Financial Statements

Banco Paulista S.A.

December 31, 2010 and 2009
with Independent Auditor’s Report

Banco Paulista S.A.

Financial statements

December 31, 2010 and 2009

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements in accordance with accounting practices adopted in Brazil

Independent auditor's report on financial statements

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

We have audited the financial statements of Banco Paulista S.A. ("Bank"), which comprise the balance sheet as at December 31, 2010 and the operations statement, statement of changes in equity and cash flow statement for the year 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 the accounting practices adopted in Brazil applicable to entities authorized to operate by the Central Bank of Brazil – BACEN, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of 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 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 audit 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 December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil, applicable to entities authorized to operate by the Central Bank of Brazil.

Emphasis of a matter

As mentioned in Note 25(b), the Bank accounted for income and social contribution tax credits in the amount of R$ 78,803 thousand. As mentioned in Note 1, the Bank’s management is currently implementing a number of actions that comprise discontinuance of certain activities, operationalization of new businesses and expansion of existing activities. Realization of these tax credits is conditioned to management’s business plan being successfully implemented and the consequent generation of future taxable profits.

Other matters

The financial statements for the year ended December 31, 2009, presented for comparison purposes, were audited by other independent auditors who issued an opinion report thereon dated April 9, 2010, containing an emphasis of a matter similar to the one mentioned in the preceding paragraph.

São Paulo, March 18, 2011.

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

Gregory Gobetti
Accountant CRC-1PR039144/O-8"S"-SP

Banco Paulista S.A.

Balance sheets
December 31, 2010 and 2009
(In thousands of reais)

	2010	2009
Assets		
Current assets	**1,393,687**	1,148,913
Cash and cash equivalents	**96,743**	79,709
Local currency	**24,716**	32,299
Foreign currency	**72,027**	47,410
Short-term interbank investments	**285,692**	254,063
Open market investments	**263,278**	242,857
Interbank deposits	**22,414**	11,206
Marketable securities and derivative financial instruments	**256,687**	360,580
Own portfolio	**62,390**	117,252
Subject to repurchase agreements	**98,692**	198,165
Subject to guarantees	**95,007**	44,792
Derivative financial instruments	**598**	371
Interbank accounts	**176,745**	173,127
Brazilian Central Bank deposits	**28,195**	41,777
Correspondent banks	**148,550**	131,350
Credit operations	**279,928**	190,525
Private sector	**294,835**	216,546
(-)Allowance for loan losses	**(14,907)**	(26,021)
Other receivables	**276,531**	70,090
Foreign exchange portfolio	**244,521**	28,146
Income receivable	**-**	39
Securities trading	**-**	11
Sundry receivables	**33,854**	43,073
(-)Allowance for other loan losses	**(1,844)**	(1,179)
Other assets	**21,361**	20,819
Prepaid expenses	**10,025**	6,535
Other	**11,336**	14,284
Long-term receivables	**189,430**	208,030
Short-term interbank investments	**-**	15,862
Interbank deposits	**-**	15,862
Marketable securities and derivative financial instruments	**62,245**	76,952
Own portfolio	**60,584**	76,952
Derivative financial instruments	**1,661**	-
Credit operations	**49,595**	47,069
Private sector	**52,236**	53,498
(-)Allowance for loan losses	**(2,641)**	(6,429)
Other receivables	**71,057**	62,775
Sundry	**71,062**	62,793
(-)Allowance for other loan losses	**(5)**	(18)
Other assets	**6,533**	5,372
Prepaid expenses	**6,533**	5,372

	2010	2009
Permanent assets	**47,264**	46,368
Investments	**43,717**	42,691
Investments in subsidiaries and affiliates in the country	**42,475**	41,450
Other investments	**1,242**	1,241
Property and equipment in use	**3,080**	3,189
Property in use	**957**	957
Other property and equipment in use	**4,564**	4,209
(-)Accumulated depreciation	**(2,441)**	(1,977)
Deferred charges	**57**	285
Organization and expansion expenses	**988**	988
(-) Accumulated amortization	**(931)**	(703)
Intangible assets	**410**	203
Intangible assets	**498**	215
(-) Accumulated amortization	**(88)**	(12)
Total assets	**1,630,381**	1,403,311

Banco Paulista S.A.

Balance sheets
December 31, 2010 and 2009
(In thousands of reais)

	2010	2009
Liabilities and equity		
Current liabilities	**1,240,937**	1,059,088
Deposits	**506,072**	390,762
Demand deposits	**66,251**	41,584
Interbank deposits	**81,782**	96,957
Time deposits	**356,972**	251,213
Other deposits	**1,067**	1,008
Funds obtained in open market	**230,703**	357,682
Own portfolio	**98,523**	196,943
Third-party portfolio	**132,180**	160,739
Interdepartmental and interbank accounts	**9,336**	16,901
Correspondents	**1,512**	1,930
Third-party funds in transit	**7,824**	14,971
Borrowings and onlending	**168,747**	162,854
Foreign currency onlending	**131,210**	109,220
Local borrowings – official institutions	**37,537**	53,634
Other liabilities	**326,079**	130,889
Collection of taxes and other contributions	**2,016**	1,439
Foreign exchange portfolio	**220,977**	14,879
Tax and social security contributions	**1,579**	25,867
Securities trading	**31,574**	-
Sundry payables	**69,933**	88,704
Long-term payables	**298,456**	234,724
Deposits	**212,502**	180,507
Interbank deposits	**1,734**	-
Time deposits	**210,768**	180,507
Borrowings and onlending	**6,156**	8,403
Local borrowings – official institutions	**6,156**	8,403
Other liabilities	**79,798**	45,814
Tax and social security	**55,007**	44,591
Subordinated debt	**21,348**	-
Sundry	**3,443**	1,223
Equity	**90,988**	109,499
Capital – Brazilian residents	**107,000**	107,000
Capital reserve	**97**	97
Income reserve	**2,402**	2,402
Accumulated losses	**(18,511)**	-
Total liabilities and equity	**1,630,381**	1,403,311

See accompanying notes.

Banco Paulista S.A.

