

# **Financial Statements**

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

December 31, 2012 and 2011  
with Independent Auditor's Report

**Banco Paulista S.A.**

Financial Statements

December 31, 2012 and 2011

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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**

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## **Independent auditor's report on financial statements**

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

We have audited the accompanying financial statements of Banco Paulista S.A. (the "Bank"), which comprise the balance sheet as at December 31, 2012 and the related income statements, statements of changes in equity and cash flow statements 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 the financial institutions authorized to operate by the Central Bank of Brazil (BACEN) and also in accordance with the 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 these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

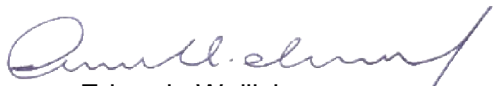
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Paulista S.A. at December 31, 2012, the performance of its operations and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil.

**Emphasis of a matter**

Without changing our opinion, we emphasize the fact that, at December 31, 2012, the Bank have recorded tax credits from income and social contribution taxes amounting to R\$82,114 thousand, as disclosed in Note 25 (b) of the financial statements. The realization of these credits depend on the generation of future tax profit, according to the budgetary plan prepared and approved by Management.

São Paulo de March 04, 2013.

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



Eduardo Wellichen  
Accountant CRC-1SP184050/O-6

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**Banco Paulista S.A.**

Balance sheets  
December 31, 2012 and 2011  
(In thousands of reais)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets	<b>1,022,287</b>	1,168,696
Cash and cash equivalents	<b>187,409</b>	131,505
Local currency	<b>59,469</b>	7,113
Foreign currency	<b>127,940</b>	124,392
Interbank investments	<b>249,140</b>	241,791
Open market investments	<b>208,509</b>	218,319
Interbank deposits	<b>40,631</b>	23,472
Marketable securities and derivative financial instruments	<b>96,244</b>	256,294
Own portfolio	<b>74,773</b>	104,748
Linked to repurchase agreements	<b>10,304</b>	68,735
Linked to guarantees given	<b>11,167</b>	80,400
Derivative financial instruments	-	2,411
Interbank accounts	<b>27,380</b>	74,995
Linked credits	<b>27,380</b>	26,184
Correspondent	-	48,811
Loans	<b>129,080</b>	260,196
Loans - private sector	<b>140,576</b>	279,521
(-) Allowance for loan losses	<b>(11,496)</b>	(19,325)
Other receivables	<b>330,583</b>	189,160
Foreign exchange portfolio	<b>275,934</b>	146,397
Securities trading and brokerage	<b>15,904</b>	273
Sundry assets	<b>39,975</b>	43,410
(-) Allowance for losses on other receivables	<b>(1,230)</b>	(920)
Other values and goods	<b>2,451</b>	14,755
Prepaid expenses	<b>2,182</b>	7,810
Other values and goods	<b>269</b>	9,114
(-) Allowance for depreciations	-	(2,169)
Long-term receivables	<b>253,854</b>	130,231
Marketable securities and derivative financial instruments	<b>136,918</b>	458
Own portfolio	<b>95,199</b>	-
Linked to guarantees given	<b>40,164</b>	-
Derivative financial instruments	<b>1,555</b>	458
Loans	<b>24,740</b>	44,903
Loans - private sector	<b>26,943</b>	48,238
(-) Allowance for loan losses	<b>(2,203)</b>	(3,335)
Other receivables	<b>92,196</b>	84,870
Sundry	<b>92,196</b>	84,870

## Banco Paulista S.A.

Balance sheets (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

	<u>2012</u>	<u>2011</u>
Permanent	<u>86,753</u>	86,054
Investments	<u>83,107</u>	<u>82,294</u>
Interest in subsidiaries and affiliates	82,016	81,053
Other investments	1,343	1,493
(-) Provision for losses	(252)	(252)
Property and equipment in use	<u>2,773</u>	<u>3,179</u>
Land and building in use	957	957
Other property and equipment in use	5,203	5,404
(-) Accumulated depreciation	(3,387)	(3,182)
Intangible	<u>873</u>	<u>581</u>
Intangible assets	1,252	764
(-) Accumulated amortizations	(379)	(183)
Total assets	<u><u>1,362,894</u></u>	<u><u>1,384,981</u></u>

	<b>2012</b>	<b>2011</b>
Liabilities and equity		
Current liabilities	<b>1,040,010</b>	1,001,607
Deposits	<b>452,866</b>	482,903
Demand deposits	<b>94,790</b>	56,894
Interbank deposits	<b>118,090</b>	117,322
Term deposits	<b>239,986</b>	308,687
Fundraising in the open market	<b>152,737</b>	211,580
Own portfolio	<b>10,265</b>	68,248
Third-party portfolio	<b>142,472</b>	143,332
Interdepartmental and interbank accounts	<b>16,139</b>	12,550
Correspondent	<b>740</b>	925
Third-party funds in transit	<b>15,399</b>	11,625
Borrowings and onlending	<b>63,556</b>	64,544
Foreign currency liabilities	<b>22,723</b>	15,268
Local onlending – official institutions	<b>40,833</b>	49,276
Other liabilities	<b>354,712</b>	230,030
Collection and transfer of taxes and alike	<b>357</b>	330
Foreign exchange portfolio	<b>261,567</b>	129,196
Income and social security taxes	<b>51,359</b>	31,003
Social and statutory	<b>7,500</b>	4,275
Securities trading and brokerage	<b>12,563</b>	36,989
Derivative financial instruments	<b>419</b>	-
Sundry	<b>20,947</b>	28,237
Long-term payables	<b>186,485</b>	264,048
Deposits	<b>125,657</b>	182,001
Term deposits	<b>125,657</b>	182,001
Borrowings and onlending	-	1,051
Local onlending – official institutions	-	1,051
Other liabilities	<b>60,828</b>	80,996
Tax and social security liabilities	<b>10,620</b>	52,963
Subordinated debt	<b>47,568</b>	24,309
Sundry	<b>2,640</b>	3,724
Equity	<b>136,399</b>	119,326
Capital – local residents	<b>127,000</b>	127,000
Capital reserve	<b>97</b>	97
Income reserve	<b>8,843</b>	-
Accumulated losses	-	(7,771)
Adjustment to market value – Marketable securities and derivatives	<b>459</b>	-
Total liabilities	<b>1,362,894</b>	1,384,981

See accompanying notes.

