Financial statements

Banco Paulista S.A.

December 31, 2013 and 2012
with Independent Auditor’s Report

Banco Paulista S.A.

Financial statements

December 31, 2013 and 2012

Contents

Building a better
working world

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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 Central Bank of Brazil

Independent auditor's report on financial statements

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

We have audited the accompanying financial statements of Banco Paulista S.A., which comprise the balance sheet as at December 31, 2013, 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 accounting practices adopted in Brazil, applicable to institutions authorized to operate by 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, conducted in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement on the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity'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.

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. as at December 31, 2013, and its operating performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by Central Bank of Brazil.

Emphasis of matter

Without modifying our opinion, we draw attention to the fact that as at December 31, 2013, the Bank recorded income and social contribution tax credits amounting to R$80,396 thousand (Note 25.b). Realization of these credits depends on the generation of future taxable profit, in accordance with the budget plan prepared and approved by management.

São Paulo, February 19, 2014.

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

Eduardo Wellichen
Accountant CRC-1SP184050/O-6

Banco Paulista S.A.

Balance sheets
December 31, 2013 and 2012
(In thousands of reais)

	2013	2012
Assets		
Current assets	**1,186,444**	1,022,287
Cash and due from banks	**250,356**	187,409
Local currency	**31,363**	59,469
Foreign currency	**218,993**	127,940
Interbank investments	**222,516**	249,140
Open market investments	**193,926**	208,509
Interbank deposits	**28,590**	40,631
Marketable securities and derivative financial instruments	**258,476**	96,244
Own portfolio	**66,921**	74,773
Linked to repurchase agreements	**119,699**	10,304
Linked to guarantees given	**69,501**	11,167
Derivative financial instruments	**2,355**	-
Interbank accounts	**20,743**	27,380
Restricted deposits	**20,743**	27,380
Loans	**215,833**	129,080
Loans - Private sector	**226,749**	140,576
(-) Allowance for loan losses	**(10,916)**	(11,496)
Other receivables	**217,032**	330,583
Foreign exchange portfolio	**162,264**	275,934
Securities trading and brokerage	**17,868**	15,904
Sundry	**37,935**	39,975
(-) Allowance for losses on other receivables	**(1,035)**	(1,230)
Other assets	**1,488**	2,451
Prepaid expenses	**129**	2,182
Other assets	**1,359**	269
Long-term receivables	**92,393**	253,854
Marketable securities and derivative financial instruments	**-**	136,918
Own portfolio	**-**	95,199
Linked to guarantees given	**-**	40,164
Derivative financial instruments	**-**	1,555

Banco Paulista S.A.

Balance sheets (Continued)
December 31, 2013 and 2012
(In thousands of reais)

	2013	2012
Loans	**8,630**	24,740
Loans - Private sector	**9,066**	26,943
(-) Allowance for loan losses	**(436)**	(2,203)
Other receivables	**83,763**	92,196
Sundry	**83,763**	92,196
Permanent assets	**88,746**	86,753
Investments	**84,611**	83,107
Investments in local affiliates and subsidiaries	**83,428**	82,016
Other investments	**1,435**	1,343
(-) Allowance for losses	**(252)**	(252)
Property and equipment in use	**3,031**	2,773
Land and buildings in use	**957**	957
Other property and equipment in use	**5,869**	5,203
(-) Accumulated depreciation	**(3,795)**	(3,387)
Intangible assets	**1,104**	873
Intangible assets	**1,765**	1,252
(-) Accumulated amortization	**(661)**	(379)
Total assets	**1,367,583**	1,362,894

	2013	2012
Liabilities and equity		
Current liabilities	**955,291**	1,040,010
Deposits	**383,053**	452,866
Demand deposits	**72,584**	94,790
Interbank deposits	**59,599**	118,090
Time deposits	**250,870**	239,986
Open market funding	**239,681**	152,737
Own portfolio	**119,254**	10,265
Third-party portfolio	**120,427**	142,472
Funds from acceptance and issue of securities	**44,610**	-
Real estate and mortgage notes	**44,610**	-
Interdepartmental and interbank accounts	**24,626**	16,139
Correspondent banks	**803**	740
Third-party funds in transit	**23,823**	15,399
Borrowings and onlending	**52,898**	63,556
Foreign currency liabilities	**29,884**	22,723
Local on-lending - official institutions	**23,014**	40,833
Other liabilities	**210,423**	354,712
Collection of taxes and other contributions	**487**	357
Foreign exchange portfolio	**157,876**	261,567
Income and social security	**3,734**	51,359
Social and statutory	**-**	7,500
Securities trading and brokerage	**27,262**	12,563
Derivative financial instruments	**448**	419
Sundry	**20,616**	20,947
Noncurrent liabilities	**265,339**	186,485
Deposits	**172,968**	125,657
Time deposits	**172,968**	125,657
Funds from acceptance and issue of securities	**100**	-
Funds and real estate and mortgage notes	**100**	-

	2013	2012
Other liabilities	**92,271**	60,828
Income and social security	**35,364**	10,620
Subordinated debt	**52,067**	47,568
Sundry	**4,840**	2,640
Equity	**146,953**	136,399
Capital - Brazilian residents	**127,000**	127,000
Capital reserve	**97**	97
Income reserves	**22,692**	8,843
Adjustment to market value – marketable securities and derivatives	**(2,836)**	459
Total liabilities and equity	**1,367,583**	1,362,894

See accompanying notes.

Banco Paulista S.A.