Operations statements
Years ended December 31, 2010 and 2009 and
six-month period ended December 31, 2010
(In thousands of reais, except per share information)

		Years	
	2nd Half/10	2010	2009
Interest income	**111,113**	**199,137**	225,679
Credit operations	**17,766**	**48,038**	125,161
Income from marketable securities	**60,321**	**96,518**	66,572
Income from derivative financial instruments	**(5,223)**	**4,526**	15,766
Income from foreign exchange operations	**38,249**	**50,055**	18,180
Interest expense	**(65,469)**	**(130,319)**	(141,022)
Funds obtained in the market	**(48,739)**	**(87,801)**	(78,214)
Borrowings and onlending	**(8,051)**	**(10,856)**	(4,112)
Allowance for loan losses	**(8,679)**	**(31,662)**	(58,696)
Interest income, gross	**45,644**	**68,818**	84,657
Other operating income (expenses)	**(59,543)**	**(94,343)**	(105,590)
Income from services rendered	**11,516**	**24,679**	23,339
Personnel expenses	**(16,484)**	**(30,318)**	(25,285)
Other administrative expenses	**(15,045)**	**(26,850)**	(26,153)
Tax expenses	**(4,110)**	**(7,815)**	(10,067)
Income from investments in subsidiaries and affiliates	**601**	**1,025**	3,998
Other operating income	**2,664**	**7,340**	9,117
Other operating expenses	**(38,685)**	**(62,404)**	(80,539)
Operating income	**(13,899)**	**(25,525)**	(20,934)
Non-operating income	**(1,964)**	**(4,671)**	(2,469)
Income before income and social contribution taxes and profit sharing	**(15,863)**	**(30,196)**	(23,403)
Income and social contribution taxes	**5,910**	**11,685**	10,111
Provision for income tax	**1,878**	**-**	(14,883)
Provision for social contribution tax	**1,162**	**-**	(9,011)
Deferred tax asset	**2,870**	**11,685**	34,005
Loss for the six-month period/years	**(9,953)**	**(18,511)**	(13,292)
Loss per thousand shares - R$	**(50.08)**	**(93.15)**	(66.88)

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
Years ended December 31, 2010 and 2009 and
six-month period ended December 31, 2010
(In thousands of reais)

	Capital	Capital reserve	Income reserves: Legal reserve	Income reserves: Statutory reserve	Accumulated losses	Total
Balances at December 31, 2008	107,000	97	5,147	10,547	-	122,791
Loss for the six-month period	-	-	-	-	(13,292)	(13,292)
Loss offsetting						
Legal reserve	-	-	(2,745)	-	2,745	-
Statutory reserve	-	-	-	(10,547)	10,547	-
Balances at December 31, 2009	**107,000**	**97**	**2,402**	**-**	**-**	**109,499**
Loss for the year	**-**	**-**	**-**	**-**	**(18,511)**	**(18,511)**
Balances at December 31, 2010	**107,000**	**97**	**2,402**	**-**	**(18,511)**	**90,988**
Balances at June 30, 2010	**107,000**	**97**	**2,402**	**-**	**(8,558)**	**100,941**
Loss for the six-month period					**(9,953)**	**(9,953)**
Balances at December 31, 2010	**107,000**	**97**	**2,402**	**-**	**(18,511)**	**90,988**

See accompanying notes.

Banco Paulista S.A.

Cash flow statements
Years ended December 31, 2010 and 2009 and six-month period ended December 31, 2010
(In thousands of reais)

		Years	
	2nd Half/10	2010	2009
Adjusted net income (loss) for the six-month period/years	**(709)**	**7,533**	25,063
Loss for the six-month period/years	**(9,953)**	**(18,511)**	(13,292)
Adjustments to reconcile loss to net cash	**9,244**	**26,044**	38,355
Allowance for loan losses	**8,679**	**31,662**	58,696
Provisions for deferred income and social contribution taxes	**(2,870)**	**(11,685)**	(34,005)
Depreciation and amortization	**550**	**1,084**	1,079
Income (loss) on interest held in subsidiaries	**(601)**	**(1,025)**	(3,998)
Reversal of operating provisions	**(1,929)**	**(5,577)**	(1,067)
Monetarily restated advances received on assigned credits - retail	**5,099**	**10,139**	7,498
Provision for loss on credits assigned with guarantee – retail	**316**	**1,446**	10,152
Change in assets and liabilities			
Decrease (increase) in short-term interbank investments	**8,696**	**165,208**	(500)
Decrease (increase) in marketable securities	**48,912**	**120,488**	(116,395)
Decrease (increase) in interbank accounts	**28,539**	**(11,183)**	(110,592)
Decrease (increase) in credit operations	**(13,028)**	**(122,939)**	41,786
(Increase) in other credits	**(28,518)**	**(203,688)**	(4,884)
(Increase) decrease in other assets	**(3,083)**	**3,873**	10,891
Decrease (increase) in derivative financial instruments – assets	**707**	**(1,888)**	(20,467)
Increase in other liabilities	**67,357**	**217,590**	10,361
Increase in deposits	**127,462**	**147,305**	133,391
(Decrease) in deposits received under security repurchase agreements	**(86,967)**	**(126,979)**	(1,909)
Net cash from (used in) operating activities	**149,368**	**195,320**	(33,255)
Cash flow from investing activities			
Acquisition of property and equipment in use	**(603)**	**(1,002)**	(1,916)
Investments in intangible assets	**(135)**	**(283)**	(215)
Divestments	**-**	**-**	321
Dispositions of property and equipment in use	**277**	**330**	1,307
Net cash (used) in investing activities	**(461)**	**(955)**	(503)
Cash flow from financing activities			
(Decrease) in exchange acceptances and issuance of securities	**(20,100)**	**-**	-
Increase (decrease) in borrowings and onlending	**(26,473)**	**3,646**	81,223
Net cash from (used in) financing activities	**(46,573)**	**3,646**	81,223
Increase in cash and cash equivalents	**102,334**	**198,011**	47,465
Cash and cash equivalents			
Cash and cash equivalents at beginning of six-month period/years	**260,920**	**165,243**	117,778
Cash and cash equivalents at end of six-month period/years	**363,254**	**363,254**	165,243
	102,334	**198,011**	47,465

See accompanying notes.

1. Operations

Banco Paulista S.A. ("Bank") is a privately-held corporation established as a commercial bank and engaged in corporate loan operations, consignment and direct consumer credit (CDC) facilities, vehicle financing and foreign exchange operations (basically in regard to foreign trade and financial operations).

The Bank's operations are conducted through an integrated group of institutions operating in the financial market. Certain operations have joint participation or intermediation from its subsidiary Socopa -– Sociedade Corretora Paulista S.A. and other companies owned by the controlling shareholders.

In September 2009, by way of shareholders' strategic decision-making, the Bank efforts have been focused on middle market credit facilities, in addition to foreign exchange operations and services. Retail operations were discontinued, and those not overdue as of that date were fully assigned with guarantee to another financial institution. The operational structure supporting them and related commercial arrangements were also assigned to another financial institution (Note 9g).

Concomitantly with the aforementioned strategic decisions, a new business plan addressing existing activities and creating new business lines was drawn up by management and is currently under implementation.

2. Presentation of financial statements

These financial statements were prepared in accordance with the accounting practices adopted in Brazil, including the accounting guidelines set forth in the Brazilian Corporation Law (Law No. 6404/76), amendments introduced by Laws Nos. 11638/07 and 11941/09, as well as specific standards issued by the Central Bank of Brazil (BACEN). They are also presented in accordance with the Chart of Accounts for Institutions of the National Financial System (COSIF).

2. Presentation of financial statements (Continued)

Accounting estimates are established considering factors and assumptions determined based on management's judgment. Significant items subject to these estimates and assumptions include provisions for adjustment of assets so as to reflect their probable realizable or recoverable value, allowances for losses, provisions for contingencies, the mark-to-market of financial instruments, and deferred taxes, among others. Settlement of transactions involving these estimates may result in amounts significantly different for those estimated, due to inaccuracies inherent to their determination process. Management reviews its estimates and assumptions at least on a semi-annual basis.