## Banco Paulista S.A.

### Income statements

December 31, 2012 and 2011 and

Six-month period ended December 31, 2012

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

	Year		
	2H2012	2012	2011
Income from financial intermediation	<b>115,599</b>	<b>252,296</b>	308,466
Loans operations	<b>19,341</b>	<b>47,962</b>	76,625
Income (loss) from marketable securities	<b>33,164</b>	<b>75,754</b>	117,169
Income (loss) from derivative financial instruments	<b>(1,403)</b>	<b>(7,797)</b>	(1,150)
Income (loss) from foreign exchange transactions	<b>64,497</b>	<b>136,377</b>	115,822
Expenses with financial intermediation	<b>(44,347)</b>	<b>(108,298)</b>	(192,112)
Funding	<b>(28,534)</b>	<b>(70,215)</b>	(106,310)
Borrowings and onlending	<b>(8,339)</b>	<b>(16,929)</b>	(20,335)
Allowance for loan losses	<b>(7,474)</b>	<b>(21,154)</b>	(65,467)
Gross income from financial intermediation	<b>71,252</b>	<b>143,998</b>	116,354
Other operating income (expenses)	<b>(45,207)</b>	<b>(99,724)</b>	(94,365)
Income from services rendered	<b>24,802</b>	<b>37,371</b>	31,436
Personnel expenses	<b>(20,727)</b>	<b>(40,005)</b>	(34,716)
Other administrative expenses	<b>(28,431)</b>	<b>(54,526)</b>	(48,271)
Tax expenses	<b>(6,873)</b>	<b>(13,043)</b>	(15,307)
Income from interest in subsidiaries and affiliates	<b>4,445</b>	<b>963</b>	(1,448)
Other operating revenues	<b>6,715</b>	<b>13,295</b>	25,458
Other operating expenses	<b>(25,138)</b>	<b>(43,779)</b>	(51,517)
Operating income	<b>26,045</b>	<b>44,274</b>	21,989
Non-operating income (expenses)	<b>8,014</b>	<b>6,638</b>	(2,669)
Income before taxes on profit and profit sharing	<b>34,059</b>	<b>50,912</b>	19,320
Income and social contribution taxes	<b>(10,228)</b>	<b>(18,112)</b>	(5,247)
Provision for income tax	<b>3,871</b>	<b>(1,680)</b>	(14,221)
Provision for social contribution tax	<b>1,716</b>	<b>(1,704)</b>	(9,066)
Deferred tax assets	<b>(15,815)</b>	<b>(14,728)</b>	18,040
Profit sharing	<b>(1,192)</b>	<b>(1,640)</b>	(704)
Net Income for the six-month period/year	<b>22,639</b>	<b>31,160</b>	13,369
Interest on equity	<b>(7,046)</b>	<b>(7,046)</b>	(5,031)
Earnings per thousand shares - R\$	<b>103.50</b>	<b>142.46</b>	61.12

See accompanying notes.



## Banco Paulista S.A.

### Statements of changes in equity December 31, 2012 and 2011 and Six-month period ended December 31, 2012 (In thousands of reais)

	Capital	Capital reserve	Income reserve		Adjustment to market value	Retained earnings (accumulated losses)	Total
			Legal reserve	Statutory reserve			
Balances at December 31, 2010	107,000	97	2,402	-	-	(18,511)	90,988
Net income for the year	-	-	-	-	-	13,369	13,369
Capital increase	20,000	-	-	-	-	-	20,000
Setting up of reserves	-	-	312	-	-	(312)	-
Loss offsetting	-	-	-	-	-	-	-
Legal reserve	-	-	(2,714)	-	-	2,714	-
Interest on equity	-	-	-	-	-	(5,031)	(5,031)
Balances at December 31, 2011	127,000	97	-	-	-	(7,771)	119,326
Changes for the year	20,000	-	(2,402)	-	-	10,740	28,338
Balances at December 31, 2011	127,000	97	-	-	-	(7,771)	119,326
Net income for the year	-	-	-	-	-	31,160	31,160
Legal reserve	-	-	818	-	-	(818)	-
Statutory reserve	-	-	-	8,025	-	(8,025)	-
Interest on equity	-	-	-	-	-	(7,046)	(7,046)
Dividends	-	-	-	-	-	(7,500)	(7,500)
Adjustment to market value – Marketable securities and derivatives	-	-	-	-	459	-	459
Balances at December 31, 2012	127,000	97	818	8,025	459	-	136,399
Changes for the year	-	-	818	8,025	459	7,771	17,073
Balances at June 30, 2012	127,000	97	38	712	-	-	127,847
Net income for the six-month period	-	-	-	-	-	22,639	22,639
Legal reserve	-	-	780	-	-	(780)	-
Statutory reserve	-	-	-	7,313	-	(7,313)	-
Interest on equity	-	-	-	-	-	(7,046)	(7,046)
Dividends	-	-	-	-	-	(7,500)	(7,500)
Adjustment to market value – Marketable securities and derivatives	-	-	-	-	459	-	459
Balances at December 31, 2012	127,000	97	818	8,025	459	-	136,399
Changes for the six-month period	-	-	780	7,313	459	-	8,552

See accompanying notes.

## Banco Paulista S.A.

### Cash flow statements December 31, 2012 and 2011 and Six-month period ended December 31, 2012 (In thousands of reais)

	Year		
	2H2012	2012	2011
Adjusted net income for the six-month period/year	41,030	62,675	43,332
Net income (loss) for six-month period/year	22,639	31,160	13,369
Adjusts to reconcile net income with net cash	18,391	31,515	29,963
Allowance for doubtful accounts	7,474	21,154	65,467
Provision for deferred income and social contribution taxes	15,815	14,728	(18,041)
Depreciation and amortization	500	1,004	1,010
Income from interest in subsidiaries	(4,445)	(964)	1,448
Reversal of operating provisions	(4,920)	(9,863)	(23,029)
Monetary restatement of advances received on assigned credits - retail	1,947	2,963	3,108
Allowance for losses on retail assigned credits with guarantee	902	902	-
Reversal of provision for tax risks	659	1,132	-
MTM adjustment	459	459	-
Asset and liability variations			
Decrease (increase) in short-term interbank investments	(12,871)	(10,249)	11,042
Decrease (increase) in marketable securities	(14,119)	22,276	62,791
Decrease (increase) in interbank accounts	(1,056)	51,204	104,964
Decrease (increase) in loans	44,076	132,304	(41,973)
Decrease (increase) in other receivables	193,237	(165,657)	92,527
Decrease in other assets	10,532	21,395	33,709
Decrease (increase) in derivative financial instruments	491	1,733	(612)
(Decrease) increase in other liabilities	(202,386)	99,870	(95,500)
(Decrease) in deposits	(18,125)	(86,381)	(53,670)
(Decrease) in liabilities for repurchase transactions	(9,937)	(58,843)	(19,123)
Net cash from (used in) operating activities	30,872	70,327	137,487
Cash flow from investing activities			
Capital increase in subsidiaries	-	-	(40,026)
Capital increase	-	-	20,000
Acquisition of property and equipment in use	(160)	(470)	(922)
Investments in intangible assets	(381)	(488)	(419)
Disposal of property and equipment in use (net book value)	10	70	-
Disposal of intangible assets	-	-	121
Disposal of investments	150	150	-
Net cash (used in) investing activities	(381)	(738)	(21,246)
Cash flow from financing activities			
Interest on equity	(7,046)	(7,046)	(5,031)
Dividends proposed	(7,500)	(7,500)	-
(Decrease) in borrowings and onlending	(27,099)	(2,039)	(109,308)
(Decrease) in funds from acceptance and issue of securities	(20,007)	-	-
Net cash used in financing activities	(61,652)	(16,585)	(114,339)
(Decrease) increase in cash and cash equivalents	(31,161)	53,004	1,902
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the six-month period/year	449,321	365,156	363,254
Cash and cash equivalents at the end of the six-month period/year	418,160	418,160	365,156
	(31,161)	53,004	1,902

See accompanying notes.

