Financial Statements

Banco Paulista S.A.

December 31, 2014 and 2013
with Independent Auditor's Report

Banco Paulista S.A.

Financial statements

December 31, 2014 and 2013

Contents

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

Independent auditor's report on financial statements

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

We have audited the accompanying financial statements of Banco Paulista S.A. ("Bank"), which comprise the balance sheet as at December 31, 2014, 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 on the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Paulista S.A. as at December 31, 2014, 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 the Central Bank of Brazil.

Emphasis of matter

Without modifying our opinion, we draw attention to the fact that as at December 31, 2014, the Bank recorded income and social contribution tax credits amounting to R$70,518 thousand (Note 25.b). Realization of these credits is conditional on the generation of future taxable profit, in accordance with the budget plan prepared and approved by management.

São Paulo, February 23, 2015.

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, 2014 and 2013
(In thousands of reais)

	2014	2013
Assets		
Current assets	**1,323,428**	1,186,444
Cash and due from banks	**274,467**	250,356
Local currency	**44,817**	31,363
Foreign currency	**229,650**	218,993
Interbank investments	**437,032**	222,516
Open market investments	**413,427**	193,926
Interbank deposits	**23,605**	28,590
Marketable securities and derivative financial instruments	**120,412**	258,476
Own portfolio	**102,124**	66,921
Linked to repurchase agreements	**16,212**	119,699
Linked to guarantees given	**654**	69,501
Derivative financial instruments	**1,422**	2,355
Interbank accounts	**19,873**	20,743
Restricted loans	**19,873**	20,743
Loans	**203,813**	215,833
Loans - Private sector	**220,900**	226,749
(-) Allowance for loan losses	**(17,087)**	(10,916)
Other receivables	**266,875**	217,032
Foreign exchange portfolio	**207,659**	162,264
Securities trading and brokerage	**44,086**	17,868
Sundry	**15,618**	37,935
(-) Allowance for losses on other receivables	**(488)**	(1,035)
Other assets	**956**	1,488
Prepaid expenses	**123**	129
Other assets	**833**	1,359
Noncurrent assets	**304,306**	92,393
Marketable securities and derivative financial instruments	**193,223**	-
Own portfolio	**102,753**	-
Linked to guarantees given	**90,470**	-

Banco Paulista S.A.

Balance sheets (Continued)
December 31, 2014 and 2013
(In thousands of reais)

	2014	2013
Loans	**26,542**	8,630
Loans - Private sector	**28,767**	9,066
(-) Allowance for loan losses	**(2,225)**	(436)
Other receivables	**84,541**	83,763
Sundry	**84,541**	83,763
Permanent assets	**105,984**	88,746
Investments	**97,515**	84,611
Investments in local affiliates and subsidiaries	**96,189**	83,428
Other investments	**1,578**	1,435
(-) Valuation allowance	**(252)**	(252)
Property and equipment in use	**3,275**	3,031
Land and buildings in use	**957**	957
Other property and equipment in use	**6,659**	5,869
(-) Accumulated depreciation	**(4,341)**	(3,795)
Intangible assets	**5,194**	1,104
Intangible assets	**6,236**	1,765
(-) Accumulated amortization	**(1,042)**	(661)
Total assets	**1,733,718**	1,367,583
Liabilities and equity		
Current liabilities	**1,180,096**	955,291
Deposits	**438,226**	383,053
Demand deposits	**103,362**	72,584
Interbank deposits	**106,356**	59,599
Time deposits	**228,508**	250,870
Open market funding	**362,467**	239,681
Own portfolio	**15,995**	119,254
Third-party portfolio	**346,472**	120,427
Funds from acceptance and issue of securities	**50,370**	44,610
Real estate and mortgage notes	**50,370**	44,610
Interdepartmental and interbank accounts	**28,825**	24,626
Correspondent banks	**752**	803
Third-party funds in transit	**28,073**	23,823

	2014	2013
Borrowings and onlending	**36,858**	52,898
Foreign currency borrowings	**20,994**	29,884
Local onlending - official institutions	**15,864**	23,014
Other liabilities	**263,350**	210,423
Collection of taxes and other contributions	**432**	487
Foreign exchange portfolio	**200,282**	157,876
Income and social security	**4,790**	3,734
Securities trading and brokerage	**31,406**	27,262
Derivative financial instruments	**-**	448
Sundry	**26,440**	20,616
Noncurrent liabilities	**389,830**	265,339
Deposits	**283,935**	172,968
Time deposits	**283,935**	172,968
Funds from acceptance and issue of securities	**4,228**	100
Real estate and mortgage notes	**4,228**	100
Other liabilities	**101,667**	92,271
Taxes and social security	**38,519**	35,364
Subordinated debt	**58,691**	52,067
Sundry	**4,457**	4,840
Equity	**163,792**	146,953
Capital - Brazilian residents	**127,000**	127,000
Capital reserve	**97**	97
Income reserves	**41,584**	22,692
Adjustment to market value - marketable securities and derivatives	**(4,889)**	(2,836)
Total liabilities and equity	**1,733,718**	1,367,583

See accompanying notes.

Banco Paulista S.A.

