

Financial Statements

Banco Paulista S.A.

December 31, 2017
with Independent Auditor's on financial
statements

Banco Paulista S.A.

Financial Statements

December 31, 2017 and 2016

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

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
Banco Paulista S.A.
São Paulo - SP

Opinion

We have audited the accompanying financial statements of Banco Paulista S.A. ("Bank") which comprise the balance sheet as at December 31, 2017, and the related statements of income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

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, 2017, its financial performance and its 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.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis - Restatement of corresponding figures

We draw attention to Note 2 to the financial statements, which describes that on account of error corrections, the corresponding figures for the year ended December 31, 2016, presented for comparison purposes, were adjusted and are restated as provided for in NBC TG 23 or Accounting Pronouncement CPC 23 (Accounting Policies, Changes in Accounting Estimates and Errors). Our opinion is not qualified in respect of this matter.

Other information accompanying the financial statements and the auditor's report

Bank's management is responsible for such other information that is included in the Management Report. Our opinion on the financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the management report and, in doing so, to consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or, otherwise, whether this report appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report on this matter.

Responsibilities of management and those charged with governance 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 the Central Bank of Brazil, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- We obtain an understanding of the internal controls relevant to the audit to plan audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

São Paulo, March 14, 2018.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP034519/O-6

A handwritten signature in black ink, appearing to read 'Flávio Serpejante Peppe', is written over a faint circular stamp.

Flávio Serpejante Peppe
Accountant CRC-1SP172167/O-6

A free translation from Portuguese into English of 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

Banco Paulista S.A.

Balance sheet
December 31, 2017 and 2016
(In thousands of reais)

	Note	2017	2016 (restated)
Assets			
Current assets		2,087,348	2,216,803
Cash and due from banks		336,178	442,706
Local currency	4	70,381	75,271
In foreign currency	4	265,797	367,435
Interbank investments		1,078,254	1,005,080
Open market investments	4/5	1,046,452	960,072
Investments in interbank deposits	5	31,802	45,008
Marketable securities and derivative financial instruments		71,606	20,903
Own portfolio	6	70,628	18,230
Derivative financial instruments	7	978	2,673
Interbank accounts		22,613	19,460
Restricted loans		22,613	19,460
Loans		263,001	329,320
Loans - Private sector	9	268,719	337,880
(-) Allowance for loan losses	9	(5,718)	(8,560)
Other receivables		312,643	394,222
Foreign exchange portfolio	10	181,629	282,161
Securities trading and brokerage		18,819	27,948
Sundry	11	112,978	84,581
(-) Allowance for other loan losses	9	(783)	(468)
Other receivables and assets		3,053	5,112
Prepaid expenses	12	139	176
Other receivables and assets	12	2,914	4,936
Noncurrent assets		598,315	489,477
Marketable securities and derivative financial instruments		400,675	392,670
Own portfolio	6	138,986	177,568
Subject to repurchase agreements	6	152,715	99,422
Subject to pledges given	6/7	108,974	115,680
Loans		172,327	39,474
Loans - Private sector	9	176,074	40,500
(-) Allowance for loan losses	9	(3,747)	(1,026)
Other receivables		25,313	57,333
Sundry	11	25,313	57,333

	Note	2017	2016 (restated)
Permanent assets		<u>118,512</u>	<u>108,061</u>
Investments		<u>109,881</u>	<u>100,895</u>
Investments in local affiliates and subsidiaries	13	107,848	98,970
Other investments		2,285	2,177
(-) Valuation allowances		(252)	(252)
Property and equipment in use		<u>2,559</u>	<u>2,581</u>
Land and buildings in use		957	957
Other property and equipment in use		7,541	6,916
(-) Accumulated depreciation		(5,939)	(5,292)
Intangible assets		<u>6,072</u>	<u>4,585</u>
Intangible assets	14	8,198	6,402
(-) Accumulated amortization	14	(2,126)	(1,817)
Total assets		<u><u>2,804,175</u></u>	<u><u>2,814,341</u></u>

	Note	2017	2016 (restated)
Liabilities and equity			
Current liabilities		2,152,553	2,218,962
Deposits		628,856	656,240
Demand deposits	15	140,993	150,742
Interbank deposits	15	171,312	114,428
Time deposits	15	316,551	391,070
Open market funding		964,406	917,897
Own portfolio	16	152,351	99,082
Third-party portfolio	16	812,055	818,815
Funds from acceptance and issue of securities		49,513	58,690
Real estate and mortgage notes	17	49,513	58,690
Interbranch and interbank accounts		153,693	183,393
Correspondent banks		650	708
Third-party funds in transit		153,043	182,685
Borrowings and onlending		38,529	40,367
Foreign currency obligations	17	29,104	27,547
Local onlending - official institutions	17	9,425	12,820
Other liabilities		317,556	362,375
Collection of taxes and other contributions		870	4,215
Foreign exchange portfolio	10	191,028	285,719
Tax and social security	18a	4,923	6,101
Securities trading and brokerage		41,723	31,272
Subordinated debt	18b	38,351	-
Derivative financial instruments	7	-	3,930
Sundry	18c	40,661	31,138
Long-term payables		425,045	399,294
Deposits		326,990	308,670
Time deposits	15	326,990	308,670
Funds from acceptance and issue of securities		56,717	19,056
Real estate and mortgage notes	17	56,717	19,056
Other liabilities		41,338	71,568
Tax and social security	18a	6,986	9,012
Subordinated debt	18b	27,056	58,649
Sundry	18c	7,296	3,907
Equity		226,577	196,085
Capital - Brazilian residents	19	177,000	177,000
Capital increase		16,500	-
Income reserves		31,222	18,481
Market value adjustment - marketable securities and derivatives		1,855	604
Total liabilities and equity		2,804,175	2,814,341