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

Notes to financial statements  
December 31, 2012 and 2011  
(In thousands of reais)

### **1. Operations**

Banco Paulista (Bank) is a privately-held company established as a commercial bank and engaged in corporate loans, international trade and financial exchange transactions and provision of custody services, in addition to management of funds, including the structure for sale and distribution operations.

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, pursuant to the accounting guidelines stemming from Brazilian Corporation Law No. 6404/76, and the changes brought by Laws No. 11638/07 and No. 11491/09, in conformity with the standards laid down by the Central Bank of Brazil (BACEN), and are presented in accordance with the Chart of Accounts for Institutions of the National Financial System (COSIF).

Accounting estimates are prepared considering factors and assumptions based on Management judgment. Significant items subject to these estimates and assumptions include the provision for the adjustment of assets to probable realizable or recoverable values, allowance 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 from those estimated due to inaccuracies inherent to their determination process. Management reviews these estimates and assumptions at least on a half-yearly basis.

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

#### **a) Determination of profit and loss**

Revenues and expenses are recognized on an accrual basis, and revenues and expenses of financial nature are recognized on a daily *pro rata* basis.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting policies (Continued)**

a) Determination of profit and loss (Continued)

Revenues and expenses of financial nature are determined based on the exponential method, except for those referring to discounted securities or related to foreign operations, which are determined under the straight-line method. Fixed rate transactions are recorded at redemption value and income and expenses corresponding to future periods are recorded as a reduction of respective assets and liabilities. Transactions carried out at floating rates are restated to balance sheet date based on agreed-upon indexes.

b) Cash and cash equivalents

As set out by Resolution No. 3604/08, cash and cash equivalents include cash, bank deposits, and highly liquid short-term investments that pose low risk of change in value and limits, redeemable within 90 (ninety) days from 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 Circular Letter No. 3068/01, portfolio marketable securities are classified into the following categories in accordance with management intention:

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

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting policies (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 comprise futures, forward and swap transactions are carried under the following criteria:

- Future transactions - daily adjustments are recorded as assets or liabilities and appropriated as income or expense 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 in relation to the terms of the contracts through balance sheet date;
- Swap transactions - differences receivable or payable are recorded as assets or liabilities respectively and appropriated to income or expenses on a pro-rata basis through balance sheet date.

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

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting policies (Continued)**

#### **d) Loans and allowance for loan losses**

Lease transactions are classified according to Management judgment as to their underlying risk level, taking into consideration the economic scenario, past experience and specific risk related to the operation, debtors and guarantors, in compliance with the parameters established by Resolution No. 2682/99, which requires periodic analysis of the portfolio and its classification into nine levels from "AA" (lowest risk) to "H" (loss).

Income from loans overdue for more than 60 days, regardless of the risk level, is only recognized when effectively received.

Operations classified as level "H" remain under such classification for 180 days, when they are charged against the existing allowance, controlled for five years in memorandum accounts and do not feature on the balance sheet.

Renegotiated transactions are kept at least at the same level they had been rated. Renegotiated loans that had been written off against their allowance and posted to memorandum accounts are classified into the "H" level and any gains on renegotiation will only be recognized as revenue when effectively received.

The Bank opted for the 'double count of terms' prescribed in Resolution No. 2682/99 to determine the risk level for above-36-month-term operations. The allowance for loan losses is deemed sufficient by management and complies with the requirements established by Resolution No. 2682/99, as shown in Note 9.

#### **e) Impairment of non-financial assets**

The accounting record of assets shall evidence events or changes in economic, operating or technological circumstances which may indicate impairment. When evidence of impairment is found and the net book value of assets exceeds their recoverable value, a provision is set up adjusting their 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 on a half yearly basis.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting policies (Continued)**

f) Investments

Investments in subsidiaries are measured by the equity method.

Other investments are carried at acquisition cost, net of provision for investment loss, when applicable.

g) 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.

Fixed asset (tangible assets) items are recorded at their acquisition cost. Property and equipment depreciation is calculated under the straight-line method at a 20% yearly rate for vehicles and data processing systems, and at a 10% yearly rate for other items.

Intangible assets comprise acquired rights to assets of this nature intended or exercised for maintaining Bank activities. These are valued at acquisition cost, less accumulated amortization and impairment losses, where applicable. Intangible assets with defined useful lives are amortized considering their effective use or under a method that reflects their economic benefits, while those of undefined useful lives are annually tested for impairment.

h) 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.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting policies (Continued)**

i) Income and social contribution taxes

Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) are applicable, they are calculated based on 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 the six-month period) and social contribution at the rate of 15%.

Income and social contribution taxes were calculated on temporary additions and exclusions. Tax credits on temporary additions will be realized upon use and/or reversal of their respective provisions for which they were set up and are based on current expectations of realization and considering the technical studies and management analyses.

j) Foreign exchange transactions

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

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

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 not recognized in the financial statements, except when there is evidence providing guarantee of their realization, on which further appeals can no longer be filed.

*Contingent liabilities* - These are recognized in the financial statements when, in the opinion of legal counsel and management, the likelihood of loss on judicial or administrative proceedings is deemed probable, implying a probable outflow of funds for settlement of obligations, and when the amounts are measurable in a sufficiently reliable manner. Contingent liabilities classified by legal advisors as possible losses are only disclosed in notes, whereas those classified as remote losses do not require provision or disclosure.



## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 3. Summary of significant accounting policies (Continued)

k) Contingent assets and liabilities and legal, tax and social security claims  
(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.

l) 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 December 31, 2012 and 2011, cash and cash equivalents are as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents - local currency	59,469	7,113
Cash and cash equivalents - foreign currency	127,940	124,392
Open market investments	208,509	218,319
Investment in interbank deposits	22,242	15,332
<b>Cash and cash equivalents</b>	<b><u>418,160</u></b>	<b><u>365,156</u></b>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 5. Interbank investments

#### a) Repurchase agreements

	2012		2011
	1 to 30 days	Total	Total
<b>Open market investments</b>			
<b>Self-funding position:</b>	<b>66,035</b>	<b>66,035</b>	74,986
Financial Treasury Bills (LFT)	14,039	14,039	56,750
National Treasury Bills (LTN)	28,583	28,583	15,503
National Treasury Notes (NTN)	23,413	23,413	1,157
Agrarian Debt Bonds (TDA)	-	-	1,576
<b>Finance position:</b>	<b>142,474</b>	<b>142,474</b>	143,333
Financial Treasury Bills (LFT)	142,474	142,474	143,333
<b>Total</b>	<b>208,509</b>	<b>208,509</b>	218,319

At December 31, 2012, income from repurchase agreements amounted to R\$18,741 (R\$24,657 in 2011).