Income statements
Years ended December 31, 2013 and 2012 and six-month period ended December 31, 2013
(In thousands of reais, except for earnings per thousand shares)

	Six-month period	Years	
		2013	2012
Income from financial intermediation	**101,461**	**210,115**	252,296
Loans	**19,535**	**36,799**	47,962
Income from/(loss on) marketable securities	**23,928**	**55,288**	75,754
Income from/(loss on) derivative financial instruments	**(5,576)**	**(10,169)**	(7,797)
Income from/(loss on) foreign exchange transactions	**63,574**	**128,197**	136,377
Expenses from financial intermediation	**(51,841)**	**(99,440)**	(108,298)
Open market funding	**(38,525)**	**(68,395)**	(70,215)
Borrowings and onlending	**(7,045)**	**(15,435)**	(16,929)
Allowance for loan losses	**(6,271)**	**(15,610)**	(21,154)
Gross profit from financial intermediation	**49,620**	**110,675**	143,998
Other operating income (expenses)	**(39,044)**	**(81,649)**	(99,724)
Income from services rendered	**30,185**	**60,327**	37,371
Personnel expenses	**(24,109)**	**(46,721)**	(40,005)
Other administrative expenses	**(28,881)**	**(59,432)**	(54,526)
Tax expenses	**(6,304)**	**(14,784)**	(13,043)
Equity pickup from affiliates and subsidiaries	**818**	**1,411**	963
Other operating income	**10,386**	**18,413**	13,295
Other operating expenses	**(21,139)**	**(40,863)**	(43,779)
Operating income (expenses)	**10,576**	**29,026**	44,274
Nonoperating income (expenses)	**79**	**119**	6,638
Income before taxes and profit sharing	**10,655**	**29,145**	50,912
Income and social contribution taxes	**(953)**	**(7,203)**	(18,112)
Provision for income tax	**316**	**-**	(1,680)
Provision for social contribution tax	**202**	**-**	(1,704)
Deferred tax assets	**(1,471)**	**(7,203)**	(14,728)
Profit sharing	**(485)**	**(1,097)**	(1,640)
Net income for six-month period/years	**9,217**	**20,845**	31,160
Interest on equity	**(6,996)**	**(6,996)**	(7,046)
Earnings per thousand shares - R$	**31.99**	**95.30**	142.46

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
Years ended December 31, 2013 and 2012 and six-month period ended December 31, 2013
(In thousands of reais)

	Capital	Capital reserve	Income reserves: Legal reserve	Income reserves: Statutory reserve	Adjustment to market value	Retained earnings/ (accumulated losses)	Total
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 in the year	-	-	818	8,025	459	7,771	17,073
Balances at December 31, 2012	**127,000**	**97**	**818**	**8,025**	**459**	**-**	**136,399**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**20,845**	**20,845**
Legal reserve	**-**	**-**	**1,042**	**-**	**-**	**(1,042)**	**-**
Statutory reserve	**-**	**-**	**-**	**12,807**	**-**	**(12,807)**	**-**
Interest on equity	**-**	**-**	**-**	**-**	**-**	**(6,996)**	**(6,996)**
Adjustment to market value – marketable securities and derivatives	**-**	**-**	**-**	**-**	**(3,295)**	**-**	**(3,295)**
Balances at December 31, 2013	**127,000**	**97**	**1,860**	**20,832**	**(2,836)**	**-**	**146,953**
Changes in the year	**-**	**-**	**1,042**	**12,807**	**(3,295)**	**-**	**10,554**
Balances at June 30, 2013	**127,000**	**97**	**1,399**	**19,072**	**(2,604)**	**-**	**144,964**
Net income for six-month period	**-**	**-**	**-**	**-**	**-**	**9,217**	**9,217**
Legal reserve	**-**	**-**	**461**	**-**	**-**	**(461)**	**-**
Statutory reserve	**-**	**-**	**-**	**1,760**	**-**	**(1,760)**	**-**
Interest on equity	**-**	**-**	**-**	**-**	**-**	**(6,996)**	**(6,996)**
Adjustment to market value – marketable securities and derivatives	**-**	**-**	**-**	**-**	**(232)**	**-**	**(232)**
Balances at December 31, 2013	**127,000**	**97**	**1,860**	**20,832**	**(2,836)**	**-**	**146,953**
Changes in six-month period	**-**	**-**	**461**	**1,760**	**(232)**	**-**	**1,989**

See accompanying notes.

Banco Paulista S.A.

Cash flow statements
Years ended December 31, 2013 and 2012 and six-month period ended December 31, 2013
(In thousands of reais)

	Six-month period	Years 2013	Years 2012
Net income for six-month period/years	**16,560**	**39,688**	62,675
Net income for six-month period/years	**9,217**	**20,845**	31,160
Adjustments to reconcile net income to net cash	**7,343**	**18,843**	31,515
Allowance for loan losses	**6,271**	**15,610**	21,154
Deferred income and social contribution taxes	**1,471**	**7,203**	14,728
Depreciation and amortization	**515**	**1,010**	1,004
Equity pickup from subsidiaries	**(818)**	**(1,412)**	(964)
Reversal of provision for contingencies	**-**	**-**	(9,863)
Interest accrued on advances received on assigned credits - retail	**225**	**770**	2,963
Allowance for losses on assigned credits - retail	**(6,799)**	**(10,024)**	902
Reversal of provision for tax contingencies	**-**	**(2,285)**	1,132
Provision for civil, tax and labor contingencies	**6,478**	**7,971**	-
MTM adjustment	**-**	**-**	459
Changes in assets and liabilities			
Decrease (increase) in interbank investments	**12,614**	**(168)**	(10,249)
Decrease (increase) in marketable securities	**50,888**	**(27,964)**	22,276
Decrease in interbank accounts	**11,130**	**15,125**	51,204
(Increase) decrease in loans	**(51,109)**	**(86,253)**	132,304
Decrease (increase) in other receivables	**255,420**	**114,936**	(165,657)
(Increase) Decrease in other assets	**(297)**	**963**	21,395
Decrease (increase) in derivative financial instruments	**15,359**	**(771)**	1,733
(Decrease) increase in other liabilities	**(245,518)**	**(109,306)**	99,870
(Decrease) in deposits	**(54,103)**	**(22,502)**	(86,381)
Increase (decrease) in repurchase agreements	**6,758**	**86,944**	(58,843)
Net cash provided by operating activities	**17,702**	**10,692**	70,327
Cash flow from investing activities:			
Acquisition of property and equipment in use	**(794)**	**(1,189)**	(470)
Investments in intangible assets	**(402)**	**(514)**	(488)
Disposal of property and equipment in use (residual value)	**113**	**202**	70
Investing activities	**(44)**	**(92)**	150
Net cash (used in) investing activities	**(1,127)**	**(1,593)**	(738)
Cash flow from financing activities			
Interest on equity	**(6,996)**	**(6,996)**	(7,046)
Proposed dividends	**-**	**-**	(7,500)
(Decrease) increase in borrowings and onlending	**(45,245)**	**(10,658)**	(2,039)
(Decrease) increase in funds from acceptance and issue of securities	**44,710**	**44,710**	-
Net cash (used in) financing activities	**(7,531)**	**27,056**	(16,585)
Increase in cash and cash equivalents	**9,044**	**36,155**	53,004
Cash and cash equivalents			
Cash and cash equivalents at beginning of six-month period/years	**445,271**	**418,160**	365,156
Cash and cash equivalents at end of six-month period/years	**454,315**	**454,315**	418,160
	9,044	**36,155**	53,004

