	**-**	4,167	4,155
Total trading securities	**85,601**	**85,390**	175,774	175,378
Available for sale				
Own portfolio - free	**76,511**	**76,710**	40,763	42,266
National Treasury Notes (NTN)	**76,511**	**76,710**	40,763	42,266
Linked to repurchase agreements	**76,168**	**76,777**	3,675	3,811
National Treasury Notes (NTN)	**76,168**	**76,777**	3,675	3,811
Linked to guarantees given	**68,340**	**69,167**	82,885	85,941
National Treasury Notes (NTN)	**68,340**	**69,167**	82,885	85,941
Total securities available for sale	**221,019**	**222,654**	127,323	132,018
Total	**306,620**	**308,044**	307,097	307,396

(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 the acquisition cost, plus gains earned 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 as adjusted at market value.

b) Marketable securities – Breakdown by maturity

	2014					2013
	No maturity	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total	Total
Financial Treasury Bills (LFT)	**-**	**20,213**	**56,576**	**1,004**	**77,793**	9,905
National Treasury Bills (LTN)	**-**	**219**	**-**	**-**	**219**	160,704
National Treasury Notes (NTN)	**-**	**136,964**	**376**	**85,314**	**222,654**	132,018
Agrarian Debt Bonds (TDA)	**-**	**-**	**-**	**178**	**178**	138
Shares issued by publicly-held companies	**4,075**	**-**	**-**	**-**	**4,075**	4,346
ADRs	**2,334**	**-**	**-**	**-**	**2,334**	-
Investment fund shares	**791**	**-**	**-**	**-**	**791**	285
Total	**7,200**	**157,396**	**56,952**	**86,496**	**308,044**	307,396

In the six-month period ended June 30, 2014, income from marketable securities amounted to R$20,968 (R$21,336 in 2013).

7. Derivative financial instruments

The Bank performs operations involving derivative financial instruments, which are recorded in balance sheet and memorandum accounts to meet its own needs and manage its overall risk exposure.

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

(In thousands of reais)

7. Derivative financial instruments (Continued)

At June 30, 2014 and 2013, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2014				2013			
	Notional value	**Assets**	**Liabilities**	**Net**	**Notional value**	**Assets**	**Liabilities**	**Net**
Swap	**-**	**-**	**-**	**-**	14,600	2,370	-	2,370
Forwards (NDF)	**86,463**	**3**	**(1,448)**	**(1,445)**	83,229	473	-	473
Forwards (Gold)	**-**	**-**	**-**	**-**	14,478	14,423	-	14,423
Total	**86,463**	**3**	**(1,448)**	**(1,445)**	112,307	17,266	-	17,266

a) Breakdown of transactions

Description	**Notional value**	**Equity value receivable/(payable)**
USD x EUR	22,814	76
USD x CAD	423	(10)
USD x AUD	166	(10)
USD x GBP	1,310	(13)
USD x JPY	203	-
USD x CHF	1,651	4
USD x NOK	84	1
USD x NZD	67	(7)
USD x XAU	9,735	(38)
Real x USD	14,570	(1,448)
In USD	35,440	-
Total	**86,463**	**(1,445)**

b) Derivative financial instruments mature as follows:

	2014				2013
Description	**Within 3 months**	**From 3 to 12 months**	**Over 12 months**	**Total**	**Total**
Swaps	**-**	**-**	**-**	**-**	2,370
Forwards (NDF)	**(240)**	**(1,205)**	**-**	**(1,445)**	473
Forwards (Gold)	**-**	**-**	**-**	**-**	14,423

In addition, the Bank conducts derivative financial instruments transactions in the futures market – BM&FBOVESPA, such transactions are utilized exclusively related to future forex rates and, at June 30, 2014, amounted to R$89,631 (R$75,402 in 2013), and an adjustment resulting in payables of R$329 (receivables amounting to R$1,886 in 2013) was recorded.

(In thousands of reais)

7. Derivative financial instruments (Continued)

b) Derivative financial instruments mature as follows: (Continued)

The market values of these derivative financial instruments are determined based on quotations disclosed by specialized stock exchanges and, in certain cases, pricing techniques are used.