Income statements
Years ended December 31, 2014 and 2013 and six-month period ended December 31, 2014
(In thousands of reais, except for earnings per thousand shares)

		Years	
	2H	2014	2013
Interest income	**129,294**	**253,022**	210,115
Loans	**25,903**	**50,167**	36,799
Income from marketable securities	**35,192**	**71,422**	55,288
Income from/(loss on) derivative financial instruments	**(10,032)**	**3,767**	(10,169)
Income from foreign exchange transactions	**78,231**	**127,666**	128,197
Interest expenses	**(77,499)**	**(133,193)**	(99,440)
Open market funding	**(58,465)**	**(108,077)**	(68,395)
Borrowings and onlending	**(8,492)**	**(11,280)**	(15,435)
Allowance for loan losses	**(10,542)**	**(13,836)**	(15,610)
Gross income from financial intermediation	**51.795**	**119,829**	110,675
Other operating income (expenses)	**(34,468)**	**(73,917)**	(81,649)
Service income	**28,155**	**51,780**	60,327
Personnel expenses	**(27,902)**	**(52,373)**	(46,721)
Other administrative expenses	**(31,748)**	**(59,374)**	(59,432)
Tax expenses	**(7,274)**	**(14,861)**	(14,784)
Equity pickup in affiliates and subsidiaries	**9,804**	**12,764**	1,411
Other operating income	**7,781**	**11,516**	18,413
Other operating expenses	**(13,284)**	**(23,369)**	(40,863)
Operating income	**17,327**	**45,912**	29,026
Nonoperating	**39**	**87**	119
Income before income taxes and profit sharing	**17,366**	**45,999**	29,145
Income and social contribution taxes	**139**	**(9,691)**	(7,203)
Provision for income tax	**2,077**	**(1,248)**	-
Provision for social contribution tax	**1,260**	**(792)**	-
Deferred tax assets	**(3,198)**	**(7,651)**	(7,203)
Profit sharing	**(875)**	**(1,815)**	(1,097)
Net income for the six-month period/years	**16,630**	**34,493**	20,845
Interest on equity	**(7,347)**	**(7,347)**	(6,996)
Earnings per thousand shares - in R$	**76.03**	**157.70**	95.30

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
Years ended December 31, 2014 and 2013 and six-month period ended December 31, 2014
(In thousands of reais)

	Capital	**Capital reserve**	**Income reserves**		**Adjustment to market value**	**Retained earnings/ (accumulated losses)**	**Total**
			Legal reserve	**Statutory reserve**			
Balances at December 31, 2012	127,000	97	818	8,026	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 December 31, 2013	127,000	97	1,860	20,832	(2,836)	-	146,953
Net income for the year	-	-	-	-	-	34,493	34,493
Legal reserve	-	-	1,724	-	-	(1,724)	-
Statutory reserve	-	-	-	25,422	-	(25,422)	-
Interest on equity	-	-	-	-	-	(7,347)	(7,347)
Dividends	-	-	-	(8,254)	-		(8,254)
Adjustment to market value - marketable securities and derivatives	-	-	-	-	(2,053)		(2,053)
Balances at December 31, 2014	**127,000**	**97**	**3,584**	**38,000**	**(4,889)**	**-**	**163,792**
Changes in the year	**-**	**-**	**1,724**	**17,168**	**(2,053)**	**-**	**16,839**
Balance at June 30, 2014	**127,000**	**97**	**2,753**	**37,802**	**(4,075)**	**-**	**163,577**
Net income for the six-month period	-	**-**	-	-	-	**16,630**	**16,630**
Legal reserve	-	**-**	**831**	-	-	**(831)**	**-**
Statutory reserve	-	**-**	-	**8,452**	-	**(8,452)**	**-**
Interest on equity	-	**-**	-	-	-	**(7,347)**	**(7,347)**
Dividends	-	**-**	-	**(8,254)**	-	**-**	**(8,254)**
Adjustment to market value - marketable securities and derivatives	-	**-**	-	-	**(814)**	**-**	**(814)**
Balances at December 31, 2014	**127,000**	**97**	**3,584**	**38,000**	**(4,889)**	**-**	**163,792**
Changes in the six-month period	**-**	**-**	**832**	**198**	**(814)**	**-**	**216**

See accompanying notes.

Banco Paulista S.A.

Cash flow statements
Years ended December 31, 2014 and 2013 and six-month period ended December 31, 2014
(In thousands of reais)

		Years	
	2H	2014	2013
Net income for the six-month period/years	20,673	43,416	39,688
Net income for the six-month period/year	16,630	34,493	20,845
Adjustments to reconcile net income to net cash	4,043	8,923	18,843
Allowance for loan losses	10,542	13,836	15,610
Provisions for deferred income and social contribution taxes	3,198	7,651	7,203
Depreciation and amortization	584	1,131	1,010
Equity pickup in subsidiaries	(9,804)	(12,764)	(1,412)
Reversal of provision for contingencies	(15)	(93)	-
Monetarily restated advances received on assigned credits - retail	(186)	(582)	770
Allowance for losses on assigned credits with joint obligation - retail	-	-	(10,024)
Reversal of provision for tax contingencies	-	-	(2,285)
Provision for civil, tax and labor contingencies	755	1,242	7,971
Provision for guarantees	(119)	555	-
MTM adjustment	(912)	(2,053)	-
Changes in assets and liabilities			
Decrease (increase) in interbank investments	9,433	(5,048)	(168)
(Increase) in marketable securities	(4,169)	(56,092)	(27,964)
(Increase) decrease in interbank accounts	(2,955)	5,069	15,125
Decrease (increase) in loans	2,587	(19,728)	(86,253)
Decrease (increase) in other receivables	115,721	(57,685)	114,936
Decrease in other assets	448	532	963
Decrease (increase) in derivative financial instruments	(2,867)	484	(771)
(Decrease) increase in other liabilities	(122,124)	61,067	(109,306)
Increase (decrease) in deposits	110,252	166,140	(22,502)
(Decrease) increase in repurchase agreements	(26,161)	122,786	86,944
Net cash provided by operating activities	100,838	260,941	10,692
Cash flow from investing activities			
Acquisition of property and equipment in use	(742)	(1,055)	(1,189)
Investments in intangible assets	(4,280)	(4,472)	(514)
Disposal of property and equipment in use (residual value)	21	61	202
Investments activies	(134)	(143)	(92)
Net cash (used in) investing activities	(5,135)	(5,609)	(1,593)
Cash flow from financing activities			
Interest on equity	(7,347)	(7,347)	(6,996)
Dividends paid	(8,254)	(8,254)	-
(Decrease) in borrowings and onlending	(17,519)	(16,040)	(10,658)
Increase in funds from acceptance and issue of securities	11,982	9,888	44,710
Net cash (used in) provided by financing activities	(21,138)	(21,753)	27,056
Increase in cash and cash equivalents	74,565	233,579	36,155
Cash and cash equivalents			
Cash and cash equivalents at the beginning of six-month period/years	613,329	454,315	418,160
Cash and cash equivalents at end of six-month period/years	687,894	687,894	454,315
	74,565	233,579	36,155