See accompanying notes.

1. Operations

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

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

2. Presentation of financial statements

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

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

3. Summary of significant accounting practices

a) Determination of profit and loss

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

3. Summary of significant accounting practices (Continued)

a) Determination of profit and loss (Continued)

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

b) Cash and cash equivalents

In accordance with Brazilian Monetary Council (CMN) Resolution No. 3.604/08, cash and cash equivalents includes cash, bank deposits and highly liquid short-term investments posing low risk of change in value or limits, maturing within 90 days from the investment date.

c) Interbank investments

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

d) Marketable securities and derivative financial instruments

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

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

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.

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

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

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

Derivative financial instruments which include option, future and swap transactions are recorded under the following criteria:

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

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

e) Loans and allowance for loan losses

Loans are classified according to management's judgment as to their underlying risk level taking into consideration the economic situation, past experience and specific risks related to the operation, debtors and guarantors, in accordance with the parameters established by Resolution No. 2682, which requires regular analyses of the portfolio and its grading into nine rating levels, from "AA" (minimum risk) to "H" (loss).

3. Summary of significant accounting practices (Continued)

e) Loans and allowance for loan losses (Continued)

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

Loans are rated as "H" for 180 days, when they are charged against the existing allowance and controlled in memorandum accounts for five years, no longer appearing in the balance sheet.

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

The Bank opted for the 'double count of terms' prescribed in Resolution No. 2682/99 to determine the risk level for above-36-month-term operations. The allowance for loan losses, considered sufficient by management, meets the requirements set forth in Resolution No. 2682 as demonstrated in Note 9.

f) Impairment of nonfinancial assets

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

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

g) Investments

Investments in subsidiaries are measured by the equity method.

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

3. Summary of significant accounting practices (Continued)

h) Property and equipment, deferred charges and intangible assets

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

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

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

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

These are stated at the amounts payable, considering interest payable up to balance sheet date, recognized on a daily pro rata basis. Foreign currency liabilities are calculated 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.

j) Income and social contribution taxes

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

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

3. Summary of significant accounting practices (Continued)

k) Foreign exchange operations

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

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

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

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 updated on a monthly basis.

m) Prepaid expenses

These refer mostly to the following prepaid amounts:

- commissions paid on loans and financing taken out, allocated to the income statement under “Other operating expenses”, over the same term of contracts originating them, or in full, when these credit facilities are granted;

(In thousands of reais)

3. Summary of significant accounting practices (Continued)

m) Prepaid expenses (Continued)

- 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, 2013 and 2012, cash and cash equivalents are as follows:

	2013	2012
Cash and cash equivalents - local currency	**31,363**	59,469
Cash and cash equivalents - foreign currency	**218,993**	127,940
Open market investments	**193,926**	208,509
Interbank deposits	**10,033**	22,242
Cash and cash equivalents	**454,315**	418,160

5. Interbank investments

a) Repurchase agreements

	2013		2012
	1-30 days	Total	Total
Open market investments			
Self-funded position:	**73,499**	**73,499**	66,035
Financial Treasury Bills (LFT)	**-**	**-**	14,039
National Treasury Bills (LTN)	**73,499**	**73,499**	28,583
National Treasury Notes (NTN)	**-**	**-**	23,413
Financed position:	**120,427**	**120,427**	142,474
Financial Treasury Bills (LFT)	**120,427**	**120,427**	142,474
Total	**193,926**	**193,926**	208,509

In the year ended December 31, 2013, income from repurchase agreements amounted to R$20,879 (R$18,741 in 2012).

(In thousands of reais)

5. Interbank investments

b) Interbank deposits

	2013	2012
Within 90 days	**10,033**	22,242
90 – 360 days	**18,557**	18,389
Total	**28,590**	40,631

In the year ended December 31, 2012, income from interbank investments amounted to R$1,592 (R$3,919 in 2012).

6. Marketable securities

a) Marketable securities – breakdown by type

	2013		2012	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Trading securities				
Own portfolio - free	**61,630**	**61,817**	70,202	74,773
Financial Treasury Bills (LFT)	**2,227**	**2,230**	14,309	14,312
National Treasury Bills (LTN)	**40,772**	**40,667**	55,047	55,191
Agrarian Debt Bonds (TDA)	**1,529**	**1,739**	89	101
Investment fund shares	**487**	**487**	247	247
Shares issued by publicly companies	**10,652**	**10,652**	510	4,922
ADRs	**5,963**	**6,042**	-	-
Linked to repurchase agreements	**35,485**	**35,463**	7,636	7,656
Financial Treasury Bills (LFT)	**26,536**	**26,538**	-	-
National Treasury Bills (LTN)	**8,949**	**8,925**	7,636	7,656
Linked to guarantees given	**25,049**	**24,997**	15,306	15,308
Financial Treasury Bills (LFT)	**4,244**	**4,245**	15,306	15,308
National Treasury Bills (LTN)	**20,805**	**20,752**	-	-
Total trading securities	**122,164**	**122,277**	93,144	97,737
Available for sale				
Own portfolio - free	**4,988**	**5,104**	88,124	95,199
National Treasury Notes (NTN)	**4,988**	**5,104**	88,124	95,199
Linked to repurchase agreements	**82,310**	**84,236**	2,451	2,648
National Treasury Notes (NTN)	**82,310**	**84,236**	2,451	2,648
Linked to guarantees given	**43,487**	**44,504**	33,346	36,023
National Treasury Notes (NTN)	**43,487**	**44,504**	33,346	36,023
Total securities available for sale	**130,785**	**133,844**	123,921	133,870
Total	**252,949**	**256,121**	217,065	231,607