Market prices were determined based on the following:

Futures, NDFs e 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.

c) Guarantee margin

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

	2014	2013
Financial Treasury Bills (LFT)	**2,260**	4,061
National Treasury Notes (NTN)	**69,167**	4,155
Gold	**-**	85,941
	71,427	94,157

d) Income from/(loss on) derivative financial instruments

Income from (loss on) derivative operations for the six-month periods ended June 30, 2014 and 2013 is as follows:

	2014	2013
Futures	**11,685**	(6,989)
Swap	**1,511**	1,342
Forward transactions (NDF)	**603**	1,017
Forward transactions – Gold	**-**	37
	13,799	(4,593)

8. Risk management

The Bank's risk management process is critical for the decision-making process and for the periodic follow-up of the transactions carried out in the various markets and segments in which it operates.

The Bank uses three components for organizing the activities relating 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, 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, and capital management.

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 with the criteria set forth by CMN Resolution No. 4090/12.

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) Operational risk

Operational 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 noncompliance 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.

The purpose of operational 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.

(In thousands of reais)

8. Risk management (Continued)

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 and goals, 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, subdivided into Tier I (Principal capital and supplementary capital) and Tier II (Hybrid instruments) 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 practices adopted comply with CMN Resolutions No. 4192/13, No. 4193/13 and No. 3988/11.

9. Loans

At June 30, 2014 and 2013, breakdown of loans is as follows:

a) By type:

	2014	2013
Loans:		
Discounted securities and loans	**239,906**	180,601
Financing	**654**	4,983
Financing - Export credit notes	**16,439**	3,012
Financing - foreign currency	**-**	985
	256,999	189,581
Other:		
Advances on exchange contracts (Note 10)	**2,484**	6,659
Credit assignment without guarantee	**4,876**	-
	7,360	6,659
Loan loans	**264,359**	196,240
Allowance for loan losses	**(13,515)**	(9,956)
Allowance for losses on other receivables	**(583)**	(2,089)
Total allowance for loan losses	**(14,098)**	(12,045)
	250,261	184,195

(In thousands of reais)

9. Loans

b) Breakdown by sector:

	2014	2013
Private sector		
Manufacturing	**100,207**	84,169
Trade	**75,628**	49,999
Services	**75,645**	55,900
Individuals	**12,879**	6,172
Total	**264,359**	196,240

c) Loans by maturity:

	2014	2013
Amounts overdue	**6,338**	3,731
Amounts falling due		
Up to 90 days	**118,190**	101,979
From 91 to 180 days	**72,620**	43,660
From 181 to 360 days	**52,348**	34,805
Over 360 days	**14,863**	12,065
Total	**264,359**	196,240

d) Portfolio broken down by risk level:

	Portfolio balances					
	2014				2013	
Level	Ordinary course	Overdue	Total	%	Total	%
A	308	-	308	0.12	2,351	1.20
B	94,150	216	94,366	35.70	79,347	40.43
C	148,230	5,960	154,190	58.33	95,894	48.87
D	817	59	876	0.33	2,102	1.07
E	3,659	3,435	7,094	2.68	9,642	4.91
F	-	2,134	2,134	0.81	2,621	1.34
G	354	136	490	0.19	1,112	0.57
H	1,107	3,794	4,901	1.85	3,171	1.61
	248,625	15,734	264,359	100.00	196,240	100.00

	Allowance						
	2014					2013	
Level	Provision %	Ordinary course	Overdue	Total	%	Total	%
A	0.5	2	-	2	0.01	12	0.10
B	1.0	941	2	943	6.69	793	6.58
C	3.0	4,447	179	4,626	32.81	2,876	23.88
D	10.0	82	6	88	0.62	210	1.75
E	30.0	1,098	1,031	2,129	15.10	2,894	24.02
F	50.0	-	1,067	1,067	7.57	1,311	10.88
G	70.0	247	95	342	2.43	778	6.46
H	100.0	1,107	3,794	4,901	34.76	3,171	26.33
		7,924	6,174	14,098	100.00	12,045	100.00

(In thousands of reais)

9. **Loans** (Continued)

e) Changes in allowance for loan losses

	2014	2013
Balance at beginning of the six-month period	**12,387**	14,929
As set up, net of reversals	**3,293**	9,339
Loans written-off against losses	**(1,582)**	(12,223)
Balance at end of the six-month period	**14,098**	12,045

f) Renegotiated and recovered loans

Renegotiated loans in the six-month period ended June 30, 2014 totaled R$8,423 (R$13,271 in 2013).

Recovered loans in the six-month period ended June 30, 2014 totaled R$2,844 (R$3,630 in 2013).

g) Credit assignments

In the six-month periods ended June 30, 2014 and 2013, 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, from its loan and financing operations to Paulista Companhia Securitizadora de Créditos Financeiros, a related party whose restated amounts totaled R$2,415.