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 (Law No. 6404/76), changes introduced by Laws No. 11638/07 and No. 11941/09 and the Central Bank of Brazil rules, and are presented pursuant to the Accounting Chart for Institutions of the National Financial System (COSIF).

Accounting estimates are determined by management, considering factors and assumptions set up based on its judgment. Significant items subject to these estimates and assumptions include: provisions for adjustment of assets to probable realizable or recoverable 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 semiannually.

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.

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. Floating rate transactions are restated to the balance sheet date based on the agreed-upon indexes.

3. Summary of significant accounting practices (Continued)

b) Cash and cash equivalents

In accordance with Brazilian Monetary Council (CMN) Resolution No. 3.604/08, cash and cash equivalents includes cash on hand, bank deposits and highly liquid short-term investments posing low risk of any 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 maturity of the underlying securities backing such operations.

d) Marketable securities and derivative financial instruments

According to BACEN Circular No. 3068/01, the portfolio marketable securities are classified into the following categories in accordance with management's intention:

- 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.

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.

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

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 - differential receivable or payable is recorded as assets or liabilities at market value, respectively, and appropriated to income or expenses on a pro rata basis through the balance sheet date.

Transactions involving derivative financial instruments not qualified for hedge accounting are marked to market at the balance sheet date, and the related valuation gains or losses are recognized 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 BACEN Resolution No. 2682, which requires regular analyses of the portfolio and its grading into nine rating levels, from "AA" (minimum risk) to "H" (loss).

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

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

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

The Bank opted for the 'double count of terms' prescribed in BACEN 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 (Note 6).

3. Summary of significant accounting practices (Continued)

f) Impairment of nonfinancial assets

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

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

g) Investments

Investments in subsidiaries are measured by the equity method.

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

h) Property and equipment, deferred charges and intangible assets

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

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

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

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

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

3. Summary of significant accounting practices (Continued)

j) Income and social contribution taxes

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

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

k) Foreign exchange operations

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

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

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

Contingent assets - are not recognized in financial statements. Attendant rights are only recorded where there is evidence that provides assurance as to their realization, upon which no further objections are applicable.

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

Legal, tax and social security obligations - these refer to legal proceedings in which the lawfulness and constitutionality of certain taxes and contributions have been challenged. The amount under dispute is quantified, recorded and restated on a monthly basis.

(In thousands of reais)

3. Summary of significant accounting practices (Continued)

m) Prepaid expenses

These refer mostly to the following prepaid amounts:

- Commissions paid on loans and financing taken out, allocated to the income statement under "Other operating expenses", over the same term of contracts originating them, or in full, when these credit facilities are granted;
- Amount paid in regard to a special agreement for assignment of 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, 2014 and 2013, cash and cash equivalents are as follows:

	2014	2013
Cash and due from banks - local currency	**44,817**	31,363
Cash and due from banks - foreign currency	**229,650**	218,993
Open market investments	**413,427**	193,926
Interbank deposits	**-**	10,033
Cash and cash equivalents	**687,894**	454,315

5. Interbank investments

a) Repurchase agreements

	2014		2013
	1-30 days	**Total**	**Total**
Open market investments			
Self-funded position:	**66,955**	**66,955**	73,499
Financial Treasury Bills (LFT)	**2,229**	**2,229**	-
National Treasury Bills (LTN)	**59,456**	**59,456**	73,499
National Treasury Notes (NTN)	**5,270**	**5,270**	-
Financed position:	**346,472**	**346,472**	120,427
Financial Treasury Bills (LFT)	**-**	**-**	120,427
National Treasury Bills (LTN)	**66,744**	**66,744**	-
National Treasury Notes (NTN)	**279,728**	**279,728**	-
Total	**413,427**	**413,427**	193,926

(In thousands of reais)

5. Interbank investments (Continued)

a) Repurchase agrements (Continued)

In the year ended December 31, 2014, income from repurchase agreements amounted to R$32,867 (R$20,879 in 2013).

b) Interbank deposits

	2014	2013
Within 90 days	-	10,033
90-360 days	23,605	18,557
Total	**23,605**	28,590

In the year ended December 31, 2014, income from interbank investments amounted to R$1,533 (R$1,592 in 2013).