3. Summary of significant accounting practices

a) Determination of P&L

Revenues and expenses are determined on an accrual basis, observing the "pro rata daily rate" criterion for financial operations.

Interest income and expenses are determined according to the compound interest method, except for those relating to discounted notes or foreign operations, which are calculated based on the straight-line method. Transactions based on fixed rates are recorded at their redemption values and future income and expenses are recorded as a reduction of respective assets and liabilities. Transactions involving floating rates are restated through the balance sheet date at agreed-upon indexes.

b) Cash and cash equivalents

Pursuant to Resolution No. 3604/08, these include cash, bank deposits, and highly liquid short-term investments redeemable within 90 days that pose very low risk of any change in limit or value.

3. Summary of significant accounting practices (Continued)

c) Short-term interbank investments

Fixed-rates short-term interbank investments are stated at their redemption value, less future income to be earned, whereas floating-rate interbank investments are stated at cost, plus earnings to 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

Based on Circular No. 3068/01, marketable securities held in the Bank's portfolio are classified in accordance with the intention of management into three distinct categories, which are:

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

Marketable securities classified as 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 income or loss from appreciation or depreciation is recorded in P&L.

Marketable securities are classified as available for sale when the instrument was not acquired for frequent trading. Instead, these are used for other purposes such as providing liquidity reserve, guarantees and hedging against risks. Earnings based on acquisition rates as well as any permanent losses thereon are recorded in P&L. These instruments are carried at market value with income or loss from appreciation or depreciation recorded against a specific account in equity (net of tax effects) and transferred to P&L at the moment of realization.

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

Marketable securities classified as held to maturity are those which management has a positive intention and financial capacity to hold until maturity. These are carried at acquisition cost plus earnings. Any permanent losses are immediately recorded in P&L.

Derivative financial instruments, comprised of futures, forwards and swaps, are recorded according to the following criteria:

- *futures* – the daily adjustment is recorded in asset or liability accounts, and recorded on a daily basis as revenue or expense;
- *forwards* – at the end value of the contract, less the difference between that value and the market price of the asset or right, recognizing income and expenses over the contract period up to the balance sheet date;
- *swaps* – the difference between the receivable or the payable amount is recorded in asset or liability accounts respectively, at market value, and allocated to income or expenses on a *pro rata* basis through the balance sheet date.

Non-hedge derivative instruments are measured at the balance sheet date at market value, accounting for the related appreciation or depreciation under an income or expense account, in P&L for the period.

3. Summary of significant accounting practices (Continued)

e) Credit operations and allowance for loan losses

Credit operations are rated for their risk level upon management's judgment, taking into consideration the economic scenario, past experience, specific risks related to the operation and debtors and guarantors, in compliance with the directives established by Resolution No. 2682/99, whereby the portfolio must be periodically assessed and rated in 9 levels, from 'AA' (minimum risk) to 'H' (loss).

Income from credit operations overdue for more than 60 days is not recognized as revenue unless effectively received, regardless of their level of risk.

Operations rated as 'H' level remain unaltered for 180 days, and are then written off against the corresponding allowance and controlled in memorandum accounts for at least 5 years, no longer being stated in the Bank's balance sheet.

Renegotiated credit operations are kept at least in the same risk level they were before renegotiation. Credit operation renegotiations that had already been written off against their allowance and posted to memorandum accounts are classified in 'H' level, where any income from such renegotiations are only recognized as revenue when effectively received.

From this year onwards, 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, as shown on Note 9.

f) Impairment of non-financial assets

The accounting record of an asset should evidence events or changes in economic, operating or technological circumstances that may indicate impairment loss. When such evidence is found and net book value exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net book value to the recoverable amount. These provisions are accounted for in income (loss) for the period/year, as prescribed by Resolution No. 3566/08.

Non-financial asset values are reviewed on an annual basis, except for tax credits, which are checked for realization semiannually.

3. Summary of significant accounting practices (Continued)

g) Investments

Investments in subsidiaries are assessed by the equity method.

Other investments are carried at acquisition cost less allowance for losses, where applicable.

h) Property and equipment, deferred charges and intangible assets

Refer to rights to both tangible and intangible assets intended or exercised for maintaining the Bank's 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. to vehicles and EDP systems, and 10% p.a. to the other items.

Deferred charges comprise leasehold improvements subject to annual amortization corresponding, basically, to 24%, according to the lease contract term. Pursuant to the provisions set forth in Resolution No. 3617/08, from September 30, 2008 onwards, financial institutions should record under Deferred charges, exclusively, preoperating expenses and restructuring expenditures that will effectively help increase their P&L for more than one financial year, rather than those solely representing cost reduction or increase in operation efficiencies. In addition, companies are allowed to keep their deferred charge balances existing as of that date until effectively written off.

h) Property and equipment, deferred charges and intangible assets (Continued)

Intangible assets comprise acquired rights to assets of this nature intended or exercised for maintaining the Bank's activities. They are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. Intangible assets having finite useful life are amortized based on their effective use or a method which reflects their economic benefits, whereas those with an indefinite useful life are annually tested for impairment.

3. Summary of significant accounting practices (Continued)

i) Deposits, funds obtained in open market, exchange acceptances and issuance of securities, and borrowings and onlending

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

j) Income and social contribution taxes

The provisions for corporate income tax (IRPJ) and social contribution tax on net profit (CSLL), when due, are calculated based on book profit or loss, as adjusted by permanent and temporary add-backs and exclusions. Income tax is calculated based on a rate of 15%, plus a 10% surtax on taxable profit exceeding R$ 240 for the year (R$ 120 for the six-month period). Social contribution tax is levied at a rate of 15%.

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

k) Foreign exchange operations

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

3. Summary of significant accounting practices (Continued)

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

The recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are based on criteria defined in Resolution No. 3823/09 and Accounting Pronouncement CPC 25, issued by the Brazilian FASB (CPC), as follows:

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

Contingent liabilities - these are recognized in financial statements when, based on the opinion of the legal counsel and management, the risk of loss on lawsuit or administrative proceeding is considered probable and the amounts involved are measurable with sufficient certainty. Contingent liabilities considered as possible losses by the legal counsel are only disclosed in the notes to the financial statements, while those rated as remote do not require any provision or disclosure.

Legal obligations - tax and social security - these refer to the legal proceedings in which the lawfulness and constitutionality of some taxes and contributions have been challenged. The discussed amount is quantified, accounted for and adjusted monthly.

m) Prepaid expenses

Mostly refer to the following prepaid amounts:

- commissions paid on loans and financing taken out, allocated to P&L 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 P&L under “Other operating expenses” as the special agreement credits reach their maturities.