#### b) Investment in interbank deposits

	2012	2011
Maturity within 90 days	22,242	15,550
From 90 to 360 days	18,389	7,922
Over 360 days	-	-
<b>Total</b>	<b>40,631</b>	23,472

At December 31, 2012, income from interbank investments amounted to R\$3,919 (R\$1,404 in 2011).

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 6. Marketable securities

#### a) Marketable securities - breakdown by type

	2012		2011	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
<b>Trading securities</b>				
<b>Own portfolio - free</b>	<b>70,202</b>	<b>74,773</b>	98,638	101,637
Financial Treasury Bills (LFT)	14,309	14,312	10,225	10,243
National Treasury Bills (LTN)	55,047	55,191	6,669	6,887
National Treasury Notes (NTN)	-	-	81,247	83,943
Agrarian Debt Bonds (TDA)	89	101	497	564
Investment fund shares	247	247	-	-
Shares of listed companies	510	4,922	-	-
<b>Linked to repurchase agreements</b>	<b>7,636</b>	<b>7,656</b>	66,659	68,735
Financial Treasury Bills (LFT)	-	-	3,581	3,580
National Treasury Bills (LTN)	7,636	7,656	31,229	32,246
National Treasury Notes (NTN)	-	-	31,849	32,909
<b>Linked to guarantees given</b>	<b>15,306</b>	<b>15,308</b>	79,738	80,400
Financial Treasury Bills (LFT)	15,306	15,308	25,254	25,279
National Treasury Bills (LTN)	-	-	16,481	17,018
National Treasury Notes (NTN)	-	-	4,040	4,174
Gold in guarantee	-	-	33,963	33,929
<b>Total securities held for trading</b>	<b>93,144</b>	<b>97,737</b>	245,035	250,772
<b>Available for sale</b>				
<b>Own portfolio - free</b>	<b>88,124</b>	<b>95,199</b>	-	-
National Treasury Notes (NTN)	88,124	95,199	-	-
<b>Linked to repurchase agreements</b>	<b>2,451</b>	<b>2,648</b>	-	-
National Treasury Notes (NTN)	2,451	2,648	-	-
<b>Linked to guarantees given</b>	<b>33,346</b>	<b>36,023</b>	-	-
National Treasury Notes (NTN)	33,346	36,023	-	-
<b>Total securities available for sale</b>	<b>123,921</b>	<b>133,870</b>	-	-
<b>Securities held to maturity</b>				
<b>Own portfolio - free</b>	-	-	3,111	3,111
Investment fund shares (iii)	-	-	3,111	3,111
<b>Total securities held to maturity</b>	-	-	3,111	3,111
<b>Total</b>	<b>217,065</b>	<b>231,607</b>	248,146	253,883

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### **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.

##### (iii) *Investments in subordinated shares of credit assignment funds*

The Bank had investments in subordinated shares of Paulista Credit Assignment Investment Fund - Vehicles II, which was closed on July 19, 2011, and subordinated shares of F IX Credit Assignment Invest Fund - multi-segments, managed by BEM Distribuidora de Títulos e Valores Mobiliários, and administered by BRAM - Bradesco Asset Management S.A. - DTVM, which was closed on December 19, 2011, both due to acceleration in maturities.

Due to the full redemption of shares of Paulista Credit Assignment Investment Fund - Vehicles II, the Bank repurchased credit operations previously assigned by the total amount of R\$32,036. These operations were recorded under Credit operations, amounting to R\$31,164 (present value of these operations, calculated based on the original rates of each repurchased contract), with a loss of R\$872, recognized as debt under Funds expenses.

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 6. Marketable securities (Continued)

#### a) Marketable securities - Breakdown by type (Continued)

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

Due to the termination of F IX Credit Assignment Invest Fund - multi-segments, the Bank repurchased credit operations previously assigned by the total amount of R\$15,373. These operations were recorded under Credit operations, amounting to R\$15,211 (present value of these operations, calculated based on the original rates of each repurchased contract), with a loss of R\$ 162, recognized as debt under Funds expenses.

##### (iv) *Reclassification of marketable securities*

On July 2, 2012, Banco Paulista reclassified National Treasury Notes (NTN) from category "Held for Trading" to "Available for Sale" in order to align the marketable securities portfolio with the new Treasury strategy. As from this date, the marked to market adjustments will be directly allocated under equity. Were reclassified 55,000 thousand marketable securities.

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

	2012				2011	
	No maturity	Within 3 months	From 3 to 12 months	Over 12 months	Total	Total
Financial Treasury Bills (LFT)	-	14,066	4,336	11,218	29,620	39,102
National Treasury Bills (LTN)	-	-	62,847	-	62,847	56,151
National Treasury Notes (NTN)	-	-	-	133,870	133,870	121,026
Agrarian Debt Bonds (TDA)	-	-	98	3	101	564
Shares of listed companies	4,922	-	-	-	4,922	-
Gold in guarantee	-	-	-	-	-	33,929
Investment fund shares	247	-	-	-	247	3,111
<b>Total</b>	<b>5,169</b>	<b>14,066</b>	<b>67,281</b>	<b>145,091</b>	<b>231,607</b>	<b>253,883</b>

At December 31, 2012, income from marketable securities totaled R\$53,094 (R\$91,108 in 2011).

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 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.

At December 31, 2012 and 2011, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2012				2011			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Swap	14,600	1,555	-	1,555	14,600	458	-	458
Forwards (NDF)	60,282	-	(419)	(419)	36,344	2,411	-	2,411
<b>Total</b>	<b>74,882</b>	<b>1,555</b>	<b>(419)</b>	<b>1,136</b>	<b>50,944</b>	<b>2,869</b>	<b>-</b>	<b>2,869</b>

#### a) Breakdown of transactions

Description	Notional value	Equity value receivable (payable)
<b>Swap</b>	<b>14,600</b>	<b>1,555</b>
IPCA x CDI	14,600	1,555
<b>Forwards</b>	<b>60,282</b>	<b>(419)</b>
USD x EUR	27,213	(409)
USD x CAD	538	-
USD x AUD	169	-
USD x GBP	1,321	(21)
USD x JPY	344	20
USD x CHF	621	-
USD x NOK	7	-
USD x NZD	118	(1)
CHF x USD	-	(8)
In USD	29,951	-
<b>Total</b>	<b>74,882</b>	<b>1,136</b>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 7. Derivative financial instruments (Continued)

#### a) Breakdown of transactions (Continued)

The Bank carries out transactions involving derivative financial instruments in the futures market - Stock Exchange, Commodities and Future (BM&FBOVESPA), which are exclusively tied to future foreign currency indexes for which notional value at December 31, 2012 totals R\$75,471 (R\$71,441 in 2011), and an adjustment payable of R\$270 (R\$273 in 2011) was computed.