(In thousands of reais)

6. Marketable securities (Continued)

a) Marketable securities – breakdown by type (Continued)

(i) *Cost value*

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

(ii) *Market value*

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

(iii) *Reclassification of marketable securities*

On July 02, 2012, Banco Paulista reclassified its National Treasury Notes (NTN) from the “held for trading” to the “Available for sale” category so as to adjust the notes portfolio to the new strategy adopted by the treasury department of the organization. As from this date, the market value adjustments are directly allocated to equity. A total 55,000 notes were reclassified.

b) Marketable securities – breakdown by maturity

	2013					2012
	No maturity	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total	Total
Financial Treasury Bills (LFT)	**-**	**22,892**	**8,856**	**1,263**	**33,011**	29,620
National Treasury Bills (LTN)	**-**	**70,345**	**-**	**-**	**70,345**	62,847
National Treasury Notes (NTN)	**-**	**133,773**	**-**	**72**	**133,845**	133,870
Agrarian Debt Bonds (TDA)	**-**	**460**	**881**	**398**	**1,739**	101
Shares issued by publicly companies	**10,652**	**-**	**-**	**-**	**10,652**	4,922
ADR'S	**6,042**	**-**	**-**	**-**	**6,042**	-
Investment fund shares	**487**	**-**	**-**	**-**	**487**	247
Total	**17,181**	**227,470**	**9,737**	**1,733**	**256,121**	231,607

In the year ended December 31, 2013, income from marketable securities amounted to R$32,817 (R$53,094 in 2012).

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

At December 31, 2013 and 2012, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2013				2012			
	Notional value	**Assets**	**Liabilities**	**Net**	**Notional value**	**Assets**	**Liabilities**	**Net**
Swap	**14,600**	**2,355**	**-**	**2,355**	14,600	1,555	-	1,555
Forwards (NDF)	**122,189**	**-**	**(448)**	**(448)**	60,282	-	(419)	(419)
Total	**136,789**	**2,355**	**(448)**	**1,907**	74,882	1,555	(419)	1,136

a) Breakdown of transactions

Description	**Notional value**	**Equity value receivable/(payable)**
Swap	**14,600**	**2,355**
IPCA v. CDI	14,600	2,355
Forwards	**122,189**	**(448)**
USD v. EUR	45,636	(632)
USD v. CAD	1,563	12
USD v. AUD	241	5
USD v. GBP	4,510	(105)
USD v. JPY	178	7
USD v. CHF	394	(7)
USD v. NOK	2	-
USD v. NZD	106	-
USD v. XAU	8,625	272
In USD	60,934	-
Total	**136,789**	**1,907**

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, 2013, totals R$149,064 (R$75,471 in 2012), and an adjustment payable of R$2,900 (R$270 in 2012) was recorded.

(In thousands of reais)

7. Derivative financial instruments (Continued)

b) Derivative financial instruments mature as follows:

	2013				2012
Description	**Within 3 months**	**From 3 to 12 months**	**Over 12 months**	**Total**	**Total**
Swaps	**-**	**2,355**	**-**	**2,355**	1,455
Forwards (NDF)	**(448)**	**-**	**-**	**(488)**	419

The market value of these derivative financial instruments is calculated based 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.

c) Guarantee margin

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

	2013	**2012**
National Treasury Bills (LTN)	**20,752**	-
Financial Treasury Bills (LFT)	**4,245**	15,308
National Treasury Notes (NTN)	**44,504**	36,023
	69,501	51,331

(In thousands of reais)

7. Derivative financial instruments (Continued)

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

Income from (loss on) derivative operations for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Futures	**(11,846)**	(6,064)
Swap	**1,590**	1,097
Forward transactions (NDF)	**(6)**	(2,830)
Forward transactions - gold	**93**	-
	(10,169)	(7,797)

8. Risk management

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

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

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

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

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

8. Risk management (Continued)

a) Liquidity risk

This risk derives from volume and term mismatches between rights and obligations, which prevent financial obligations from being honored and settled. In order to mitigate liquidity risk, the Bank periodically assesses its exposures and defines a security cushion, or minimum liquidity, which must be set and maintained by the Bank.

Liquidity risk is managed for funding purposes and for managing investments and funding over short- and long-term horizons. In the short-term, the diversification of fund sources is prioritized whereas in the long-term, the temporary matching between funding and investments is prioritized. The practices adopted comply the criteria set forth by CMN Resolution No. 4090/12.

b) Credit risk

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

The purpose of credit risk management is to previously measure risk level and to monitor the diversification and guarantees set up, enabling the mitigation of financial losses. The practices adopted comply with CMN Resolution No. 3721/09.

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

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

8. Risk management (Continued)

c) Operational risk

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

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

d) Capital management

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

Capital is to be understood as the set of the entity’s or third-party's long-term funds making up the Minimum Required Capital (PRE), subdivided into Tier I (Principal capital and supplementary capital) and Tier II (Hybrid instruments) specifically authorized by the Brazilian Central Bank (BACEN) for this purpose, and which enable the absorption of risks, analysis and compliance with the required leverage indices and limits. The practices adopted comply with CMN Resolutions No. 4192/13, No. 4193/13 and No. 3988/11.