(In thousands of reais)

4. Cash and cash equivalents

At December 31, 2010 and 2009, cash and cash equivalents are as follows:

	2010	2009
Cash and cash equivalents – local currency	**24,716**	32,299
Cash and cash equivalents – foreign currency	**72,027**	47,410
Open market investments	**261,598**	82,186
Interbank deposits	**4,913**	3,348
Cash and cash equivalents	**363,254**	165,243

5. Interbank investments

a) Repurchase agreements

	2010					2009
	1 - 30 days	31 - 180 days	181 - 365 days	Above 365 days	Total	Total
Open market investments						
Self-funding position:	**129,417**	**1,680**	**-**	**-**	**131,097**	82,186
Financial Treasury Bills - LFT	**37,110**	**-**	**-**	**-**	**37,110**	40,302
National Treasury Bills - LTN	**-**	**-**	**-**	**-**	**-**	10,001
National Treasury Notes - NTN	**69,282**	**-**	**-**	**-**	**69,282**	31,883
Bank Deposit Certificate - CDB	**9,965**	**-**	**-**	**-**	**9,965**	-
Agrarian Debt Bonds - TDA	**13,060**	**1,680**	**-**	**-**	**14,740**	-
Finance position:	**132,181**	**-**	**-**	**-**	**132,181**	160,671
Financial Treasury Bills - LFT	**70,225**	**-**	**-**	**-**	**70,225**	-
National Treasury Notes - NTN	**61,956**	**-**	**-**	**-**	**61,956**	160,671
Total	**261,598**	**1,680**	**-**	**-**	**263,278**	242,857

In the year ended December 31, 2010, income from repurchase agreements amounted to R$ 23,512 (R$ 24,559 in 2009).

b) Interbank deposits

	2010	2009
Up to 90 days	**4,911**	3,348
90 - 360 days	**12,559**	7,858
Above 360 days	**4,944**	15,862
Total	**22,414**	27,068

In the year ended December 31, 2010, income from interbank investments amounted to R$ 2,105 (R$ 1,611 in 2009).

(In thousands of reais)

6. Marketable securities

a) Marketable securities - Breakdown by type

	2010		2009	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Trading securities				
Own portfolio – free	**62,300**	**62,390**	117,507	117,252
Financial Treasury Bills - LFT	**8,655**	**8,654**	3,626	3,626
National Treasury Bills - LTN	**43,514**	**43,439**	80,344	80,359
National Treasury Notes - NTN	**9,634**	**9,733**	32,722	32,452
Agrarian Debt Bonds - TDA	**491**	**558**	809	809
Publicly-held company equities	**6**	**6**	6	6
Subject to repurchase agreements	**98,864**	**98,692**	199,074	198,165
Financial Treasury Bills - LFT	**-**	**-**	688	688
National Treasury Bills - LTN	**98,864**	**98,692**	133,637	133,311
National Treasury Notes - NTN	**-**	**-**	64,749	64,166
Subject to guarantees	**94,384**	**95,007**	44,808	44,792
Financial Treasury Bills - LFT	**15,421**	**15,423**	14,890	14,938
National Treasury Bills - LTN	**1,518**	**1,515**	17,574	17,531
National Treasury Notes - NTN	**51,520**	**52,144**	12,344	12,323
Gold in guarantee	**25,925**	**25,925**	-	-
Total trading securities	**255,548**	**256,089**	361,389	360,209
Held to maturity				
Own portfolio – free				
Investment fund shares (iii)	**60,584**	**60,584**	76,952	76,952
Total securities held to maturity	**60,584**	**60,584**	76,952	76,952
Total	**316,132**	**316,673**	438,341	437,161

(i) Cost value
In case of fixed-rate bonds, this refers to the acquisition cost, plus income earned through the balance sheet date; equities are stated at their acquisition cost.

6. Marketable securities (Continued)

a) Marketable securities - Breakdown by type (Continued)

(ii) Market value
The market value of government bonds is determined as per information daily disclosed by the Brazilian Association of Financial and Capital Markets Entities - ANBIMA. Equities 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.

(iii) Investments in subordinated shares of credit assignment funds

The Bank has investments in subordinated shares of a Fund named Paulista Credit Assignment Investment Fund – Vehicles II, established as a closed-end fund, in which shares will only be redeemed upon termination of the Fund respective term or liquidation. This Fund is administered and managed by Votorantim Asset Management Distribuidora de Títulos e Valores Mobiliários Ltda.

In the year ended December 31, 2010, the subordinated share of Paulista Credit Assignment Investment Fund – Vehicles II had a profitability of 15.29% (negative profitability of 6.63% in 2009).

The Bank also holds subordinated shares in the F IX – Multi-segment Credit Assignment Investment Fund, administered by BEM Distribuidora de Títulos e Valores Mobiliários and managed by BRAM - Bradesco Asset Management S/A - DTVM Ltda., established as an open-end fund, effective for an indefinite period of time and with no initial grace period for redemption of shares.

In the year ended December 31, 2010, the subordinated share of F IX – Multi-segment Credit Assignment Investment Fund recorded a profitability of 50.91% (38.84% in 2009).

At December 31, 2010, the Funds had credit assignment portfolios in the amount of R$ 82,850, and an allowance set up for possible losses totaling R$ 30,463.

(In thousands of reais)

6. Marketable securities (Continued)

a) Marketable securities - Breakdown by type (Continued)

(iii) Investments in subordinated shares of credit assignment funds (Continued)

Throughout the year ended December 31, 2009, Banco Paulista assigned credit operations to the funds in the amount of R$ 64.350, computing profit of R$ 7,184, accounted for as “Income from credit operations”. The balance of commissions paid upon taking out assigned operations to be appropriated to P&L on the assignment date, in the amount of R$ 1,976, was directly allocated to P&L under "Other operating expenses".

In year 2009, the Bank repurchased credit operations (previously assigned to the Funds) for the total amount of R$ 11,303. These operations were recorded as "Credit operations” for the amount of R$ 10,269 (present value of these operations calculated based on the original rates of each repurchase agreement), computing loss of R$ 1,031, debited from “Income from credit operations”.

No new credit assignments or repurchases were carried out with the Funds in the year ended December 31, 2010.

b) Marketable securities - Breakdown by maturity

	2010					2009
	W/o maturity	Up to 3 months	3 to 12 months	Above 12 months	Total	Total
Financial Treasury Bills - LFT	-	-	2,136	21,941	24,077	19,252
National Treasury Bills - LTN	-	-	143,646	-	143,646	231,200
National Treasury Notes - NTN	-	1,510	-	60,367	61,877	108,942
Agrarian Debt Bonds - TDA	-	-	-	558	558	809
Publicly-held company shares	6	-	-	-	6	6
Gold in guarantee	-	25,925	-	-	25,925	-
Investment fund shares	-	-	-	60,584	60,584	76,952
Total	6	27,435	145,782	143,450	316,673	437,161

In the year ended December 31, 2010, income from marketable securities totaled R$ 70,901 (R$ 40,403 in 2009).