#### b) The derivative financial instruments mature as follows

Description	2012		Total
	Within 3 months	Over 12 months	
Swaps	-	1.555	1.555
Forwards (NDF)	419	-	419

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

Market prices were determined based on the following:

- Futures, NDFs and options: market quotes provided by Stock Exchanges
- Swaps: the cash flow of each counterparty was discounted to present value, according to the respective interest curves obtained from BM&FBOVESPA interest rates.

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

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 7. Derivative financial instruments (Continued)

#### c) Guarantee margin

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

	<u>2012</u>	<u>2011</u>
National Treasury Bills (LTN)	-	17,018
Financial Treasury Bills (LFT)	<b>15,308</b>	25,279
National Treasury Notes (NTN)	<b>36,023</b>	4,174
Gold	-	33,929
	<b>51,331</b>	<b>80,400</b>

#### d) Income (loss) from derivative financial instruments

Income (loss) from derivatives operations in the year ended December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Futures	<b>(6,064)</b>	(4,569)
Swap	<b>1,097</b>	(242)
Non-deliverable forwards (NDF)	<b>(2,830)</b>	3,661
	<b>(7,797)</b>	<b>(1,150)</b>

### 8. Risk management

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

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

- Operating and business context, in order to identify, analyze, assess, treat, communicate and monitor risks;
- Governance structure, which features three specialized committees and associated forums having periodical agendas with formalization of relevant decisions;
- Organizational structure based on definition of specific assignments, assuring the functions segregation and independence.



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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### **8. Risk management (Continued)**

The Board of Officers, made up of statutory officers, always have shared jurisdiction to make decisions with an impact on the business and, in the associated forums, decisions are made based on the majority of votes.

The Bank adopts an integrated risk management, approaching the Bank's minimum capital needs and financial capacity. The risks are broken down according to their nature: liquidity, credit, market and operating risk.

#### a) Liquidity risk

This is originated by mismatches of volumes and deadlines, between rights and obligations, which make the settlement of financial liabilities impossible. To mitigate this risk, the Banks assesses its exposures from time to time and sets a security cushion, or minimum liquidity.

The liquidity risk management has the purpose of providing funds and managing investments and fundraisings in the short- and long-term. In the short-term, the diversification of fund sources is prioritized. In the long-term, the temporary matching between fundraisings and investments is prioritized. The practices adopted comply with CMN Resolution No. 2804 and 4090.

#### b) Credit risks

Credit risk arises on default of credit rights and effective disbursement of funds to settle financial liabilities. To mitigate this risk, the Bank assesses its exposure from time to time, as well as the credit rating of its customers and counterparties, thus setting limits and guarantees to cover any losses.

The purpose of the credit risk management is previously evaluating the risk level and monitoring the diversification and guarantees set up, enabling the mitigation of financial losses. The practices adopted comply with CMN Resolution No. 3721.

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

Notes to financial statements (Continued)  
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### **8. Risk management (Continued)**

c) Market risk

The market risk occurs and the positions held have their value changes due to changes in market prices. To mitigate this risk, the Bank assesses, from time to time, the trend and behavior of the financial indicators and market prices and the exposure to them, also checking the need to sell or trade new operations.

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

d) Operating risk

The operating risk arises from internal and external frauds, labor claims, inadequate processes and practices with customers or in relation to products and services, undue interruption of the entity's activities, system and process failures and non-compliance with contractual or regulatory terms. To mitigate this risk, from time to time, the Bank compiles and categorizes these events and monitors the efficiency of the improvement plans adopted.

The purpose of the operating risk management is gathering 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.

e) Capital management

Capital management includes the prospective process to monitor and control the entity's capital, including the planning and projection of capital needs goals, consistently with trade and business strategies, for coverage of the risks thereof.

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

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 8. Risk management (Continued)

#### e) Capital management (Continued)

The purpose of the capital management is monitoring, planning and maintaining capital at compatible levels with the incurred risks, consistently with the budget plan, business goals and strategies. The practices adopted comply with CMN Resolution No. 3490 and 3988.

### 9. Loans

At December 31, 2012 and 2011, loan transactions are as follows:

#### a) By type

	<u>2012</u>	<u>2011</u>
<b>Loans:</b>		
Discounted securities and loans	<b>154,546</b>	265,565
Financing	<b>5,478</b>	57,867
Financing - foreign currency	<b>7,495</b>	-
Mortgage financing	-	4,327
	<b>167,519</b>	327,759
<b>Other:</b>		
Advances on exchange contracts (Note 10)	<b>12,014</b>	14,686
	<b>12,014</b>	14,686
<b>Total credit loans</b>	<b>179,533</b>	342,445
Allowance for loan losses	<b>(13,699)</b>	(22,660)
Allowance for losses on other receivables	<b>(1,230)</b>	(920)
<b>Total</b>	<b>(14,929)</b>	(23,580)
	<b>164,604</b>	318,865

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 9. Loans (Continued)

#### b) By business segment

	<u>2012</u>	<u>2011</u>
Private sector		
Manufacturing	80,243	134,054
Trade	57,015	99,523
Services	32,858	62,338
Individuals	9,417	46,530
Total	<u>179,533</u>	<u>342,445</u>

#### c) By maturity

	<u>2012</u>	<u>2011</u>
Amounts overdue	12,215	16,045
Amounts falling due		
Within 90 days	55,595	169,646
From 91 to 180 days	91,828	74,436
From 181 to 360 days	-	39,153
Over 360 days	19,895	43,165
Total	<u>179,533</u>	<u>342,445</u>

#### d) Portfolio broken down by risk level

Level	Portfolio balances					
	2012				2011	
	Ordinary course	Overdue	Total	%	Total	%
A	3,118	-	3,118	1.74	4,622	1.35
B	74,684	172	74,856	41.69	123,995	36.21
C	78,328	3,851	82,179	45.77	188,412	55.02
D	924	516	1,440	0.80	5,174	1.51
E	6,804	599	7,403	4.12	3,818	1.11
F	238	1,456	1,694	0.94	2,229	0.65
G	506	680	1,186	0.66	1,027	0.30
H	11	7,646	7,657	4.26	13,168	3.85
	<u>164,613</u>	<u>14,920</u>	<u>179,533</u>	<u>100.00</u>	<u>342,445</u>	<u>100.00</u>