(In thousands of reais)

9. Loans

At December 31, 2013 and 2012, breakdown of loans is as follows:

a) By type

	2013	2012
Loans:		
Loans and discounted securities	**211,186**	154,546
Financing	**16,591**	5,478
Financing - Export credit notes	**8,038**	-
Financing - foreign currency	**-**	7,495
	235,815	167,519
Other:		
Advances on exchange contracts (Note 10)	**3,430**	12,014
	3,430	12,014
Total	**239,245**	179,533
Allowance for loan losses	**(11,352)**	(13,699)
Allowance for losses on other receivables	**(1,035)**	(1,230)
Total allowance for loan losses	**(12,387)**	(14,929)
	226,858	164,604

b) Breakdown by sector

	2013	2012
Private sector		
Manufacturing	**134,812**	80,243
Trade	**55,342**	57,015
Services	**40,706**	32,858
Individuals	**8,385**	9,417
Total	**239,245**	179,533

c) Loans by maturity

	2013	2012
Amounts overdue	**6,408**	12,215
Amounts falling due		
Up to 90 days	**102,423**	55,595
From 91 to 180 days	**88,358**	91,828
From 181 to 360 days	**32,990**	-
Over 360 days	**9,066**	19,895
Total	**239,245**	179,533

(In thousands of reais)

9. **Loans** (Continued)

d) Portfolio broken down by risk level

	Portfolio balances					
	2013				2012	
Level	Ordinary course	Overdue	Total	%	Total	%
A	**2,609**	**-**	**2,609**	**1.09**	3,118	1.74
B	**94,517**	**104**	**94,621**	**39.55**	74,856	41.69
C	**123,556**	**1,458**	**125,014**	**52.25**	82,179	45.77
D	**1,210**	**213**	**1,423**	**0.59**	1,440	0.80
E	**5,149**	**2,811**	**7,960**	**3.33**	7,403	4.12
F	**2,149**	**1,562**	**3,711**	**1.55**	1,694	0.94
G	**414**	**1,637**	**2,051**	**0.86**	1,186	0.66
H	**442**	**1,414**	**1,856**	**0.78**	7,657	4.26
	230,046	**9,199**	**239,245**	**100.00**	179,533	100.00

	Allowance							
	2013					2012		
Level	Provision %	Ordinary course	Overdue	Total	%	Provision %	Total	%
A	**0.50**	**13**	**-**	**13**	**0.11**	0,50	15	0.10
B	**1.00**	**945**	**1**	**946**	**7.64**	1,00	749	5.02
C	**3.00**	**3,707**	**43**	**3,750**	**30.28**	3,00	2,466	16.52
D	**10.00**	**121**	**21**	**142**	**1.15**	10,00	144	0.96
E	**30.00**	**1,545**	**843**	**2,388**	**19.28**	30,00	2,220	14.87
F	**50.00**	**1,075**	**780**	**1,855**	**14.98**	50,00	847	5.67
G	**70.00**	**290**	**1,147**	**1,437**	**11.59**	70,00	831	5.57
H	**100.00**	**442**	**1,414**	**1,856**	**14.98**	100,00	7,657	51.29
		8,138	**4,249**	**12,387**	**100.00**		14,929	100.00

e) Changes in allowance for loan losses

	2013	2012
Balance at beginning of year	**14,929**	23,580
As set up, net of reversals	**15,610**	21,154
Loans written-off against losses	**(18,152)**	(29,805)
Balance at end of year	**12,387**	14,929

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2013, amounted to R$11,435 (R$11,464, in 2012).

Renegotiated loans in the year ended December 31, 2013, amounted to R$6,328 (R$7,855 in 2012).

(In thousands of reais)

9. **Loans** (Continued)

g) Credit assignments

In the years ended December 31, 2013 and 2012, the Bank did not assign credit operations with guarantee.

In the year ended December 31, 2013, the Bank repurchased credit operations with guarantee amounting to R$3,886. Out of this amount, R$2,193 were recorded under "Credit assignments" (present value of these operations, calculated based on the original rates of each repurchase agreement). A loss amounting to R$131 was computed, recorded as debit to profit & loss.

In accordance with Resolution No. 2686/00 issued by the National Monetary Council, in the year ended December 31, 2013 the Bank transferred matured loans without guarantees in the amount of R$574 (R$12,024 in 2012), from its loan and financing operations to Paulista Companhia Securitizadora de Créditos Financeiros, a related party whose restated amounts totaled R$574 (R$12,024 in 2012).

As at December 31, 2013, no amounts are recorded in memorandum accounts upon repurchase of these operations on October 18, 2013. As at December 31, 2012, credits assigned with guarantees recorded in memorandum accounts amount to R$19,803. As at December 31, 2012, an allowance for loans losses was recorded for these operations, based on the same criteria established in Resolution No. 2682/99 and totaling R$4,607, recorded under "Other obligations - sundry" (Note 17.c).

In 2011, the Bank assigned to Paulista Companhia Securitizadora de Créditos Financeiros operations acquired by means of credit assignment with no guarantee with subsidiary SOCOPA - Sociedade Corretora Paulista S.A., referring to brokerage transactions and exposure to bank credit certificates amounting to R$28,245.

h) Income from loans

	2013	**2012**
Discounted securities and loans	**28,557**	35,769
Financing	**1,001**	2,645
Recovery of loans written off to loss	**6,328**	7,855
Financing - foreign currency	**614**	1,439
Advances to deposit holders	**319**	242
Total	**36,819**	47,950
Income/(Loss) from assigned credits	**(20)**	12
	36,799	47,962

(In thousands of reais)

10. Foreign exchange portfolio

Assets	2013	2012
Current		
Foreign exchange receivable	**67,638**	96,958
Rights on foreign exchange sales	**96,136**	181,236
Advances received - domestic and foreign currency	**(2,047)**	(2,784)
Income receivable from advances (Note 9.a)	**537**	524
	162,264	275,934

Liabilities	2013	2012
Current		
Foreign exchange payable	**94,843**	176,073
Foreign exchange purchase payable	**65,926**	96,960
Advances on foreign exchange contracts (Note 9.a)	**(2,893)**	(11,491)
Other	**-**	25
	157,876	261,567

11. Other receivables - sundry

	2013	2012
Current		
Taxes recoverable	**8,461**	15,707
Tax credits (Note 25.b)	**12,306**	7,356
Sundry debtors - domestic	**16,476**	16,058
Securities and receivables	**622**	565
Other	**70**	289
	37,935	39,975
Noncurrent		
Tax credits (Note 25.b)	**68,090**	74,758
Debtors for guarantee deposits (Nota 28.b)	**10,073**	12,350
Securities and receivables	**5,600**	5,088
	83,763	92,196

12. Other assets

	2013	2012
Current		
Assets not in use - vehicles	**1,359**	269
Prepaid expenses (*)	**129**	2,182
	1,488	2,451

(*) In 2012, this included the amount of R$2,011, referring to the amount paid due to a special agreement related to overdue credit rights from loan and financing transactions carried out by the Bank (Notes 3m and 26).