6. Marketable securities

a) Marketable securities - breakdown by type

	2014		2013	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Trading securities				
Own portfolio - free	**95,955**	**95,942**	61,630	61,817
Financial Treasury Bills (LFT)	79,047	79,043	2,227	2,230
National Treasury Bills (LTN)	1,398	1,398	40,772	40,667
National Treasury Notes (NTN)	352	343	-	-
Agrarian Debt Bonds (TDA)	4	3	1,529	1,739
Investment fund shares	1,409	1,409	487	487
Shares issued by publicly held companies	3,463	3,463	10,652	10,652
ADRs	10,282	10,283	5,963	6,042
Linked to repurchase agreements	**16,236**	**16,212**	35,485	35,463
Financial Treasury Bills (LFT)	1,177	1,177	26,536	26,538
National Treasury Bills (LTN)	-	-	8,949	8,925
National Treasury Notes (NTN)	15,059	15,035	-	-
Linked to guarantees given	**654**	**654**	25,049	24,997
Financial Treasury Bills (LFT)	654	654	4,244	4,245
National Treasury Bills (LTN)	-	-	20,805	20,752
Total trading securities	**112,845**	**112,808**	122,164	122,277

(In thousands of reais)

6. **Marketable securities** (Continued)

a) Marketable securities - breakdown by type (Continued)

	2014		2013	
	Cost (i)	**Market (ii)**	**Cost (i)**	**Market (ii)**
Available for sale				
Own portfolio - free	**109,096**	**108,935**	4,988	5,104
Financial Treasury Bills (LFT)	**69,657**	**69,654**	-	-
National Treasury Notes (NTN)	**32,101**	**32,049**	4,988	5,104
Debentures	**7,060**	**7,041**	-	-
Agrarian Debt Bonds (TDA)	**278**	**191**	-	-
Linked to repurchase agreements	**-**	**-**	82,310	84,236
National Treasury Notes (NTN)	**-**	**-**	82,310	84,236
Linked to guarantees given	**90,185**	**90,470**	43,487	44,504
National Treasury Notes (NTN)	**90,185**	**90,470**	43,487	44,504
Total securities available for sale	**199,281**	**199,405**	130,785	133,844
Total	**312,126**	**312,213**	252,949	256,121

(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 on 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 1, 2014, Banco Paulista reclassified its Agrarian Debt Bonds (TDA) from the “Held for trading” to the “Available for sale” category, as permitted by BACEN rules. As from that date, market value adjustments have been directly allocated to equity. A total 86 thousand bonds (four thousand) were reclassified, amounting to R$ 5,336.

(In thousands of reais)

6. Marketable securities (Continued)

b) Marketable securities - breakdown by maturity

	2014					2013
	No maturity	**From 3 to 12 months**	**From 1 to 3 years**	**Over 3 years**	**Total**	Total
Financial Treasury Bills (LFT)	**-**	**79,991**	**595**	**69,942**	**150,528**	33,011
National Treasury Bills (LTN)	**-**	**1,398**	**-**	**-**	**1,398**	70,345
National Treasury Notes (NTN)	**-**	**210**	**473**	**137,214**	**137,897**	133,845
Agrarian Debt Bonds (TDA)	**-**	**69**	**102**	**23**	**194**	1,739
Debentures	**-**	**-**	**-**	**7,041**	**7,041**	-
Shares issued by publicly held companies	**3,463**	**-**	**-**	**-**	**3,463**	10,652
ADRs	**10,283**	**-**	**-**	**-**	**10,283**	6,042
Investment fund shares	**-**	**-**	**-**	**1,409**	**1,409**	487
Total	**13,746**	**81,668**	**1,170**	**215,629**	**312,213**	256,121

In the year ended December 31, 2014, income from marketable securities amounted to R$37,022 (R$32,817 in 2013).

7. Derivative financial instruments

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

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

At December 31, 2014 and 2013, the amounts recorded in balance sheet accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2014				2013			
	Notional value	**Assets**	**Liabilities**	**Net**	**Notional value**	**Assets**	**Liabilities**	**Net**
Swap	**-**	**-**	**-**	**-**	14,600	2,355	-	2,355
Forwards (NDF)	**107,379**	**1,422**	**-**	**1,422**	122,189	-	(448)	(488)
Total	**107,379**	**1,422**	**-**	**1,422**	136,789	2,355	(448)	1,907

(In thousands of reais)

7. Derivative financial instruments (Continued)

a) Breakdown of transactions

Description	Notional value	Net value receivable/(payable)
Forwards		
USD v. EUR	22,719	618
USD v. CAD	891	34
USD v. AUD	405	22
USD v. GBP	1,832	10
USD v. JPY	279	6
USD v. CHF	673	22
USD v. NOK	40	3
USD v. NZD	158	1
USD v. XAU	16,257	209
BRL v. USD	21,556	497
In USD	42,569	-
Total	**107,379**	**1,422**

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, 2014, totals de R$293,280 (R$149,064 in 2013), and an adjustment payable of R$3,420 (R$2,900 in 2013) was computed.

b) Derivative financial instruments mature as follows:

	2014				2013
Description	Within 3 months	From 3 to 12 months	Over 12 months	Total	Total
Swaps	-	-	-	-	2,355
Forwards (NDF)	**168**	**1,254**	-	**1,422**	(448)

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 the 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.