Level	Provision							
	2012					2011		
	Provision %	Ordinary course	Overdue	Total	%	Provision %	Total	%
A	0.50	15	-	15	0.10	0.50	23	0.10
B	1.00	747	2	749	5.02	1.00	1,240	5.26
C	3.00	2,350	116	2,466	16.52	3.00	5,652	23.97
D	10.00	92	52	144	0.96	10.00	517	2.19
E	30.00	2,041	179	2,220	14.87	30.00	1,145	4.86
F	50.00	119	728	847	5.67	50.00	1,115	4.72
G	70.00	355	476	831	5.57	70.00	719	3.05
H	100.00	11	7,646	7,657	51.29	100.00	13,169	55.85
		<u>5,730</u>	<u>9,199</u>	<u>14,929</u>	<u>100.00</u>		<u>23,580</u>	<u>100.00</u>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 9. Loans (Continued)

#### e) Changes in allowance for loan losses

	<u>2012</u>	<u>2011</u>
<b>At the beginning of the year</b>	<b>23,580</b>	19,397
As set up, net of reversals	<b>21,154</b>	65,467
Loans written-off against losses	<b>(29,805)</b>	(61,284)
<b>At the end of the year</b>	<b>14,929</b>	23,580

#### f) Renegotiated and recovered loans

Renegotiated loans for the year ended December 31, 2012 amount to R\$11,464 (R\$6,517 in 2011).

Recovered loans for the year ended December 31, 2012 amount to R\$7,855 (R\$8,780 in 2011).

#### g) Credit assignments

For the year ended June 30, 2012 and 2011, the Bank did not assign loans with guarantee.

For the year ended December 31, 2011, the Bank repurchased loans, previously transferred with guarantee, in the total amount of R\$24,897. R\$17,036 of this amount was recorded under "Loans" (present value of these operations calculated based on the original rates for each repurchased contract), for which a loss of R\$599 was recorded and charged to net income.

In accordance with Resolution No. 2686/00 issued by the National Monetary Council, in the year ended December 31, 2012, the Bank transferred matured loans without guarantees in the amount of R\$12,024 (R\$31,677 in 2011) from its loan and financing operations to Paulista Companhia Securitizadora de Créditos Financeiros, a related party whose restated amounts totaled R\$12,024 (R\$31,677 in 2011).

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 9. Loans (Continued)

#### g) Credit assignments (Continued)

At December 31, 2012, credits assigned with guarantees recorded in memorandum accounts totaled R\$19,803 (R\$61,407 in 2011). An allowance for loans losses was recorded for these operations, based on the same criteria established in Resolution No. 2682/99 and totaling R\$4,607 (R\$11,962 in 2011), recorded under "Other obligations - sundry" (Note 17c).

In 2011, the Bank sold to Paulista Companhia Securitizadora de Créditos Financeiros through assignment of credits without guarantee with the subsidiary SOCOPA Sociedade Corretora Paulista S.A., from intermediation operations and exposures in bank credit certificates, totaling R\$28,245.

#### h) Income from loans

	<u>2012</u>	<u>2011</u>
Discounted securities and loans	35,769	58,601
Financing	2,645	5,652
Recovery of loans written off to loss	7,855	8,779
Rural and agro industrial financing	-	344
Mortgage financing	-	410
Financing - foreign currency	1,439	3,335
Advances to deposit holders	242	103
Total income from loans	<u>47,950</u>	<u>77,224</u>
Income (loss) from credit assignment	<u>12</u>	<u>(599)</u>
Total Income from loans	<u>47,962</u>	<u>76,625</u>

### 10. Foreign exchange portfolio

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current</b>		
Foreign exchange receivable	96,958	62,683
Rights on foreign exchange sales	181,236	83,386
Advances received - foreign and local currency	(2,784)	(207)
Income receivable from advances granted (Note 9a)	524	535
	<u>275,934</u>	<u>146,397</u>
<b>Liabilities</b>		
<b>Current</b>		
Foreign exchange payable	176,073	83,324
Foreign exchange purchase payable	96,960	60,023
Advances on foreign exchange contracts (Note 9a)	(11,491)	(14,151)
Other	25	-
	<u>261,567</u>	<u>129,196</u>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 11. Other receivables - sundry

	2012	2011
<b>Current</b>		
Taxes recoverable	15,707	12,425
Tax credits (Note 25b)	7,356	24,598
Sundry debtors - domestic	16,058	5,697
Securities and credits receivable	565	513
Other	289	177
	<b>39,975</b>	<b>43,110</b>
<b>Non-current</b>		
Tax credits (Note 25b)	74,758	72,241
Debtors for guarantee deposits (Note 28b)	12,350	8,004
Securities and credits receivable	5,088	4,625
	<b>92,196</b>	<b>84,870</b>

### 12. Other assets

	2012	2011
<b>Current</b>		
Assets not in use - vehicles	269	9,114
Prepaid expenses (*)	2,182	7,810
Valuation allowance - assets not in use	-	(2,169)
	<b>2,451</b>	<b>14,755</b>

(\*) This includes the amount of R\$2,011 (R\$6,489 in 2011), referring to the amount paid due to a special contract 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 mainly to interest held in subsidiary SOCOPA - Sociedade Corretora Paulista S.A.

Detailed information about the subsidiary is as follows:

	2012	2011
Number of shares held	3,200	3,200
Capital	66,000	66,000
Equity	81,027	82,515
Net income (loss) for the year	958	(1,488)
Dividends proposed	-	-
Interest (%)	100%	100%
Investment balance	81,985	81,027
Equity pick-up	958	(1,488)

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 14. Deposits

	2012				2011	
	No maturity	1 to 90 days	91 to 360 days	Over 360 days	Total	Total
Demand	94,790	-	-	-	94,790	56,894
Interbank	-	106,133	11,956	-	118,089	117,322
Time	-	92,477	147,510	125,657	365,644	490,688
	<b>94,790</b>	<b>198,610</b>	<b>159,466</b>	<b>125,657</b>	<b>578,523</b>	<b>664,904</b>

### 15. Open market funding

	2012	2011
<b>Own portfolio</b>		
Financial Treasury Bills (LFT)	-	3,571
National Treasury Bills (LTN)	7,637	32,027
National Treasury Notes (NTN)	2,628	32,650
	<b>10,265</b>	<b>68,248</b>
<b>Third-party portfolio</b>		
Financial Treasury Bills (LFT)	-	143,332
National Treasury Bills (LTN)	142,472	-
	<b>142,472</b>	<b>143,332</b>
<b>Total</b>	<b>152,737</b>	<b>211,580</b>

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

	2012			2011	
	No maturity	1 to 90 days	Over 360 days	Total	Total
<b>Borrowings</b>					
Foreign borrowings (i)	-	20,674	2,049	22,723	15,268
<b>Onlending</b>					
Local onlending - official institutions (ii)	40,833	-	-	40,833	50,327
	<b>40,833</b>	<b>20,674</b>	<b>2,049</b>	<b>63,556</b>	<b>65,595</b>

- (i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. These fixed rate was 6.00% per annum, depending on volumes, terms and market conditions. This interest rate apply solely on the amount of R\$16,705. 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.



## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 17. Other liabilities

#### a) Income and social security taxes

	<u>2012</u>	<u>2011</u>
<b>Current</b>		
Taxes payable	47,670	7,717
Taxes and contributions on income	3,689	23,286
	<u>51,359</u>	<u>31,003</u>
<b>Noncurrent</b>		
Taxes and contributions payable	3,410	6,149
Provision for tax contingencies (Note 28b)	7,210	46,814
	<u>10,620</u>	<u>52,963</u>
	<u>61,979</u>	<u>83,966</u>

#### b) Subordinated debts

	<u>2012</u>	<u>2011</u>
<b>Noncurrent</b>		
Capital-eligible subordinated debts (i)	26,728	24,309
Capital-eligible subordinated debts (ii)	20,840	-
	<u>47,568</u>	<u>24,309</u>

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

(ii) This refers to 6-year-term Financial Bills provided by subordination clauses pursuant to Resolution No. 3444 on June 2012. This operation is remunerated at 115.00% of CDI.

#### c) Sundry

	<u>2012</u>	<u>2011</u>
<b>Current</b>		
Provision for credits assigned with guarantee (note 9g)	4,607	11,962
Provisions for amounts payable	10,627	6,869
Pending amounts to be settled - foreign exchange	1,016	3,538
Brokerage to credit - foreign exchange	841	1,051
Charges on funds received (PSH)	1,929	2,349
Other amounts payables	1,927	2,468
	<u>20,947</u>	<u>28,237</u>
<b>Non-current</b>		
Provisions for amounts payable	1,065	983
Provision for contingent liabilities (Note 28b)	1,575	2,741
	<u>2,640</u>	<u>3,724</u>
	<u>23,587</u>	<u>31,961</u>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 18. Equity

#### a) Capital

At December 31, 2012, the Bank's fully subscribed and paid-up capital is represented by 218,731,760 registered shares with no par value, divided into 109,365,880 common shares and 109,365,880 preferred shares.

The Special Shareholders' Meeting held on June 20, 2011 approved a capital increase amounting to R\$ 20,000. Bank capital increased from R\$107,000 to R\$127,000, through issue of 20,000,000 registered shares, divided into 10,000,000 common shares and 10,000,000 preferred shares with no par value, which were subscribed and paid in by the shareholders of Banco Paulista proportionate to the interest held. This capital increase was approved by the Brazilian Central Bank (BACEN) on July 5, 2011.

#### b) Dividends and interest on equity

The Articles of Incorporation establishes a minimum mandatory dividend of 25% on net income, calculated in accordance with the Corporation Law. In 2012, dividends amounting to R\$ 7,500 and interest on equity amounting to R\$7,046 (R\$5,031 in 2011) were paid.

#### c) Retained earnings

In accordance with Resolution No. 3605/08, net income calculated and not distributed in the year shall be allocated to the income reserve. At December 31, 2012, the income amount was R\$31,160 (R\$13,369 in 2011).

#### d) Legal reserve

The Bank shall allocate 5% of net income earned every fiscal year - not exceeding 20% of paid-up capital - to the legal reserve.

### 19. Market funding expenses

	<u>2012</u>	<u>2011</u>
Term deposits	39,222	67,957
Open market funding	15,195	20,230
Contributions to Central Bank deposit reserves (FGC)	1,850	2,402
Interbank deposits	10,689	12,758
Financial bills	3,259	2,963
	<u>70,215</u>	<u>106,310</u>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 20. Income from services rendered

	<u>2012</u>	<u>2011</u>
Investment funds administration	-	6,413
Foreign exchange operation charges	<b>7,988</b>	11,892
Bank charges	<b>8,098</b>	5,941
Business development	<b>7,674</b>	-
Custody services	<b>10,202</b>	6,907
Management of investment funds	<b>1,914</b>	-
Other services	<b>1,495</b>	283
	<b>37,371</b>	<b>31,436</b>

### 21. Other administrative expenses

	<u>2012</u>	<u>2011</u>
Transportation	<b>29,065</b>	27,103
Specialist technical services	<b>6,065</b>	5,308
Data processing	<b>9,418</b>	6,068
Communication	<b>1,525</b>	1,894
Financial system	<b>1,593</b>	1,809
Rent	<b>1,575</b>	1,398
Advertising and publicity	<b>520</b>	727
Third-party services	<b>705</b>	660
Materials	<b>251</b>	210
Other	<b>3,809</b>	3,094
	<b>54,526</b>	<b>48,271</b>

### 22. Other operating income

	<u>2012</u>	<u>2011</u>
Reversal of operating provisions	<b>9,093</b>	20,572
Reversal of provision for tax contingencies	<b>771</b>	2,458
Interest on National Treasury securities issued to cover court-ordered debts	<b>498</b>	267
Recovery of charges and expenses	<b>532</b>	83
Currency variation on judicial deposits	<b>1,324</b>	445
Income from guarantees provided	<b>208</b>	322
Monetary variation gains	<b>190</b>	641
Other	<b>679</b>	670
	<b>13,295</b>	<b>25,458</b>

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 22. Other operating expenses (Continued)

	<u>2012</u>	<u>2011</u>
Advisory for loan transactions	14,470	13,508
Expenses with recovery of Direct Consumer Credit (CDC) contracts	6,188	8,836
Equalization of assignment price (Note 3i)	4,478	8,796
Financial expenses - PSH	1,236	4,182
Monetary restatement of advances received on assigned credits	2,962	3,108
Monetarily restated taxes and contributions	4,231	2,509
Credit assignment losses	-	1,851
Disposal of BNDU	4,312	-
Provision for customer losses	1,132	1,471
Foreign exchange variation	849	1,300
Amortization and depreciation	1,004	1,009
Commission on financing agreements	1,249	951
Allowance for losses on retail assigned credits with guarantee	902	-
Other	766	3,996
<b>Total</b>	<b>43,779</b>	<b>51,517</b>

### 23. Non-operating income (expenses)

Comprised mainly by income from disposal of investments - R\$7,357 and appreciation of investment accounts - R\$633. Due to the losses on disposal of goods not for use (BNDU), obtained from defaulted retail loan transactions, amounting to R\$1,551 for the year ended December 31, 2012 (loss of R\$2,669 in 2011).