(In thousands of reais)

13. Investments in subsidiaries and affiliates

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

Detailed information on this subsidiary is as follows:

	2013	2012
Number of shares held	**3,200**	3,200
Capital	**66,000**	66,000
Equity	**81,985**	81,027
Net income for the year	**1,146**	958
Interest percentage	**100%**	100%
Changes in investment	**83,131**	81,985
Equity pickup	**1,146**	958

14. Deposits

	2013					2012
	No maturity	1 to 90 days	91 to 360 days	Over 360 days	Total	Total
Demand	**72,584**	**-**	**-**	**-**	**72,584**	94,790
Interbank	**-**	**59,376**	**223**	**-**	**59,599**	118,089
Time	**-**	**129,266**	**121,604**	**172,968**	**423,838**	365,644
	72,584	**188,642**	**121,827**	**172,968**	**556,021**	578,523

15. Open market funding

	2013	2012
Own portfolio		
Financial Treasury Bills (LFT)	**26,516**	-
National Treasury Bills (LTN)	**8,916**	7,637
National Treasury Notes (NTN)	**83,822**	2,628
	119,254	10,265
Third-party portfolio		
Financial Treasury Bills (LFT)	**120,427**	-
National Treasury Bills (LTN)	**-**	142,472
	120,427	142,472
Total	**239,681**	152,737

(In thousands of reais)

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

	2013						2012
	No maturity	1 to 90 days	91 to 180 days	From 181 to 360 days	Over 360 days	Total	Total
Borrowings							
Foreign borrowings (i)	**-**	**11,944**	**14,450**	**3,490**	**-**	**29,884**	22,723
Onlending							
Local on-lending - official institutions (ii)	**23,014**	**-**	**-**	**-**	**-**	**23,014**	40,833
Funds from acceptance and issue of securities							
Obligations due to issue of agribusiness securities (iii)	**1,277**	**34,394**	**8,939**	**-**	**100**	**44,710**	-
	24,291	**46,338**	**23,389**	**3,490**	**100**	**97,608**	63,556

(i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rates used ranged from 3.5% to 6% per annum, depending on volumes, terms and market conditions. These interest rates apply solely on the amount of R$29,817. The remaining balance is only subject to exchange rate fluctuation, since it refers to BRL (R$) purchase obligations not yet delivered by the selling banks.

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

(iii) These refer to Agribusiness securities (LCA), substantially carried out with Bank related parties in the amount of R$32,352. The rate used varied from 98% to 102% of CDI.

17. Other liabilities

a) Income and social security taxes

	2013	2012
Current		
Taxes and contribution payable	**3,734**	47,670
Taxes and contributions on income	**-**	3,689
	3,734	51,359
Noncurrent		
Taxes and contribution payable	**26,075**	3,410
Provision for deferred income and social contribution taxes	**3,595**	-
Provision for tax contingencies (Note 28.b)	**5,694**	7,210
	35,364	10,620
	39,098	61,979

(In thousands of reais)

17. Other liabilities (Continued)

b) Subordinated debts

	2013	2012
Noncurrent		
Capital-eligible subordinated debts (i)	**22,782**	26,728
Capital-eligible subordinated debts (ii)	**29,285**	20,840
	52,067	47,568

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

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

c) Sundry

	2013	2012
Current		
Provisions for payments	**14,843**	10,627
Provision for loans assigned with guarantee (Note 9.g)	**-**	4,607
Items to be settled - Foreign Exchange	**89**	1,016
Brokerage to credit - Foreign Exchange	**728**	841
Charges on funds received (PSH)	**2,526**	1,929
Payables to related party	**1,096**	-
Other amounts payable	**1,334**	1,927
	20,616	20,947
Noncurrent		
Provisions for payments	**1,121**	1,065
Provision for contingent liabilities (Note 28.b)	**3,719**	1,575
	4,840	2,640
	25,456	23,587

18. Equity

a) Capital

As at December 31, 2013, Company fully subscribed and paid-up capital is represented by 218,731,760 registered shares with no par value, divided into 109,365,880 common shares and 109,365,880 preferred shares.

(In thousands of reais)

18. **Equity** (Continued)

b) Dividend and interest on equity

Bank Articles of Incorporation provide for mandatory minimum dividends of 25% on net income, calculated under the terms of corporate law. In 2013, interest on equity paid amounted to R$6,996 (R$7,046 in 2012).

c) Retained earnings/(accumulated losses)

As per Resolution No. 3605/08, net income calculated and not distributed in the year shall be allocated to the income reserve. As at December 31, 2013, income earned in the year amounted to R$20,845 (R$31,160 in 2012).

d) Legal reserve

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

19. Funding expenses

	2013	**2012**
Time deposits	**34,720**	39,222
Open market funding	**19,213**	15,195
Contributions to Central Bank deposit reserves (FGC)	**1,373**	1,850
Interbank deposits	**7,352**	10,689
Financial bills	**4,500**	3,259
Agribusiness securities (LCA)	**1,237**	-
	68,395	70,215