At June 30, 2014, no amounts are recorded in memorandum accounts upon repurchase of loans previously assigned without guarantee on October 18, 2013. At June 30, 2013, loans assigned with guarantee, recorded in memorandum accounts, amount to R$7,096. An allowance for loans losses was set up for these operations, based on the same criteria established in Resolution No. 2682/99 and totaling R$1,533 at June 30, 2013, recorded under "Other obligations - sundry" (Note 17c).

(In thousands of reais)

9. **Loans** (Continued)

h) Income from loans

	2014	2013
Discounted securities and loans	**20,099**	12,597
Financing	**1,184**	308
Recovery of loans written off to loss	**2,844**	3,630
Financing - foreign currency	**-**	557
Advances to deposit holders	**137**	189
Income/(Loss) from assigned credits	**-**	(17)
Total income from loans	**24,264**	17,264

10. Foreign exchange portfolio

Assets	**2014**	**2013**
Current		
Unsettled foreign exchange contracts – long position	**140,158**	204,411
Rights on foreign exchange sales	**206,669**	243,751
Advances received – domestic and foreign currency	**(25,582)**	(39,457)
Income receivable from advances (Note 9a)	**305**	714
	321,550	409,419
Liabilities		
Current		
Unsettled foreign exchange contracts – short position	**203,115**	243,591
Advances on foreign exchange contracts	**-**	(30,027)
Liabilities - foreign exchange purchase	**140,176**	199,902
Advances on foreign exchange contracts (Note 9a)	**(2,179)**	(5,945)
	341,112	407,521

11. Other receivables - sundry

	2014	**2013**
Current		
Taxes recoverable	**12,678**	16,642
Tax credits (Note 25b)	**-**	10,274
Sundry debtors - domestic	**13,122**	21,396
Securities and receivables	**5,478**	598
Other	**665**	562
	31,943	49,472
Noncurrent		
Tax credits (Note 25b)	**76,702**	67,844
Debtors for guarantee deposits (Note 28b)	**10,675**	14,153
Securities and receivables	**6,013**	5,387
	93,390	87,384

(In thousands of reais)

12. Other assets

	2014	2013
Current		
Assets not in use – vehicles/properties/machinery	**1,304**	361
Prepaid expenses (*)	**99**	830
	1,403	1,191

(*) In 2013, this included the amount of R$678, 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 25).

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:

	2014	2013
Number of shares held	**3,200**	3,200
Capital	**66,000**	66,000
Equity	**83,030**	81,985
Net income for the six-month period	**2,610**	546
Interest percentage	**100%**	100%
Investment balance	**85,640**	82,531
Equity pickup	**2,610**	546

14. Deposits

	2014					2013
	No maturity	**1 to 90 days**	**91 to 360 days**	**Over 360 days**	**Total**	**Total**
Demand	**89,624**	**-**	**-**	**-**	**89,624**	106,494
Interbank	**-**	**67,937**	**6,700**		**74,637**	87,849
Time	**-**	**107,831**	**129,993**	**209,825**	**447,649**	415,780
	89,624	**175,768**	**136,693**	**209,825**	**611,910**	610,123

(In thousands of reais)

15. Open market funding

	2014	2013
Own portfolio		
National Treasury Bills (LTN)	**-**	61,787
National Treasury Notes (NTN)	**76,374**	3,799
	76,374	65,586
Third-party portfolio		
National Treasury Bills (LTN)	**312,254**	119,237
National Treasury Notes (NTN)	**-**	48,099
	312,254	167,336
Total	**388,628**	232,922

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

	2014						2013
	No maturity	**1 to 90 days**	**From 91 to 180 days**	**From 181 to 360 days**	**Over 360 days**	**Total**	**Total**
Borrowings							
Foreign borrowings (i)	**-**	**17,043**	**2,247**	**420**	**-**	**19,710**	52,252
Onlending							
Local onlending – official institutions (ii)	**34,667**	**-**	**-**	**-**	**-**	**34,667**	45,892
Funds from acceptance and issue of securities							
Obligations due to issue of agribusiness securities (iii)	**-**	**35,757**	**6,754**	**-**	**105**	**42,616**	-
	34,667	**52,800**	**9,001**	**420**	**105**	**96,993**	98,144

(i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rates used ranged from 2.23% to 6% per annum, depending on volumes, terms and market conditions. These interest rates apply solely on the amount of R$19,710 (R$52,141 in 2013). The remaining balance is only subject to exchange rate fluctuation, since it refers to BRL (R$) 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.