(In thousands of reais)

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

At December 31, 2010 and 2009, derivative financial instrument amounts recorded in balance sheet accounts, including adjustments at market value are as follows:

	2010				2009			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Swap	**24,723**	**1,757**	**-**	**1,757**	17,781	123	-	123
Forwards	**29,358**	**502**	**-**	**502**	31,017	248	-	248
Total	**54,081**	**2,259**	**-**	**2,259**	48,798	371	-	371

a) Breakdown of transactions

2010		
Description	**Notional value**	**Equity value receivable / (payable)**
Swap	**24,723**	**1,757**
PRE x CDI	**10,123**	**265**
IPCA x CDI	**14,600**	**1,492**
Forwards	**29,358**	**502**
USD x EUR	**23,936**	**825**
USD x CAD	**1,002**	**(62)**
USD x AUD	**466**	**(101)**
USD x GBP	**1,293**	**110**
USD x JPY	**912**	**(102)**
USD x CHF	**1,434**	**(149)**
USD x NOK	**225**	**(13)**
USD x NZD	**90**	**(6)**
Total	**54,081**	**2,259**

The Bank carries out derivative operations in the futures market - Stock Exchange, Commodities and Future (BM&FBOVESPA), which are exclusively tied to future foreign currency indexes and which notional value at December 31, 2010 totals R$ 169,833 (R$ 55,182 in 2009), having computed an adjustment receivable of R$ 94 (R$ 9 in 2009).

(In thousands of reais)

7. Derivative financial instruments (Continued)

b) The derivative financial instruments mature as follows:

	2010				
Description	**Up to 3 months**	**3 to 6 months**	**6 t 12 months**	**Above 12 months**	**Total**
Swaps	**18**	**24**	**55**	**1,660**	**1,757**
Forwards	**502**	**-**	**-**	**-**	**502**

The fair market value of these derivatives is calculated considering Specialized Exchange quotes, and in certain cases pricing techniques are used.

The market prices were determined based on the following:

- Futures, NDFs and options: market quotes disclosed by Stock Exchanges;
- Swaps: each counterparty cash flow 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 principally used as instruments to limit fund-raising rates due to mismatches in terms, currencies and/or indexes with active operations.

c) Guarantee margin

The following assets are pledged as guarantee margin to have derivatives operations carried out:

	2010	**2009**
National Treasury Bills - LTN	**1,515**	17,531
Financial Treasury Bills - LFT	**15,423**	14,938
National Treasury Notes - NTN	**52,144**	12,323
Gold	**25,925**	-
	95,007	44,792

(In thousands of reais)

7. Derivative financial instruments (Continued)

d) Income from derivative financial instruments

Income from derivatives operations at the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Futures	**1,661**	13,589
Swap	**1,727**	139
Non-deliverable forwards– NDF	**2,301**	2,038
Options	**(1,163)**	-
	4,526	15,766

8. Risk management

a) Credit risk

The Financial Conglomerate adopts a stringent set of procedures for credit analysis and risk ratings, primarily focused on payment capacity, nature of operations, guarantees provided, debt schedule, quality of assets and interest and working capital coverage. Qualitative aspects, such as strategic guidance, economic sector, market, specialization, regulatory environment and market share are systematically evaluated and supplement the credit analysis process.

b) Market risk

In order to monitor market risk, the Value at Risk (V@R) is calculated on a daily basis by using current statistical actuarial techniques so as to estimate potential financial losses for a day, taking into consideration that market behavior will be similar to what has recently happened. The V@R model deployed is based on the parametric assessment technique, with a one-day timeframe and a 95% (one-tailed) confidence interval.

Another market risk assessment approach is the Stress Test, aimed to analyze the impact of extreme variations on the prices of assets and derivatives. The objective of this approach is to protect the bank's assets under atypical market conditions which, although differing from the historical statistical standard, may be within the spectrum of possibilities deemed by management to be occasional events.

(In thousands of reais)

8. Risk management (Continued)

c) Liquidity risk

The Bank seeks to maintain a capital structure premised on compatible leverage and liquidity levels. To protect its liquidity, the Bank draws attention to dilution and low concentration of amounts and debtors, while managing asset and liability operations to ensure, as much as practicable, their matched maturities.

d) Operational risk

The Conglomerate's operational risk management and control process adopts methodologies aimed at identifying, evaluating, monitoring, controlling and mitigating operational risk as well as at collecting and addressing operating losses. After analysis and treatment by each area manager, this information is used as a basis for preparation of risk mitigation action plans later submitted for management approval.

9. Credit operations

At December 31, 2010 and 2009, credit operations are broken down as follows:

a) By type

	2010	2009
Credit operations:		
Discounted securities and loans	**272,761**	185,091
Vehicle financing	**58,789**	64,155
Rural and agroindustrial financing	**8,538**	11,068
Mortgage financing	**6,983**	9,730
	347,071	270,044
Other credits:		
Advances on exchange contracts (Note 10)	**26,034**	17,013
Debtors for purchase of assets (Note 11)	**4,108**	8,792
	30,142	25,805
Total credit operations	**377,213**	295,849
Allowance for loan losses	**(17,548)**	(32,450)
Allowance for other loan losses	**(1,849)**	(1,197)
Total allowance for loan losses	**(19,397)**	(33,647)
	357,816	262,202

(In thousands of reais)

9. Credit operations (Continued)

b) By business segment

	2010	2009
Private sector		
Rural	**8,538**	11,068
Manufacturing	**118,938**	49,983
Trade	**80,377**	33,332
Financial agents	**4,108**	8,791
Services	**116,019**	94,166
Individuals	**49,233**	98,509
Total	**377,213**	295,849

c) By maturity

	2010	2009
Amounts overdue	**20,979**	31,925
Amounts falling due		
within 90 days	**167,531**	96,917
91 - 180 days	**79,924**	68,220
181 - 360 days	**55,452**	41,651
above 360 days	**53,327**	57,136
Total	**377,213**	295,849

d) Portfolio as broken down by risk level

	Portfolio balances					
	2010				2009	
Level	Ordinary course	Overdue	Total	%	Total	%
A	**25,258**	**-**	**25,258**	**6.70**	21,513	7.27
B	**128,273**	**2,497**	**130,770**	**34.67**	49,070	16.59
C	**186,535**	**8,818**	**195,353**	**51.79**	172,573	58.33
D	**6,101**	**2,688**	**8,789**	**2.33**	19,152	6.47
E	**304**	**2,449**	**2,753**	**0.73**	5,883	1.99
F	**3,296**	**1,737**	**5,033**	**1.33**	7,739	2.62
G	**1,951**	**2,636**	**4,587**	**1.22**	6,046	2.04
H	**256**	**4,414**	**4,670**	**1.24**	13,873	4.69
	351,974	**25,239**	**377,213**	**100.00**	295,849	100.00

	Provision							
	2010					2009		
Level	Provision %	Ordinary course	Overdue	Total	%	Provision %	Total	%
A	**0.50**	**126**	**-**	**126**	**0.65**	0.50	108	0.32
B	**1.00**	**1,283**	**25**	**1,308**	**6.74**	2.00	981	2.92
C	**3.00**	**5,596**	**265**	**5,861**	**30.21**	4.00	6,903	20.52
D	**10.00**	**610**	**269**	**879**	**4.53**	10.00	1,915	5.69
E	**30.00**	**91**	**735**	**826**	**4.26**	30.00	1,765	5.25
F	**50.00**	**1,648**	**869**	**2,517**	**12.97**	50.00	3,869	11.50
G	**70.00**	**1,366**	**1,844**	**3,211**	**16.55**	70.00	4,233	12.58
H	**100.00**	**256**	**4,414**	**4,670**	**24.08**	100.00	13,873	41.23
		10,976	**8,421**	**19,397**	**100.00**		33,647	100.00

(In thousands of reais)

9. Credit operations (Continued)

e) Changes in allowance for loan losses

	2010	2009
Balance at beginning of year	**33,647**	20,654
As set up, net of reversals	**31,662**	58,696
Loans written off against losses	**(45,912)**	(45,703)
Balance at end of year	**19,397**	33,647

In the year ended December 31, 2010, as permitted by Resolution No. 2682/99 management started adopting the double count of terms assumption to set up an allowance for overdue loan which provides for a total term higher than 36 months.