20. Income from services rendered

	2013	**2012**
Foreign exchange operation charges	**4,015**	7,988
Bank charges	**12,139**	8,098
Business development	**25,817**	7,674
Custody services	**13,506**	10,202
Commission fees for investment funds administration	**4,544**	1,914
Other services	**306**	1,495
	60,327	37,371

(In thousands of reais)

21. Other administrative expenses

	2013	2012
Transport	**25,721**	29,065
Specialist technical services	**13,473**	6,065
Data processing	**9,753**	9,418
Rent	**2,637**	1,575
Financial system	**1,869**	1,593
Communications	**1,471**	1,525
Third-party services	**868**	705
Notarial fees	**626**	426
Surveillance and security services	**227**	197
Materials	**220**	251
Advertising and promotion	**92**	520
Other	**2,475**	3,186
	59,432	54,526

22. Other operating income

	2013	2012
Reversal of expense provisions	**10,024**	9,093
Reversal of provision for tax contingencies	**2,285**	771
Foreign exchange gains/(losses) - arbitration	**1,622**	-
Income from guarantees provided	**965**	208
Monetary variation gains	**627**	190
Interest on National Treasury securities issued to cover court-ordered debts	**455**	498
Monetary variations on judicial deposits	**432**	1,324
Recovered charges and expenses	**420**	532
Other	**1,583**	679
	18,413	13,295

(In thousands of reais)

23. Other operating expenses

	2013	2012
Loan consulting	**18,003**	14,470
Expenses with Direct Consumer Credit (CDC) contract recovery	**3,185**	6,188
Equalization of assignment price (Note 3m)	**2,011**	4,478
Financial expenses - PSH	**2,595**	1,236
Interest income on advances received on assigned credits	**887**	2,962
Interest income on taxes and contributions	**2,397**	4,231
Disposal of assets not intended for own use (BNDU)	**-**	4,312
Provision for losses on judicial deposits	**6,996**	1,132
Foreign exchange gains/(losses)	**1,850**	849
Amortization and depreciation	**1,010**	1,004
Commission on financing agreements	**187**	1,249
Provision for loss on loans assigned with guarantee	**-**	902
Other	**1,742**	766
	40,863	43,779

24. Nonoperating income (expenses)

This is basically comprised of valuation of investment accounts - R$142 (R$633 in 2012) and loss on disposal of assets not intended for own use (BNDU), repossessed by the Bank as a result of unpaid credit facilities, amounting to R$23 in the year ended December 31, 2013 (loss amounting to R$1,551 in 2012). In 2012, there was also a profit on disposal of investments amounted to R$7,357.

(In thousands of reais)

25. Income and social contribution taxes

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

	2013	2012
Income (loss) before income taxes and profit sharing	**30,242**	50,912
(-) Interest on equity	**(6,996)**	(7,046)
(-) Profit sharing	**(1,097)**	-
Income (loss) before income taxes	**22,149**	43,866
Temporary additions and exclusions	**(27,720)**	(36,845)
Provision for loans assigned with guarantee	**(2,756)**	(7,355)
Marketable securities marked to market	**(329)**	(4,324)
Allowance for loan losses	**15,610**	21,154
Reversal of allowance for loan losses	**(19,667)**	(42,375)
Provision for tax contingencies	**2,498**	(1,732)
Profit sharing - 2012	**(2,636)**	-
rovision for BNDU	**-**	(33)
Other temporary additions and exclusions	**(20,440)**	(2,180)
Permanent additions and exclusions:	**823**	4,337
Equity pick-up - subsidiary	**(1,411)**	(963)
Other permanent additions and exclusions	**2,234**	5,300
Tax base	**(4,748)**	11,358
Income and social contribution taxes	**-**	3,553
Deductions - tax incentives	**-**	(170)
Income and social contribution taxes	**-**	3,383
Deferred tax assets	**7,203**	14,728
Total income and social contribution taxes	**7,203**	18,111

b) Deferred tax assets

Changes in tax credits in the year were as follows:

	31/12/2012	Set-up	Realization/ reversal	Other	31/12/2013
Allowance for losses on other receivables	65,940	-	(1,623)	-	64,317
Provision for tax contingencies	18,522	1,099	-	(16,958)	2,663
Provision for loans assigned with guarantee	1,103	-	(1,103)	-	-
Marketable securities marked to market	-	-	(131)	(3,463)	(3,594)
Marked to market adjustment to available-for-sale securities	-	1,891	-	-	1,891
Other	(3,451)	1,899	(7,344)	20,421	11,525
Total tax credits	**82,114**	**4,889**	**(10,201)**	**-**	**76,802**

(In thousands of reais)

25. Income and social contribution taxes (Continued)

b) Tax credits (Continued)

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

Present value of the tax credits at December 31, 2013 is R$49,978, as determined by reference to the CDI/CETIP rates prevailing in the related periods. Tax credits are assessed periodically based on the generation of taxable profit for income and social contribution tax purposes in an amount that renders it justifiable to record such amounts as assets.

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

Tax credits are expected to be realized as follows:

	2013	2014	2015	2016	2017	2021	Total
Allowance for loan losses	8,000	8,000	10,000	10,000	10,000	17,517	64,317
Provision for tax contingencies	-	-	-	-	-	2,663	2,663
Marketable securities marked to market	(3,594)	-	-	-	-	-	(3,594)
Marked to market adjustment to available-for-sale securities	1,891	-	-	-	-	-	1,891
Other	2,416	2	-	-	-	9,107	11,525
Total	**8,713**	**8,802**	**10,000**	**10,000**	**10,000**	**29,287**	**76,802**
Present value	**7,472**	**7,581**	**7,902**	**7,244**	**6,640**	**13,139**	**49,978**

(In thousands of reais)

26. Transactions with related parties

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

	Assets (Liabilities)		Income (expenses)	
	2013	**2012**	**2013**	**2012**
Prepaid expenses (*)	**-**	2,011	**(2,011)**	(4,478)
Demand deposits	**(3,465)**	(1,993)		
Time deposits	**126,079**	(88,177)	**(12,419)**	(14,666)
Interbank deposits	**(32,039)**	(72,231)	**(4,300)**	(5,650)
Open market funding	**(14,654)**	-	**(648)**	(814)
Debtors/(creditors) - account pending settlement	**(3,775)**	270		
Financial bill - subordinated debt	**(29,285)**	(26,728)	**(4,500)**	(3,259)
Agribusiness securities (LCA)	**(32,352)**	-	**(1,237)**	-

(*) In December 2010, the Bank entered into a partnership with related party Paulista Companhia Securitizadora de Créditos Financeiros, for assignment of overdue credit rights - arising from loan and financing transactions carried out by the Bank. The Bank prepaid the amount of R$ 15,285, referring to the price equalization, computed based on the default history on the portfolio subject to assignment, which will be allocated to income under “other operating expenses”, to the extent that the credits subject to referred to agreement mature, which substantially occurred up until December 2012.