### 24. Income and social contribution taxes

#### a) Calculation of income and social contribution tax expenses

	<u>2012</u>	<u>2011</u>
Income before taxes and profit sharing	50,912	19,320
Interest on equity	(7,046)	(5,031)
Income before taxes	43,866	14,289
Temporary additions and exclusions	(36,845)	42,371
Provision for credits assigned with guarantee	(7,355)	(17,312)
Marketable securities marked to market	(4,324)	(3,236)
Allowance for loan losses	21,154	65,467
Reversal of allowance for loan losses	(42,375)	-
Provision for tax risks	(1,732)	2,086
Provision for contingent liabilities	-	308
Reversal of BNDU provision	(33)	(2,191)
Other temporary additions and exclusions	(2,180)	(2,751)

## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 24. Income and social contribution taxes (Continued)

#### a) Calculation of income and social contribution tax expenses (Continued)

	<u>2012</u>	<u>2011</u>
Permanent additions and exclusions:	<u>4,337</u>	3,776
Subsidiary equity pickup	<u>(963)</u>	1,448
Other permanent additions and exclusions	<u>5,300</u>	2,328
	<u>11,358</u>	60,436
Tax basis		
Income and social contribution tax	<u>3,553</u>	24,149
Deductions – tax grants	<u>(170)</u>	(862)
Income and social contribution taxes	<u>3,383</u>	23,287
Deferred tax assets	<u>14,728</u>	(18,040)
Total income and social contribution taxes	<u>18,111</u>	5,247

#### b) Tax credits

Changes in tax credits for the year are as follows:

	<u>12/31/2011</u>	<u>Set up</u>	<u>Realization / reversal</u>	<u>12/31/2012</u>
Allowance for losses on other receivables	74,578	8,462	(17,100)	<u>65,940</u>
Provision for tax contingencies	19,068	-	(546)	<u>18,522</u>
Provision for credits assigned with guarantee	4,044	-	(2,941)	<u>1,103</u>
Other	(851)	1,676	(4,356)	<u>(3,451)</u>
<b>Total tax credits</b>	<u>96,839</u>	<u>11,982</u>	<u>(26,707)</u>	<u>82,114</u>

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

Present value of the tax credits at December 31, 2012 is R\$62,784, as determined by reference to the CDI/CETIP rates prevailing in the related periods. Tax credits are assessed periodically based on the generation of taxable profit for income and social contribution tax purposes in an amount that renders it justifiable to record such amounts as assets.

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

## Banco Paulista S.A.

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

#### b) Tax credits (Continued)

Realization of tax credits is as follows:

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2021</b>	<b>Total</b>
Allowance for loan losses	7,771	9,886	12,036	12,891	14,335	9,021	65,940
Provision for tax contingencies	295	295	295	295	295	17,047	18,522
Provision for credits assigned with guarantee	1,103	-	-	-	-	-	1,103
Other	(3,462)	-	-	-	-	11	(3,451)
<b>Total</b>	<b>5,707</b>	<b>10,181</b>	<b>12,331</b>	<b>13,186</b>	<b>14,630</b>	<b>26,079</b>	<b>82,114</b>
<b>Present value</b>	<b>5,469</b>	<b>9,280</b>	<b>10,640</b>	<b>10,760</b>	<b>11,289</b>	<b>15,346</b>	<b>62,784</b>

### 25. Transactions with related parties

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

	<b>Asset (liability)</b>		<b>Income (expense)</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Prepaid expenses (*)	<b>2,011</b>	6,489	<b>(4,478)</b>	(8,796)
Cash deposits	<b>(1,993)</b>	(425)		
Term deposits	<b>(88,177)</b>	(123,498)	<b>(14,666)</b>	(16,021)
Interbank deposits	<b>(72,231)</b>	(47,485)	<b>(5,650)</b>	(5,541)
Open market funding	-	(26,009)	<b>(814)</b>	(700)
Debtors (creditors) – account pending settlement	<b>270</b>	-	-	-
Financial Bill – subordinated debt	<b>(26,728)</b>	(24,309)	<b>(3,259)</b>	(2,962)
Income from assignment of loan losses, net of provision for loan losses	-	-	-	983

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

## Banco Paulista S.A.

Notes to financial statements (Continued)  
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### 25. Transactions with related parties (Continued)

#### a) Key management personnel compensation

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

	<u>2012</u>	<u>2011</u>
Fixed compensation	<b>3,855</b>	3,329
Social charges	<b>867</b>	750
<b>Total</b>	<b><u>4,722</u></b>	<u>4,079</u>

The Bank offer no long-term and post-employment benefits, relating to termination or share-based payment to management.

### 26. Collateral securities, pledges and guarantees to third parties

At December 31, 2012, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R\$38,079 (R\$ 88,967 in 2011). Any losses on these items are duly provided for.

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

#### a) Contingent assets

At December 31, 2012 and 2011, there are no proceedings whose likelihood of loss is estimated as probable by Management.

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

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

#### b) Contingent liabilities classified as probable losses and legal obligations

##### b.1) *Labor*

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

##### b.2) *Civil*

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, pecuniary damage and other law-enforcement proceedings. 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 proceedings have their potential for loss analyzed individually, considering current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors.

##### b.3) *Income and social security*

Provisions for tax and social security proceedings are represented by judicial and administrative proceedings substantially represented by PIS and COFINS taxes in 2011.

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and elected the apportionment provided for by Law No. 11941/09. The amount recorded for this proceeding is R\$ 43,381, which was reallocated to "Other taxes payable".



## Banco Paulista S.A.

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 27. Contingent assets and liabilities and legal, tax and social security claims (Continued)

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

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

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

	Provision for contingencies			2012	2011
	Labor	Civil	Tax		
At the beginning of the year	220	2,520	46,814	49,554	54,202
Set up	100	1,148	3,779	5,027	5,279
Realization/reversal	(13)	(2,400)	(43,383)	(45,796)	(9,926)
At the end of the year	307	1,268	7,210	8,785	49,555

	Judicial deposits			2012	2011
	Labor	Civil	Tax		
At the beginning of the year	169	1,588	6,245	8,002	6,438
Restatements	-	241	124	365	1,567
Payments/reversals	-	2,756	1,227	3,983	(1)
At the end of the year	169	4,585	7,596	12,350	8,004

c) Contingent liabilities classified as possible losses

At December 31, 2012, contingent liabilities classified as possible losses are represented by 705 proceedings of a civil nature totaling R\$19,331; 11 proceedings of a labor nature totaling R\$255 and 8 proceedings of a tax nature totaling R\$5,502, based on the amounts attributed to respective suits brought by claimants (and not necessarily representing any possible loss) and which are mostly represented by the following:

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

## Banco Paulista S.A.

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

#### d) Regulatory bodies

The Bank is party to no ongoing administrative proceedings by the National Financial System which may significantly impact Banco Paulista's net income and operations.

### 28. Operating limits

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

Credit risks	47,728
Foreign exchange exposure risk	2,941
Operating risk	16,062
Minimum Required Capital	<u>66,731</u>
Reference equity	172,078
Banking portfolio risk	<u>1,633</u>
<b>Equity margin</b>	<b><u><u>103,714</u></u></b>

The Basel index for the Financial Conglomerate as at December 31, 2012, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 3444/07 and 3490/07, and Circular No. 3360/07, is 27.69%

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