(iii) These refer to Agribusiness securities (LCA), substantially carried out with Bank related parties in the amount of R$26,477. The rate used varied from 98% to 102% of CDI.

(In thousands of reais)

17. Other liabilities

a) Income and social security taxes

	2014	2013
Current		
Taxes and contribution payable	**1,940**	4,203
Taxes and contribution on income	**5,377**	518
	7,317	4,721
Noncurrent		
Taxes and contribution payable	**28,046**	45,095
Provision for deferred income and social contribution taxes	**3,595**	-
Provision for tax contingencies (Note 28b)	**5,878**	5,282
	37,519	50,377

b) Subordinated debts

	2014	2013
Noncurrent		
Capital-eligible subordinated debts (i)	**24,089**	21,669
Capital-eligible subordinated debts (ii)	**31,010**	27,819
	55,099	49,488

(i) This refers to 6-year-term Financial Bills providing for subordination clauses with the Bank's controlling shareholder pursuant to Resolution No. 3444/07. This operation is remunerated at 115.00% 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. 3444/07. This operation is remunerated at 118.00% of CDI.

c) Sundry

	2014	2013
Current		
Accrued payments	**14,637**	11,305
Provision for loans assigned with guarantee	**-**	1,533
Brokerage Receivable - Foreign Exchange	**1,403**	1,404
Charges on funds received (PSH)	**2,896**	2,055
Provision for guarantees given	**674**	-
Other amounts payable	**1,226**	3,372
	20,836	19,669
Noncurrent		
Accrued payments	**1,202**	3,508
Provision for contingent liabilities	**3,317**	1,928
	4,519	5,436

(In thousands of reais)

18. Equity

a) Capital

As at June 30, 2014, Company fully subscribed and paid-up capital is divided into 218,731,760 registered shares with no par value, divided into 109,365,880 common shares and 109,365,880 preferred shares.

b) Dividends and interest on equity

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

c) Retained earnings

As per Resolution No. 3605/08, net income calculated and not distributed for the six-month period shall be allocated to the income reserve. As at June 30, 2014, income earned in the six-month period amounted to R$17,863 (R$11,628 in 2013).

d) Legal reserve

The Bank must allocate 5% of net income for each year to the legal reserve, not exceeding 20% of paid-up capital.

19. Funding expenses

	2014	2013
Time deposits	**23,879**	14,926
Open market funding	**16,256**	8,535
Contributions to Central Bank deposit reserves (FGC)	**674**	699
Interbank deposits	**3,693**	3,789
Financial bills	**3,032**	1,920
Agribusiness securities (LCA)	**2,078**	-
	49,612	29,869

(In thousands of reais)

20. Service income

	2014	2013
Foreign exchange operation charges	**1,893**	1,374
Banking fees	**8,194**	5,287
Business development	**4,009**	13,068
Custody services	**9,277**	5,986
Investment fund management fees	**101**	4,263
Other services	**151**	165
	23,625	30,143

21. Other administrative expenses

	2014	2013
Transport	**14,498**	12,680
Specialized technical services	**3,359**	7,505
Data processing	**4,533**	5,554
Rent	**1,197**	1,296
Financial system	**1,088**	693
Communications	**767**	748
Third-party services	**407**	454
Surveillance and security services	**132**	114
Materials	**106**	106
Advertising and publicity	**100**	41
Other	**1,439**	1,360
	27,626	30,551

22. Other operating income

	2014	2013
Reversal of expense provisions	**278**	3,226
Reversal of provision for tax contingencies	**-**	2,285
Foreign exchange gains/(losses) – arbitration	**1,347**	-
Income from guarantees given	**175**	827
Monetary adjustment gains	**314**	66
Interest on National Treasury securities issued to cover court-ordered debts	**378**	265
Monetary adjustments on judicial deposits	**677**	185
Recovery of charges and expenses	**253**	176
Other	**313**	996
	3,735	8,026

(In thousands of reais)

23. Other operating expenses

	2014	2013
Loan consulting	**3,880**	9,945
PSH expenses	**283**	2,084
Expenses with Direct Consumer Credit (CDC) contract recovery	**986**	1,614
Equalization of assignment price	**-**	1,333
Monetarily restated advances received on assigned credits	**-**	545
Monetarily restated taxes and contributions	**997**	1,340
Provisions for losses on customers	**396**	865
Foreign exchange gains/(losses)	**616**	503
Amortization and depreciation	**546**	495
Expenses from discount granted in renegotiations	**973**	-
Commission on financing agreements	**44**	131
Provision for guarantees given	**674**	-
Other	**690**	870
	10,085	19,725