(In thousands of reais)

7. Derivative financial instruments (Continued)

b) Derivative financial instruments mature as follows (Continued)

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

c) Guarantee margin

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

	2014	2013
National Treasury Bills (LTN)	-	20,752
Financial Treasury Bills (LFT)	654	4,245
National Treasury Notes (NTN)	90,470	44,504
	91,124	69,501

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

Income from/(loss on) derivative operations for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Futures	(8,173)	(11,846)
Swap	1,511	1,590
Forward transactions - NDF	7,801	(6)
Forward transactions - Gold	2,628	93
	3,767	(10,169)

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;

8. **Risk management** (Continued)

- 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, operational and capital management.

a) Liquidity risk

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

Liquidity risk is managed for funding purposes and for managing investments and funding over short- and long-term horizons. In the short-term, the diversification of fund sources is prioritized whereas in the long-term, the temporary matching between funding and investments is prioritized. The practices adopted comply 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 the criteria set forth by CMN Resolution No. 3721/09.

8. Risk management (Continued)

c) Market risk

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

The purpose of market risk management is to maximize the ratio between financial return and risks arising from changes in the market value of exposures, in a manner compatible with the strategy and term of these exposures, whether banking or trading. The practices adopted comply the criteria set forth by CMN Resolution No. 3711/09.

d) Operational risk

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

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

e) Capital management

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

Capital is to be understood as the set of the entity’s or third-party's long-term funds making up the Minimum Required Capital (PRE), subdivided into Tier I (Principal capital and supplementary capital) and Tier II (Hybrid instruments) specifically authorized by 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, 2014 and 2013, breakdown of loans is as follows:

a) By type

	2014	2013
Loans:		
Loans and discounted notes	**232,933**	211,186
Financing	**117**	16,591
Financing - Export credit notes	**16,617**	8,038
	249,667	235,815
Other receivables:		
Advances on exchange contracts (Note 10)	**2,000**	3,430
Credit assignment without joint obligation	**736**	-
	2,736	3,430
Total	**252,403**	239,245
Allowance for loan losses	**(19,312)**	(11,352)
Allowance for losses on other receivables	**(488)**	(1,035)
Total allowance for loan losses	**(19,800)**	(12,387)
	232,603	226,858

b) Breakdown by sector:

	2014	2013
Private sector		
Manufacturing	**92,402**	134,812
Trade	**51,863**	55,342
Services	**91,034**	40,706
Individuals	**17,104**	8,385
Total	**252,403**	239,245

c) Loans by maturity

	2014	2013
Amounts overdue	**9,150**	6,408
Amounts falling due		
Up to 90 days	**126,481**	102,423
From 91 to 180 days	**63,110**	88,358
From 181 to 360 days	**24,895**	32,990
Over 360 days	**28,767**	9,066
Total	**252,403**	239,245

(In thousands of reais)

9. **Loans** (Continued)

At December 31, 2014 and 2013, breakdown of loans is as follows:

d) Portfolio broken down by risk level

	Portfolio balances					
	2014				2013	
Level	Ordinary course	Overdue	Total	%	Total	%
A	-	-	-	-	2,609	1.09
B	89,984	12	89,996	35.65	94,621	39.55
C	130,394	340	130,734	51.80	125,014	52.25
D	10,264	-	10,264	4.07	1,423	0.59
E	10,503	2	10,505	4.16	7,960	3.33
F	-	2	2	0.00	3,711	1.55
G	336	7	343	0.14	2,051	0.86
H	6	10,553	10,559	4.18	1,856	0.78
	241,487	10,916	252,403	100.00	239,245	100.00

	Allowance							
	2014					2013		
Level	Allowance %	Ordinary course	Overdue	Total	%	Allowance %	Total	%
A	0.50	-	-	-	-	0.50	13	0.11
B	1.00	900	-	900	4.54	1.00	946	7.64
C	3.00	3,912	10	3,922	19.81	3.00	3,750	30.28
D	10.00	1,026	-	1,026	5.18	10.00	142	1.15
E	30.00	3,151	1	3,152	15.92	30.00	2,388	19.28
F	50.00	-	1	1	0.01	50.00	1,855	14.98
G	70.00	235	5	240	1.21	70.00	1,437	11.59
H	100.00	6	10,553	10,559	53.33	100.00	1,856	14.98
		9,230	10,570	19,800	100.00		12,387	100.00

e) Changes in the allowance for loan losses

	2014	2013
Balance at beginning of year	12,387	14,929
As set up, net of reversals	13,836	15,610
Loans written-off as losses	(6,423)	(18,152)
Balance at end of year	19,800	12,387

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2014 total R$ 15,420 (R$11,435 in 2013).

Recovered loans in the year ended December 31, 2014 total R$ 4,357 (R$6,328 in 2013).

(In thousands of reais)

9. **Loans** (Continued)

g) Credit assignments

In the years ended December 31, 2014 and 2013, the Bank did not engage in assignment of loans with joint obligation.

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 and accounted for as a debit to Income.

In accordance with CMN Resolution No. 2686/00, in the year ended December 31, 2013 the Bank transferred matured loans, without guarantees, in the amount of R$574, from its loan and financing portfolios to Paulista Companhia Securitizadora de Créditos Financeiros, a related party whose restated amounts totaled R$574.