As a consequence of this procedure in substitution for the one formerly adopted, Allowance for loan losses had a reversal in the amount of R$ 7,271.

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2010 total R$ 1,165 (R$ 2,346 in 2009).

Recovered loans in the year ended December 31, 2010 total R$ 8,340 (R$ 6,013 in 2009).

g) Credit assignments

As set forth in National Monetary Council (CMN) Resolution No. 2686/00, the Bank also assigned without guarantee credits overdue originated from loan and financing operations, for the amount of R$ 5,176 (R$ 4,338 in 2009) at December 31, 2010. This was a related-party operation carried out with Paulista Companhia Securitizadora de Créditos Financeiros, which nominal amounts adjusted for accounting purposes totaled R$ 24,192 (R$ 37,639 in 2009). A provision therefor was set up in the amount of R$ 24,192 (R$ 35,007 in 2009).

The credit assignment amount was set based on a valuation report prepared by an independent professional services firm. The loss on the assignment in the amount of R$ 19,016 (R$ 33,300 in 2009) was debited as “Income from credit operations”. Concomitantly, the respective allowance for loan losses was reversed.

9. **Credit operations** (Continued)

g) Credit assignments (Continued)

In the year ended December 31, 2010 the Bank neither performed credit operations assigned with guarantee nor has there been any repurchases of previously assigned credits.

For the year ended December 31, 2009, credit operations assigned with guarantee corresponded to the net amount of R$ 302,301, resulting in a gain of R$ 56,585 and accounted for as “Income from credit operations”. The balances of commissions paid upon taking out the assigned operations to be allocated to P&L on the assignment dates in the amount of R$ 4,225 were directly posted to P&L under “Other operating expenses”.

Also in year 2009, operations formerly assigned to company Paulista Companhia Securitizadora de Créditos Financeiros were repurchased for the total amount of R$ 765. These operations were recorded under "Credit operations" for the amount of R$ 8,686 (present value of these operations, calculated based on each repurchased agreement at their original rates), in which income of R$ 7,921 was computed and recorded under the heading "Income from credit operations". Concomitantly, an allowance for loan losses was set up in the amount of R$ 8,686. The commissions paid upon taking out these repurchased operations amounted to R$ 244.

At December 31, 2010, the balance of credit operations assigned with guarantee and recorded in memorandum accounts totals R$ 196,670 (R$ 346,181 in 2009). An allowance for losses was set up on these operations under the same criteria set forth in Resolution No. 2682/99, totaling R$ 26,815 (R$ 25,368 in 2009), and accounted for as “Other liabilities – sundry” (Note 17c).

(In thousands of reais)

9. Credit operations (Continued)

h) Income from credit operations

	2010	2009
Discounted securities and loans	**46,137**	63,658
Financing	**10,961**	87,318
Recovery of loans written off as loss	**8,340**	6,013
Rural and agroindustrial financing	**633**	642
Mortgage financing	**563**	758
Foreign currency financing	**384**	20
Advances to deposit holders	**36**	53
	67,054	158,462
Losses on assigned credits	**(19,016)**	(33,301)
Total income from credit operations	**48,038**	125,161

10. Foreign exchange portfolio

Assets	**2010**	**2009**
Current		
Exchange purchases pending settlement	**148,841**	25,291
Exchange sale rights	**97,822**	5,340
Foreign and local currency advances received	**(2,495)**	(2,826)
Income receivable from advances given (Note 9a)	**353**	341
	244,521	28,146

Liabilities		
Current		
Exchange sales pending settlement	**96,146**	5,312
Exchange purchase duties	**150,286**	26,080
Advances on exchange contracts (Note 9a)	**(25,681)**	(16,671)
Other	**226**	158
	220,977	14,879

(In thousands of reais)

11. Other credits - Sundry

	2010	2009
Current		
Taxes recoverable	**7,615**	13,135
Tax credits (Note 25b)	**19,653**	17,363
Sundry debtors in the country	**2,964**	6,823
Debtors for purchase of assets (Note 9a)	**3,017**	5,156
Securities and credits receivable	**487**	440
Other	**118**	156
	33,854	43,073
Noncurrent		
Tax credits (Note 25b)	**59,150**	49,755
Debtors for purchase of assets (Note 9a)	**1,091**	3,636
Debtors for guarantee deposits (Note 28b)	**6,439**	5,448
Securities and credits receivable	**4,382**	3,954
	71,062	62,793

12. Other assets

	2010	2009
Current		
Assets not in use – vehicles	**15,486**	23,717
Prepaid expenses (*)	**10,025**	6,535
(-)Valuation allowance – assets not in use	**(4,150)**	(9,433)
	21,361	20,819
Noncurrent		
Prepaid expenses (*)	**6,533**	5,372
	6,533	5,372

(*) Includes the amount of R$ 15,285 referring to the amount paid in connection with the special agreement for assigned credits overdue – from loans and financing operations performed by the Bank (Notes 3m and 26).

(In thousands of reais)

13. Investments in subsidiaries and affiliates

Refers exclusively to interest held in subsidiary SOCOPA - Sociedade Corretora Paulista S.A.

The main information concerning its subsidiary is as follows:

	2010	2009
Number of shares held	**1,200**	1,200
Capital	**25,531**	25,531
Shareholders' equity	**42,219**	40,451
Net income for the year	**1,025**	3,998
Proposed dividends	**256**	999
Shareholding (%)	**100%**	100%
Investment balance	**42,219**	40,451
Equity pickup	**1,025**	3,998

14. Deposits

	2010					2009
	W/o maturity	1-90 days	91-360 days	Above 360 days	Total	Total
Demand	**66,251**	**-**	**-**	**-**	**66,251**	41,584
Interbank	**-**	**81,379**	**403**	**1,734**	**83,516**	96,957
Time	**-**	**182,046**	**174,926**	**210,768**	**567,740**	431,720
Other	**1,067**	**-**	**-**	**-**	**1,067**	1,008
	67,318	**263,425**	**175,329**	**212,502**	**718,574**	571,269

15. Funds obtained in open market

	2010	2009
Own portfolio		
Financial Treasury Bills - LFT	**-**	688
National Treasury Bills - LTN	**98,523**	132,729
National Treasury Notes - NTN	**-**	63,526
	98,523	196,943
Third-party portfolio		
Financial Treasury Bills - LFT	**70,225**	-
National Treasury Notes - NTN	**61,955**	160,739
	132,180	160,739
	230,703	357,682

(In thousands of reais)

16. Borrowings and onlending, and Exchange acceptances and issuance of securities

	2010					2009
	W/o maturity	1 - 90 days	91 - 360 days	Above 360 days	Total	Total
Borrowings						
Foreign loans (i)	**-**	**119,622**	**11,588**	**-**	**131,210**	109,220
Onlending						
Local borrowings – Official Institutions (ii)	**36,710**	**276**	**551**	**6,156**	**43,693**	62,037
	36,710	**119,898**	**12,139**	**6,156**	**174,903**	171,257

(i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. These fixed rates range from 2.88% to 8.00% per annum, depending on volumes, terms and market conditions. These interest rates apply solely on the amount of R$ 20,876. The remaining balance is only subject to foreign exchange rate change, 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.