24. Income and social contribution taxes

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

	2014	2013
Income (loss) before income taxes and profit sharing	**29,573**	**19,102**
(-) Profit sharing	**(940)**	**(612)**
Income (loss) before income taxes and profit sharing	**28,633**	**18,490**
Temporary additions and exclusions	**(6,164)**	**(18,237)**
Provision for loans assigned with guarantee	**-**	**(3,074)**
Marketable securities marked to market	**-**	**(61)**
Allowance for loan losses	**3,829**	**9,339**
Reversal of allowance for loan losses	**(9,536)**	**(19,667)**
Provision for tax contingencies	**(330)**	**400**
Profit sharing – 2012	**-**	**(1,793)**
Other temporary additions and exclusions	**(127)**	**(3,381)**
Permanent additions and exclusions:	**(4,044)**	**1,092**
Equity pickup – subsidiary	**(2,960)**	**(594)**
Other permanent additions and exclusions	**(1,084)**	**1,686**
	18,425	**1,345**
Tax base		
Income and social contribution taxes	**5,459**	**526**
Deductions - tax incentives	**(82)**	**(8)**
Income and social contribution taxes	**5,377**	**518**
Deferred tax assets	**4,453**	**5,732**
Total income and social contribution taxes	**9,830**	**6,250**

(In thousands of reais)

24. Income and social contribution taxes (Continued)

b) Tax credits

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

	12/31/2013	Set-up	Realization/ reversal	06/30/2014
Allowance for losses on other receivables	64,317	**1,532**	**(3,815)**	**62,034**
Provision for tax contingencies	2,663	**29**	**(161)**	**2,531**
Marketable securities marked to market	(3,594)	**-**	**-**	**(3,594)**
Marked to market adjustment to available-for-sale securities	1,891	**758**	**-**	**2,649**
Other	11,525	**270**	**(2,308)**	**9,487**
Total tax credits	76,802	**2,589**	**(6,284)**	**73,107**

Tax credits will be offset within the term allowed by Resolution No. 3355/06, according to their nature. Income and social contribution tax credits were set up solely on temporarily nondeductible differences.

Present value of the tax credits at June 30, 2014 is R$47,466, 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 have taxable profits during the regulatory period 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.

(In thousands of reais)

24. income and social contribution taxes (Continued)

b) Tax credits (Continued)

Tax credits are expected to be realized as follows:

	2014	2015	2016	2017	2018	2019	Total
Allowance for loan losses	3,600	8,800	10,000	10,000	10,000	19,634	62,034
Provision for tax contingencies	-	-	-	-	-	2,531	2,531
Marketable securities marked to market	(3,594)	-	-	-	-	-	(3,594)
Marked to market adjustment to available-for-sale securities	2,649	-	-	-	-	-	2,649
Other	108	2	-	-	-	9,377	9,487
Total	**2,763**	**8,802**	**10,000**	**10,000**	**10,000**	**31,542**	**73,107**
Present value	**2,624**	**7,510**	**7,611**	**6,770**	**6,022**	**16,929**	**47,466**

25. Transactions with related parties

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

	Assets (liabilities)		Income (expenses)	
	2014	**2013**	**2014**	**2013**
Prepaid expenses	**-**	678	**-**	(1,333)
Demand deposits	**(1,933)**	(545)	**-**	-
Time deposits	**(61,922)**	(111,045)	**(3,379)**	(4,570)
Interbank deposits	**(45,249)**	(53,912)	**(1,969)**	(2,266)
Open market funding	**(9,200)**	(3,799)	**(582)**	(148)
Debtors/(creditors) – account pending settlement	**(329)**	(1,886)	**-**	-
Financial bill – subordinated debt	**(31,010)**	(49,488)	**(1,725)**	(1,093)
Agribusiness securities (LCA)	**(26,477)**	-	**(1,385)**	-

(In thousands of reais)

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 resolution of the Annual Shareholders' Meeting (AGM). The Bank paid its management members the following short-term benefits:

	2014	2013
Fixed compensation	**2,713**	2,883
Social charges	**610**	649
Total	**3,323**	3,532

The Bank does not offers long-term or post-employment benefits, relating to termination or share-based payment to key management personnel.

26. Collateral securities, pledges and guarantees to third parties

As at June 30, 2014, collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R$22,696 (R$39,089 in 2013), management does not expect losses in these transactions.