In 2014, 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 exposures related to bank credit certificates, totaling R$12,821.

h) Income from loans

	2014	**2013**
Loans and discounted notes	**42,862**	28,557
discounted notes	**2,658**	1,001
Recovery of loans written off as losses	**4,357**	6,328
Financing - foreign currency	**-**	614
Advances to deposit holders	**290**	319
Total	**50,167**	36,819
Income/(Loss) from assigned credits	**-**	(20)
	50,167	36,799

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2014 and 2013
(In thousands of reais)

10. Foreign exchange portfolio

Assets	2014	2013
Current		
Foreign exchange receivable	**63,719**	67,638
Rights on foreign exchange sales	**144,727**	96,136
Advances received - local and foreign currency	**(1,104)**	(2,047)
Income receivable from advances (Note 9.a)	**317**	537
	207,659	162,264

Liabilities	2014	2013
Current		
Foreign exchange payable	**141,717**	94,843
Foreign exchange purchase payable	**60,243**	65,926
Advances on foreign exchange contracts (Note 9.a)	**(1,683)**	(2,893)
Other	**5**	-
	200,282	157,876

11. Other receivables - sundry

	2014	2013
Current		
Taxes recoverable	**6,980**	8,461
Tax credits (Note 25.b)	**6,694**	12,306
Sundry debtors - domestic	**243**	16,476
Securities and receivable	**1,395**	622
Other	**306**	70
	15,617	37,935
Noncurrent		
Tax credits (Note 25.b)	**67,188**	68,090
Debtors for guarantee deposits (Note 28.b)	**11,427**	10,073
Securities and receivable	**5,926**	5,600
	84,541	83,763

12. Other assets

	2014	2013
Current		
Assets not in use - vehicles	**834**	1,359
Prepaid expenses	**122**	129
	956	1,488

(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:

	2014	2013
Number of shares held	**3,200**	3,200
Capital	**66,000**	66,000
Equity	**83,119**	81,985
Net income for the year	**12,133**	1,146
Interest percentage	**100%**	100%
Investment balance	**95,262**	83,131
Equity pickup	**12,133**	1,146

14. Intangible assets

	Amortization rate	Cost	Amortization	12/31/2014	12/31/2013
Software	**20%**	**2,236**	**(1,042)**	**1,194**	1,104
Other intangible assets (*)	**-**	**4,000**	**-**	**4,000**	-
	-	**6,236**	**(1,042)**	**5,194**	1,104

(*) Refer to the acquisition of trademarks, domain and email addresses, procedures manuals, including all copyrights to explore a new product.

15. Deposits

	2014					2013
	No maturity	1 to 90 days	91 to 360 days	Over 360 days	Total	Total
Demand	**103,362**	**-**	**-**	**-**	**103,362**	72,584
Interbank	**-**	**106,356**	**-**	**-**	**106,356**	59,599
Time	**-**	**101,671**	**126,837**	**283,935**	**512,443**	423,838
	103,362	**208,027**	**126,837**	**283,935**	**722,161**	556,021

(In thousands of reais)

16. Open market funding

	2014	2013
Own portfolio		
Financial Treasury Bills (LFT)	**1,176**	26,516
National Treasury Bills (LTN)	**-**	8,916
National Treasury Notes (NTN)	**14,819**	83,822
	15,995	119,254
Third-party portfolio		
Financial Treasury Bills (LFT)	**-**	120,427
National Treasury Bills (LTN)	**66,744**	-
National Treasury Notes (NTN)	**279,728**	-
	346,472	120,427
Total	**362,467**	239,681

17. Borrowings and onlending and funds from acceptance and issue of securities

	2014						2013
	No maturity	1 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total	Total
Borrowings							
Foreign borrowings (i)	**227**	**18,005**	**2,762**	**-**	**-**	**20,994**	29,884
Onlending							
Local onlending - official institutions (ii)	**15,864**	**-**	**-**	**-**	**-**	**15,864**	23,014
Funds from acceptance and issue of securities							
Obligations to due issue of house equity securities	**-**	**16,166**	**-**	**-**	**4,228**	**20,394**	-
Obligations to due issue of agribusiness securities (iii)	**-**	**13,810**	**20,283**	**111**	**-**	**34,204**	44,710
	16,091	**47,981**	**23,045**	**111**	**4,228**	**91,456**	97,608

(i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rates used ranged from 3.6% to 6% per annum, depending on volumes, terms and market conditions. These interest rates apply solely on the amount of R$20,994.

(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.

(In thousands of reais)

18. Other liabilities

a) Taxes and social security

	2014	2013
Current		
Taxes and contributions payable	**2,750**	3,734
Income taxes and contributions	**2,040**	-
	4,790	3,734
Noncurrent		
Taxes and contributions payable (Note 28.b)	**29,066**	26,075
Provision for deferred income taxes and contributions	**3,365**	3,595
Provision for tax contingencies (Note 28.b)	**6,088**	5,694
	38,519	35,364
	43,309	39,098

b) Subordinated debts

	2014	2013
Noncurrent		
Capital-eligible subordinated debts (i)	**25,635**	22,782
Capital-eligible subordinated debts (ii)	**33,056**	29,285
	58,691	52,067

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

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

c) Sundry

	2014	2013
Current		
Accrued payments	**7,915**	14,843
Provision for guarantees given	**555**	-
Provision for loans assigned with joint obligation (Note 9.g)	**-**	-
Items to be settled - Foreign exchange	**8,107**	89
Brokerage to credit - Foreign exchange	**3,135**	728
Charges on funds received - PSH	**3,006**	2,526
Payables to related parties	**-**	1,096
Other amounts payable	**3,722**	1,334
	26,440	20,616
Noncurrent		
Accrued payments	**1,184**	1,121
Provision for contingent liabilities (Note 28.b)	**3,273**	3,719
	4,457	4,840
	30,897	25,456

19. Equity

a) Capital

As at December 31, 2014, Company fully subscribed and paid-up capital is represented by 218,731,760 registered shares with no par value, divided into 109,365,880 common shares and 109,365,880 preferred shares.