(In thousands of reais)

17. Other liabilities

a) Tax and social security

	2010	2009
Current		
Taxes and contributions payable	**1,579**	1,973
Taxes and contribution taxes on income	**-**	23,894
	1,579	25,867
Noncurrent		
Taxes and contributions payable	**3,309**	2,413
Provision for tax risks (Note 28b)	**51,698**	42,178
	55,007	44,591

b) Subordinated debts

Noncurrent	
Capital-eligible subordinated debts (i)	**21,348**
	21,348

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

c) Sundry

	2010	2009
Current		
Received advances on assigned credits	**26,416**	42,720
Provision for credits assigned with guarantee (Note 9g)	**26,815**	25,368
Provisions for amounts payable	**4,882**	6,414
Other amounts payable	**11,820**	14,202
	69,933	88,704
Noncurrent		
Provisions for amounts payable	**939**	133
Provision for contingent liabilities (Note 28b)	**2,504**	1,090
	3,443	1,223

(In thousands of reais)

18. Equity

a) Capital

At December 31, 2010, fully subscribed paid-in capital is comprised of 198,731,760 registered shares with no par value, represented by 99,365,880 common shares and 99,365,880 preferred shares.

b) Dividend distribution

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

c) Accumulated losses

In the year ended December 31, 2010, the Bank accounted for loss of R$ 18,511 (loss of R$ 13,292 in 2009). In addition, there are no retained earnings pending allocation pursuant to Resolution No. 3605/08.

d) Legal reserve

This reserve is established at the rate of 5% of net income for the year, and shall not exceed 20% of paid-up capital.

19. Expenses with funds obtained in the market

	2010	**2009**
Time deposits	**51,872**	41,633
Funds obtained in open market	**23,898**	25,118
Contributions to Central Bank deposit reserves (FGC)	**2,076**	1,265
Interbank deposits	**8,608**	10,198
Financial bills	**1,347**	
	87,801	78,214

(In thousands of reais)

20. Service revenues

	2010	2009
Securities trading and placement commission	**4,071**	8,831
Exchange operation fees	**10,514**	3,817
Banking service fees	**5,545**	9,348
Custody services	**4,030**	924
Other services	**519**	419
	24,679	23,339

21. Other administrative expenses

	2010	2009
Transportation	**8,221**	4,801
Specialized technical services	**4,214**	5,204
EDP	**4,667**	4,407
Communications	**2,286**	2,048
Financial System	**1,754**	2,805
Rentals	**1,670**	1,651
Advertising and publicity	**922**	952
Third-party services	**637**	885
Maintenance and upkeeping	**308**	688
Materials	**203**	448
Other	**1,968**	2,264
	26,850	26,153

22. Other operating income

	2010	2009
Negative variation on gold borrowings	**-**	2,199
Reversal of operating provisions	**5,577**	1,069
Interest on National Treasury securities issued to cover court-ordered debts	**475**	4,393
Recovered charges and expenses	**153**	-
Monetary variations on judicial deposits	**400**	349
Income from guarantees provided	**326**	299
Monetary gains	**274**	162
Other	**135**	646
	7,340	9,117

(In thousands of reais)

23. Other operating expenses

	2010	2009
Amortization and depreciation	**1,084**	1,079
Commissions on financing contracts	**10,517**	15,601
Monetarily restated advances received on assigned credits	**10,139**	7,498
Monetarily restated taxes and contribution taxes	**4,608**	3,341
Credit operation consulting services	**16,785**	20,410
Provision for loss on credits assigned with guarantee	**1,446**	10,152
Expenses with CDC contract recovery	**13,168**	12,917
Valuation allowance – BNDU	**-**	6,811
Provision for losses on customers	**2,079**	711
Other	**2,578**	2,019
Total	**62,404**	80,539

24. Non-operating income (loss)

Largely comprised of loss on disposition of assets not for use (BNDU), inuring to the Bank's benefit as a result of unpaid retail credit facilities.

(In thousands of reais)

25. Income and social contribution taxes

a) Reconciliation of income tax (IRPJ) and social contribution tax (CSLL) expenses

	2010	2009
Loss before income tax, social contribution tax and employees' profit or gain sharing	**(30,196)**	(23,403)
Temporary add-backs and exclusions:	**29,212**	85,680
Provision for credits assigned with guarantee	**1,446**	9,841
Securities adjusted to market	**(2,027)**	602
Allowance for loan losses (*)	**31,662**	57,217
Losses on credit operations – Law No. 9430 (*)	**(6,444)**	-
Provision for tax risks	**8,744**	10,375
Provision for contingent liabilities	**1,414**	532
Reversal of BNDU provision	**(5,478)**	7,226
Other temporary add-backs and exclusions	**(105)**	(113)
Permanent add-backs and exclusions:	**984**	(2,205)
Equity pickup – subsidiary	**(1,025)**	(3,998)
Other permanent add-backs and exclusions	**2,009**	1,793
	-	60,072
Basis of assessment	**-**	
Income tax	**-**	14,994
Tax incentive deductions	**-**	(111)
Income tax - current amounts	**-**	14,883
Social contribution tax – current amounts	**-**	9,011
Deferred tax assets	**(11,685)**	(34,005)
Total income and social contribution taxes	**(11,685)**	(10,111)

(*) Identification of losses on deductible credits for income and social contribution taxes computation purposes has been reformulated in the course of 2010, and the results achieved allowed the Bank to identify deductible credits in certain cases. This process is scheduled for completion in year 2011.

(In thousands of reais)

25. Income and social contribution taxes (Continued)

b) Tax credits

Changes in tax credits in the year are as follows:

Description	Balance at 12/31/2009	Changes	Balance at 12/31/2010
Income tax			
Temporary differences			
Allowance for loan losses	24,039	6,209	**30,248**
Provision for tax risks and for contingencies	9,471	2,446	**11,917**
Provision for credits assigned with guarantee	6,342	514	**6,856**
Other	2,695	(1,866)	**829**
Total	42,547	7,303	**49,850**
Social contribution tax			
Temporary differences			
Allowance for loan losses	14,423	3,725	**18,148**
Provision for tax risks and for contingencies	4,727	1,467	**6,194**
Provision for credits assigned with guarantee	3,805	309	**4,114**
Other	1,616	(1,119)	**497**
Total	24,571	4,382	**28,953**

The tax credits are to be offset within the term allowed by Resolution No. 3355/06, conditioned to the nature of the generated credit. Tax and contribution tax credits were established only on temporarily nondeductible differences. The Bank has no income and social contribution tax losses.