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:

	2013	**2012**
Fixed compensation	**5,951**	3,855
Social charges	**1,339**	867
Total	**7,290**	4,722

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

27. Collateral securities, pledges and guarantees to third parties

As at December 31, 2013, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R$32,241 (R$38,079 in 2012). Any losses on these items are duly provided for.

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

a) Contingent assets

As at December 31, 2013 and 2012, there are no proceedings whose likelihood of loss is estimated as probable by management.

b) Contingent liabilities classified as probable loss and legal obligations

b.1) *Labor*

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

b.2) *Civil*

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, damages and other proceedings claiming indemnification. Provisions for CDC-related claims, the amounts of which are not individually significant, are set up based on the historical average of losses on dismissed cases. The historical average of losses is reviewed semiannually. For other proceedings of a civil nature, 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.

b.3) *Tax and social security*

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

(In thousands of reais)

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

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

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

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and elected the apportionment provided for by Law No. 11941/09. In 2012, the amount of R$43,383 was reallocated to "Other taxes payable".

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

	Provision for contingencies				
	Labor	**Civil**	**Tax**	**2013**	**2012**
Balance at beginning of year	**307**	**1,268**	**7,210**	**8,785**	49,554
Setting up	**493**	**3,539**	**452**	**4,484**	5,027
Realization/restatements	**(120)**	**(1,768)**	**317**	**(1,571)**	(45,796)
Reversals	**-**	**-**	**(2,285)**	**(2,285)**	-
Balance at end of year	**680**	**3,039**	**5,694**	**9,413**	8,785

	Judicial deposits					
	Labor	**Civil**	**Tax**	**Other**	**2013**	**2012**
Balance at beginning of year	**169**	**2,585**	**7,596**	**2,000**	**12,350**	8,002
Restatements	**-**	**764**	**426**	**-**	**1,190**	365
Setting up	**-**	**-**	**-**	**1,000**	**1,000**	-
Payments/reversals	**-**	**(3,279)**	**(1,188)**	**-**	**(4,467)**	3,983
Balance at end of year	**169**	**70**	**6,834**	**3,000**	**10,073**	12,350

c) Contingent liabilities classified as possible losses

As at December 31, 2013, contingent liabilities classified as possible losses are represented by 50 (fifty) proceedings of a civil nature totaling R$2,484 and 9 (nine) proceedings of a labor nature totaling R$227, 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.

(In thousands of reais)

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

d) Regulatory agencies

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

29. Operating limits

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

Risk Weighted Assets (RWA) and Basel index	12/31/2013 (i)	12/31/2012 (ii)
Regulatory Capital (PR)	**176,893**	172,079
PR - tier I	**146,953**	134,743
Principal capital	**146,953**	134,743
PR - tier II	**29,940**	37,336
RWA calculated using the standardized approach (Cpad) – Credit	520,018	433,894
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	25,432	26,731
RWA Trading - Interest, Commodities, Shares	2,879	-
RWA for operational risks (Opad) - Operational	175,790	146,017
RWA – Total	**724,119**	606,642
Minimum PR	**79,653**	66,731
Basel Index (PR/RWA Total)	**24.43%**	28.37%
Tier I index (PR tier I / RWA - Total)	20.29%	22.21%
Principal Capital index (CP/RWA - Total)	20.29%	22.21%
Extended Basel Index (PR/(RWA Total + securities not classified in the trading portfolio (Rban))	**24.39%**	27.69%

(i) The amounts referring to base date December 2013 may be modified due to the changes brought by Circular Letter No. 3635/14.

(ii) The amounts referring to base date December 2012 were restated so as to allow comparison with December 2013.

The Basel index for the Financial Conglomerate as at December 31, 2013, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 4192/13 and 4193/13, is 24.43%.

In June 2013, Banco Paulista S.A. - Conglomerate leader - raised funds, through issue of Financial Bills, providing for subordination clauses, for the purpose of being considered Tier II capital, as set out in Resolution No. 3644/07 and No. 4192/13 (Note 17.b).

30. Other information

On September 17, 2013 and November 12, 2013, respectively, Brazilian IRS (RFB) Revenue Procedure No. 1397 (IN 1.397) and Provisional Executive Order (MP) No. 627 were published, to:

(i) repeal the Transition Tax Regime (RTT) as from 2015 and create a new tax model;

(ii) amend Decree Law No. 1598/77 with respect to income tax calculation for legal entities and to the legislation concerning social contribution on net profit;

(iii) Special installment payment of federal contribution taxes on gross revenue for Social Integration Program (PIS/PASEP) and for Social Security Financing (COFINS)).

Provisional Executive Order (MP) No. 627/13 is currently under discussion in Brazil's National Congress and a significant number of amendments thereto has been proposed. In addition, the Brazilian IRS (RFB) will govern various legal provisions brought by this executive order; accordingly, some of these provisions may be changed, eliminated or clarified.

Based on the current wording thereof, management is of the understanding that no material adjustments stemming from MP 627/13 are required in the financial statements of the Bank. The new tax regime instituted by MP No. 627 is effective as from 2015 and early adoption is permitted as from 2014. Management does not intend to elect early adoption and will await the definitive amendments to the original wording in order to assess any future effects of referred to MP.