b) Dividend and interest on equity

Bank Articles of Incorporation provide for a mandatory minimum dividend of 25% on net income, calculated under the terms of Brazilian Corporation Law. In 2014, interest on equity paid amounted to R$7,347 (R$6,996 in 2013) and dividends paid amounted to R$8,254 (in 2013 - none).

c) Retained earnings

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, 2014, income earned in the year amounted to R$34,493 (R$20,845 in 2013).

d) Legal reserve

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

(In thousands of reais)

20. Funding expenses

	2014	2013
Time deposits	**51,911**	34,720
Open market funding	**34,383**	19,213
Contributions to Central Bank deposit reserves (FGC)	**1,283**	1,373
Interbank deposits	**8,815**	7,352
Financial bills	**6,624**	4,500
Agribusiness securities (LCA)	**4,349**	1,237
House equity securities (LCI)	**712**	-
	108,077	68,395

21. Service income

	2014	2013
Foreign exchange operation charges	**5,726**	4,015
Bank charges	**17,512**	12,139
Business development	**8,133**	25,817
Custody services	**19,774**	13,506
Commission fees for investment funds administration	**112**	4,544
Other services	**523**	306
	51,780	60,327

22. Other administrative expenses

	2014	2013
Transport	**29,843**	25,721
Specialist technical services	**8,044**	13,473
Data processing	**9,549**	9,753
Rent	**2,552**	2,637
Financial system	**2,240**	1,869
Communications	**1,518**	1,471
Third-party services	**962**	868
Notarial fees	**442**	626
Surveillance and security services	**355**	227
Materials	**236**	220
Advertising and promotion	**172**	92
Other	**3,461**	2,475
	59,374	59,432

(In thousands of reais)

23. Other operating income

	2014	2013
Reversal of provision for expenses	**421**	10,024
Reversal of provision for tax contingencies	**-**	2,285
Foreign exchange gains/(losses) - arbitration	**7,167**	1,622
Income from guarantees given	**294**	965
Monetary variation gains	**665**	627
Interest on National Treasury securities issued to cover court-ordered debts	**525**	455
Monetary variation on judicial deposits	**863**	432
Recovery of charges and expenses	**536**	420
Other	**1,044**	1,583
	11,515	18,413

24. Other operating expenses

	2014	2013
Loan consulting	**8,019**	18,003
Expenses with Direct Consumer Credit (CDC) contract recovery	**2,053**	3,185
Monetarily restated taxes and contributions	**2,229**	2,397
Losses on taxes recoverable - statute of limitations	**1,197**	-
Foreign exchange losses	**2,551**	1,850
Amortization and depreciation	**1,131**	1,010
Loan loss provision	**1,498**	-
Renegotiation discounts granted	**973**	-
Provision for guarantees given	**698**	-
Interbank fees	**948**	609
Financial expenses - PSH	**633**	2,595
Commissions on financing agreements	**89**	187
Equalization of assignment price (Note 3.m)	**-**	2,011
Monetarily restated advances received on assigned credits	**-**	887
Provision for losses on judicial deposits	**-**	6,996
Other	**1,350**	1,133
	23,369	40,863

(In thousands of reais)

25. Income and social contribution taxes

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

	2014	2013
Income before income taxes and profit sharing	**47,814**	30,242
(-) Interest on equity	**(7,347)**	(6,996)
(-) Profit sharing	**(1,815)**	(1,097)
Income before income taxes	**38,652**	22,149
Temporary additions and exclusions	**(17,811)**	(27,720)
Provision for loans assigned with guarantee	**-**	(2,756)
Marketable securities marked to market	**576**	(329)
Allowance for loan losses	**13,835**	15,610
Reversal of allowance for loan losses	**(30,000)**	(19,667)
Provision for tax contingencies	**(1,127)**	2,498
Profit sharing - 2013	**(1,194)**	(2,636)
Reversal of provision for BNDU	**-**	-
Other temporary additions and exclusions	**99**	(20,440)
Permanent additions and exclusions:	**(13,301)**	823
Equity pick-up - subsidiary	**(12,765)**	(1,411)
Other permanent additions and exclusions	**(536)**	2,234
Tax base	**7,540**	(4,748)
Income and social contribution taxes	**2,088**	-
Deductions - tax incentives	**(47)**	-
Income and social contribution taxes	**2,041**	-
Deferred tax assets	**7,651**	7,203
Total income and social contribution taxes	**9,692**	7,203

b) Tax credits

Changes in tax credits for the year were as follows:

	12/31/2013	Set-up	Realization/ reversal	12/31/2014
Allowance for losses on other receivables	64,317	5,534	(12,000)	**57,851**
Provision for tax contingencies	2,663	2,431	(2,839)	**2,255**
Provision for loans assigned with guarantee	-	-	(98)	**(98)**
Adjustment to market value - Trading securities	(3,594)	433	(203)	**(3,364)**
Adjustment to market value - Available-for-sale securities	1,891	1,367	-	**3,258**
Other	11,525	-	(909)	**10,616**
Total tax credits	76,802	9,765	(16,049)	**70,518**

(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 BACEN Resolution No. 3355/06, according to their nature. Income and social contribution tax credits were recorded solely on temporarily nondeductible differences.