The present value of tax credits at December 31, 2010 is R$ 58,788 (R$ 52,751 in 2009), 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 its projected results, which consider the business plan developments described in Note 1, 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 timely considered in the financial statements.

(In thousands of reais)

25. Income and social contribution taxes (Continued)

b) Tax credits (Continued)

Tax credits are expected to be realized as follows:

	2010						
	2011	**2012**	**2013**	**2014**	**2015**	**2020**	**Total**
Allowance for loan losses	**16,082**	**16,082**	**16,082**	**-**	**-**	**-**	**48,246**
Provision for tax risks and for contingencies	**-**	**-**	**-**	**-**	**-**	**18,261**	**18,261**
Provision for credits assigned with guarantee	**3,656**	**3,656**	**3,657**	**-**	**-**	**-**	**10,969**
Other	**(85)**	**353**	**353**	**353**	**353**	**-**	**1,327**
Total	**19,653**	**20,091**	**20,092**	**353**	**353**	**18,261**	**78,803**
Present value	**18,329**	**17,433**	**16,276**	**267**	**250**	**6,233**	**58,788**

26. Transactions with related parties

The transactions with related parties were carried out under market conditions as to terms and charges, and are broken down as follows:

	Assets (liabilities)		Income (expense)	
	2010	**2009**	**2010**	**2009**
Prepaid expenses (*)	**15,285**	-	**-**	-
Demand deposits	**(227)**	(891)	**-**	-
Time deposits	**(111,126)**	(84,198)	**(16,437)**	(16,384)
Interbank deposits	**(39,716)**	(53,636)	**(4,862)**	(4,875)
Funds obtained in open market	**-**	(33,660)	**-**	(649)
Debtors (creditors) - account pending settlement	**521**	11	**-**	-
Financial bill – subordinated debt	**(21,348)**	-	**(1,348)**	-
Assigned bad debts, net of allowance for loan losses	**-**	-	**-**	1,706
Assigned credit repurchases, net of allowance for loan losses	**-**	-	**-**	(765)

(*) In December 2010, the Bank executed a special agreement with related-entity Paulista Companhia Securitizadora de Créditos Financeiros for assigned credits overdue from loans and financing operations carried out by the Bank. The Bank prepaid R$ 15,285 referring to the price equalization result, calculated based on the history of default on the portfolio subject of the assignment, which will be posted to P&L under “Other operating expenses”, as the special-agreement-related credits reach their maturities. These will occur, substantially, until December 2012.

(In thousands of reais)

26. 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 General Meeting (AGM) The Bank paid its management members the following short-term benefits:

	2010	2009
Fixed compensation	**2,393**	2,473
Social charges	**538**	556
Total	**2,931**	3,029

The Bank does not pay its key management personnel compensation identifiable as long-term or post-employment benefits, employment contract termination benefits, or share-based payment.

27. Collateral securities, pledges and guarantees to third parties

Liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits totaled R$ 218,021 at December 31, 2010 (R$ 373,455 in 2009). Any losses on these items are duly provided for.

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

a) Contingent assets

At December 31, 2010 and 2009, there are no claims which realization is assessed by management as probable.

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

b) <u>Contingent liabilities assessed as probable losses and legal obligations</u>

b.1) *Provisions for labor litigation*

Mainly referring 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 formerly adjudged by courts on the matter in dispute and the opinion of outside lawyers. Amounts assessed as probable risk of loss, as reliably estimated is fully provided for, including applicable charges.

b.2) *Provisions for civil litigation*

Mainly referring to civil lawsuits relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering and pecuniary damage and other law-enforcement proceedings. Provisions for CDC-related suits, 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 lawyers.

(In thousands of reais)

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

b) Contingent liabilities assessed as probable losses and legal obligations (Continued)

b.3) *Tax and social security provisions*

The provisions for tax and social security claims refer to judicial and administrative proceedings represented, substantially, by the following suit:

- Lawfulness of PIS and COFINS collection challenged in court, under the terms of Law No. 9718/98. The amount provided for this suit is R$ 47,955 (R$ 38,914 in 2009), recorded in noncurrent liabilities under "Other tax and social security obligations."

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

	Provision for contingencies				
	Labor	**Civil**	**Tax**	**2010**	**2009**
Balance at beginning of year	**165**	**925**	**42,179**	**43,269**	35,444
Setup	**116**	**2,116**	**9,830**	**12,062**	8,261
Realizations/reversals	**(56)**	**(762)**	**(311)**	**(1,129)**	(436)
Balance at end of year	**225**	**2,279**	**51,698**	**54,202**	43,269

	Judicial deposits				
	Labor	**Civil**	**Tax**	**2010**	**2009**
Balance at beginning of year	**170**	**199**	**5,079**	**5,448**	3,914
Restatements	**-**	**440**	**550**	**990**	1,538
Balance at end of year	**170**	**639**	**5,629**	**6,438**	5,452

c) Contingent liabilities assessed as possible losses

At December 31, 2010, contingent liabilities classified as possible losses are represented by 115 civil, tax and labor claims that total R$ 11,353, based on the amounts attributed to the respective suits brought by claimants (and not necessarily representing a possible loss) being largely represented by the following:

- Actions claiming review of loan and financing contractual clauses;
- Actions for indemnification deriving from financial transactions; and
- Labor claims.

(In thousands of reais)

28. 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 Banco Paulista's P&L and operations.

29. Operational limits

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

Credit risk	70,606
Foreign exchange exposure risk	-
Interest rate risk	-
Operational risk	8,842
Required capital	79,448
Reference assets	96,177
Banking portfolio risk	1,489
Assets margin	**15,240**

The Basel index for the Financial Conglomerate as at December 31, 2010, 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, corresponds to 13.07 %.

In June 2010, Banco Paulista S.A. – the Conglomerate's leader – obtained funds from issuance of Financial Bills containing subordination clauses, for purposes of classification as tier 2 capital, pursuant to Resolution No. 3444/07 (Note 17b).

30. Other information

The Bank has an agreement for clearing and settlement of obligations within the National Financial System, pursuant to Resolution No. 3263. At December 31, 2010, out of the interbank deposits outstanding balance, the amount of R$ 11,788 (R$ 19,323 in 2009) is conditioned to collateralizing certain credit operations assigned with guarantee.

Pursuant to the terms and benefits provided by the Tax Amnesty Program published by the Federal Government by way of Law No. 11941/09, the Bank's management enrolled with the program and, grounded on PGFN/RFB joint administrative ruling No. 2 of February 3, 2011, will adopt the debt consolidation schedule therein provided.