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

a) Contingent assets

As at June 30, 2014 and 2013, there are no proceedings classified by management with probable realization.

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 the claim current status, decisions on the matter under dispute formerly handed down by courts and the opinion of outside legal advisors. Amounts assessed as probable risk of loss, as reliably estimated, is fully provided for, including applicable charges.

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.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. 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. Other civil claims have their potential for loss analyzed individually, considering their current status, decisions formerly adjudged by courts on the matter in dispute and the opinion of outside legal advisors.

b.3) *Tax 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.

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and decided to pay this tax liability utilizing the conditions provided for by Law No. 11941/09.

(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) *Tax and social security* (Continued)

Changes in provision for contingencies and legal obligations for the years are as follows:

	Provision for contingencies				
	Labor	Civil	Tax	2014	2013
Balance at beginning of six-month period	**680**	**3,039**	**5,694**	**9,413**	8,785
Setting-up	**-**	**303**	**-**	**303**	4,484
Realizations/restatements		**(627)**	**184**	**(443)**	(1,571)
Reversals	**(78)**	**-**	**-**	**(78)**	(2,285)
Balance at end of the six-month period	**602**	**2,715**	**5,878**	**9,195**	9,413

	Judicial deposits					
	Labor	Civil	Tax	Other	2014	2013
Balance at beginning of six-month period	**169**	**70**	**6,834**	**3,000**	**10,073**	12,350
Restatements	**-**	**-**	**396**	**-**	**396**	185
Setting-up	**7**	**302**	**-**	**-**	**309**	1,618
Payments/reversals	**-**	**(103)**	**-**	**-**	**(103)**	-
Balance at end of the six-month period	**176**	**269**	**7,230**	**3,000**	**10,675**	14,153

c) Contingent liabilities classified as possible losses

As at June 30, 2014, contingent liabilities classified as possible losses are represented by 119 (one hundred and nineteen) proceedings of a civil nature totaling R$12,591 and 8 (eight) proceedings of a labor nature totaling R$203, 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 claiming review of loan and financing contractual clauses;
- Actions for indemnification deriving from financial transactions;
- Labor claims.

(In thousands of reais)

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

d) Regulatory agencies

The Bank is not party to any ongoing administrative proceedings by the National Financial System which may 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:

Risk Weighted Assets (RWA) and Basel index	06/30/2014	06/30/2013 (i)
Regulatory Capital (PR)	192,952	203,296
PR - tier I	163,451	172,230
Principal capital	163,451	172,230
PR - tier II	29,502	31,066
RWA calculated using the standardized approach (Cpad) - Credit	586,847	462,328
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	6,863	22,314
RWA Trading - Interest, Commodities, Shares	234	-
RWA for operational risks (Opad) - Operational	197,425	154,940
RWA - Total	791,369	639,583
Minimum PR	87,050	70,354
Basil Index (PR/RWA Total)	24.38%	26.93%
Tier I index (PR tier I / RWA - Total)	20.65%	22.07%
Principal Capital index (CP/RWA - Total)	20.65%	22.07%
Extended Basil Index (PR/(RWA Total + securities not classified in the trading portfolio (Rban))	24.32%	25.83%

(i) The amounts referring to base date June 2013 were restated so as to allow comparison with June 2014.

The Basel index for the Financial Conglomerate as at June 30, 2014, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 4192/13 and 4193/13, is 24.32%.

In June 2013, Banco Paulista S.A. – the Conglomerate's leader – obtained funds from issuance of Financial Bills containing subordination clauses, for purposes of classification as tier II capital, pursuant to Resolution No. 3644/07 and Resolution No. 4192/13 (Note 17b).

29. Other Information

In May 2014, Law No. 12973/14 was enacted, replacing the Provisional Executive Order No. 627. This Law amends the Federal Tax Law referring to Corporate Income Tax (IRPJ), Social Contribution Tax on Net Profit (CSLL), as well as to the Contribution Tax on Gross Revenue for Social Integration Program (PIS/PASEP) and the Contribution Tax on Gross Revenue for Social Security Financing (COFINS). The key issues addressed by Law No. 12973/14 are described below:

- revoking of the Transition Tax Regime (RTT), which regulates the adjustments made in connection with new accounting methods and criteria implemented by virtue of the convergence of Brazilian accounting standards into international standards; and
- special installment payment of PIS/PASEP and COFINS.

The referred to Law is still under a regularization process; however, in our opinion, it will not be adopted early by the Bank, since we concluded that such Law will not have a material impact on our Financial Statements in the future.