Present value of the tax credits at December 31, 2014 is R$55,345, 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 of limitations 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:

	2015	2016	2017	2018	2019	2021	Total
Allowance for loan losses	6,800	7,200	8,000	8,000	8,400	19,451	57,851
Provision for tax contingencies	-	-	-	-	-	2,255	2,255
Adjustment to market value - Trading securities	(3,364)	-	-	-	-	-	(3,364)
Adjustment to market value - Available-for-sale securities	3,258	-	-	-	-	-	3,258
Other	-	-	-	-	-	10,518	10,518
Total	**6,694**	**7,200**	**8,000**	**8,000**	**8,400**	**32,224**	**70,518**
Present value	**6,308**	**7,902**	**7,244**	**6,640**	**6,640**	**13,139**	**55,345**

(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)	
	2014	**2013**	**2014**	**2013**
Prepaid expenses	**-**	-	**-**	**(2,011)**
Demand deposits	**(922)**	(3,465)	**-**	**-**
Time deposits	**(42,222)**	(126,079)	**(7,639)**	**(12,419)**
Interbank deposits	**(60,340)**	(32,039)	**(4,762)**	**(4,300)**
Open market funding	**(11,200)**	(14,654)	**(875)**	**(648)**
Payables to related parties	**(4,363)**	-	**-**	**-**
Debtors/(creditors) - outstanding balance	**3,420**	(3,775)	**-**	**-**
Financial bill - subordinated debt	**(33,055)**	(29,285)	**(3,770)**	**(4,500)**
House equity securities (LCI)	**(20,394)**	-	**(713)**	**-**
Agribusiness securities (LCA)	**(18,065)**	(32,352)	**(1,418)**	**(1,237)**

a) <u>Key management personnel compensation</u>

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

	2014	**2013**
Fixed compensation	**5,716**	5,951
Social charges	**1,286**	1,339
Total	**7,002**	7,290

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

27. Collateral securities, pledges and guarantees to third parties

As at December 31, 2014, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R$22,314 (R$32,241 in 2013), considerate adequate to face future reimbursements.

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

a) Contingent assets

As at December 31, 2014 and 2013, 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”, whose balance in 2014 amounted to R$29,066 (R$27,268 in 2013) - (Note 18.a).

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

	Provision for contingencies				
	Labor	**Civil**	**Tax**	**2014**	**2013**
Balance at beginning of year	**680**	**3,039**	**5,694**	**9,413**	8,785
Setting-up	**-**	**428**	**394**	**822**	4,484
Realization/restatement	**410**	**(1,285)**	**-**	**(875)**	(1,571)
Reversal	**-**	**-**	**-**	**-**	(2,285)
Balance at end of year	**1,090**	**2,182**	**6,088**	**9,360**	9,413

	Judicial deposits					
	Labor	**Civil**	**Tax**	**Other**	**2014**	**2013**
Balance at beginning of year	**169**	**70**	**6,834**	**3,000**	**10,073**	12,350
Restatement	**7**	**479**	**460**	**612**	**1,558**	1,190
Setting-up	**-**	**-**	**-**	**-**	**-**	1,000
Payment/reversal	**-**	**(204)**	**-**	**-**	**(204)**	(4,467)
Balance at end of year	**176**	**345**	**7,294**	**3,612**	**11,427**	10,073

c) Contingent liabilities classified as possible losses

As at December 31, 2014, contingent liabilities classified as possible losses are represented by 61 (sixty one) proceedings of a civil nature totaling R$10,138 and 9 (nine) proceedings of a labor nature totaling R$228, based on the amounts attributed to respective suits brought by claimants (and not necessarily representing any possible loss), 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	12/31/2014	12/31/2013
Regulatory Capital (PR)	**184,819**	176,893
PR - tier I	**162,827**	146,953
Principal capital	**162,827**	146,953
PR - tier II	**21,992**	29,940
RWA calculated using the standardized approach (Cpad) - Credit	**639,989**	532,687
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	**86,180**	25,432
RWA Trading - Interest, Commodities, Shares	**5,181**	2,879
RWA for operational risks (Opad) - Operational	**200,329**	175,790
RWA - Total	**931,680**	736,787
Minimum PR	**102,485**	79,653
Basel index (PR/RWA Total)	**19.84%**	24.01%
Tier I index (PR tier I / RWA Total)	**17.48%**	19.95%
Principal Capital index (CP/RWA Total)	**17.48%**	19.95%
Extended Basel index (PR / (RWA Total + securities not classified in the trading portfolio, i.e. Rban))	**19.37%**	23.65%

The Basel index for the Financial Conglomerate as at December 31, 2014, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 4192/13 and 4193/13, is 19.37 %.

30. Other information

In May 2014, Provisional Executive Order (MP) No. 627/13 was signed into Law No. 12973/14. This Law introduced changes to the federal tax legislation on Corporate Income Tax (IRPJ), Social Contribution Tax on Net Profit (CSLL), and federal contribution taxes on gross revenue for Social Integration Program/Public Service Employee Savings (PIS/PASEP) and for Social Security Financing (COFINS). We highlight the following matters provided for by Law No. 12973/14:

- The Law repeals the Transition Tax Regime (RTT), ruling on adjustments arising from the adoption of new accounting methods and criteria introduced due to convergence of Brazilian accounting standards towards IFRS; and,
- Special installment payment of federal contribution taxes on gross revenue for PIS/PASEP and COFINS.

We anticipate that Law No. 12973/14 will not have any material effect on the Financial Statements.

31. Subsequent event

On January 13, 2015, the Central Bank of Brazil (BACEN) approved the change of the business purpose of the Bank from Commercial Banking to Multi-purpose Banking (Special General Meeting - “SGM” - held on 10/31/2013). Since said change was approved, the Bank, in addition to building its investment portfolio, will continue developing all its current activities, namely, providing loans to medium-sized to large legal entities, being engaged in foreign exchange operations (basically in regard to foreign trade and financing operations) and in custody, fund management, and sale and distribution transaction structuring services.