See accompanying notes.

Banco Paulista S.A.

Statements of income

Years ended December 31, 2017 and 2016 and

Six-month period ended December 31, 2017

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

	Note	2nd half	Years	
			2017	2016 (restated)
Trading revenues		193,822	399,304	441,672
Loans	9h	36,137	76,411	78,394
Income from interbank investments and marketable securities		62,890	138,302	189,879
Income from derivative financial instruments	7d	3,341	11,797	58,237
Income from foreign exchange transactions		91,454	172,794	115,162
Trading expenses		(84,456)	(201,523)	(261,217)
Funding	20	(77,924)	(188,136)	(243,343)
Borrowings and onlending		(6,307)	(12,064)	(13,208)
Allowance for loan losses	9e	(225)	(1,323)	(4,666)
Trading gross profit		109,366	197,781	180,455
Other operating income (expenses)		(63,550)	(116,067)	(113,039)
Service revenues	21	36,131	79,780	78,729
Personnel expenses		(31,850)	(65,487)	(66,861)
Other administrative expenses	22	(50,385)	(98,502)	(83,947)
Tax expenses		(9,296)	(18,134)	(16,803)
Equity pickup in affiliates and subsidiaries	13	4,530	8,947	4,367
Other operating revenues	23	3,800	6,771	11,674
Other operating expenses	24	(16,480)	(29,442)	(40,198)
Operating income		45,816	81,714	67,416
Nonoperating income (expenses)		(177)	(961)	(465)
Income before income taxes and profit sharing		45,639	80,753	66,951
Income and social contribution taxes	25	(12,631)	(26,078)	(22,883)
Provision for income tax		16	(50)	(450)
Provision for social contribution tax		1	(63)	(403)
Deferred tax assets		(12,648)	(25,965)	(22,030)
Statutory profit sharing		(2,393)	(4,560)	(6,687)
Net income for the six-month period/year		30,615	50,115	37,381
Interest on equity		(14,000)	(14,000)	(13,000)
Earnings per thousand shares - in R\$		107.33	175.70	139.10

See accompanying notes.

Banco Paulista S.A.

Statements of changes in equity
 Years ended December 31, 2017 and 2016 and
 Six-month period ended December 31, 2017
 (In thousands of reais)

	Capital	Capital increase	Income reserves		Market value adjustment	Retained earnings (accumulated losses)	Total
			Legal reserve	Statutory reserve			
Balances at December 31, 2015 (restated)	127,000	35,000	5,062	18,683	(9,514)	-	176,231
Net income for the year	-	-	-	-	-	37,381	37,381
Capital increase	50,000	(35,000)	-	-	-	-	15,000
Legal reserve	-	-	1,870	-	-	(1,870)	-
Statutory reserve	-	-	-	12,511	-	(12,511)	-
Interest on Equity (IOE)	-	-	-	-	-	(13,000)	(13,000)
Dividends	-	-	-	(15,000)	-	(10,000)	(25,000)
Market value adjustment - marketable securities and derivatives	-	-	-	(4,645)	10,118	-	5,473
Balances at December 31, 2016 (restated)	177,000	-	6,932	11,549	604	-	196,085
Changes in the year	50,000	(35,000)	1,870	(7,134)	10,118	-	19,854
Balances at December 31, 2016 (restated)	177,000	-	6,932	11,549	604	-	196,085
Net income for the year	-	-	-	-	-	50,115	50,115
Capital increase	-	16,500	-	-	-	-	16,500
Legal reserve	-	-	2,506	-	-	(2,506)	-
Statutory reserve	-	-	-	33,609	-	(33,609)	-
Interest on Equity (IOE)	-	-	-	-	-	(14,000)	(14,000)
Dividends	-	-	-	(23,374)	-	-	(23,374)
Market value adjustment - marketable securities and derivatives	-	-	-	-	1,251	-	1,251
Balances at December 31, 2017	177,000	16,500	9,438	21,784	1,855	-	226,577
Changes in the year	-	16,500	2,506	10,235	1,251	-	30,492
Balances at June 30, 2017	177,000	-	7,907	30,074	1,415	-	216,396
Net income for the six-month period	-	-	-	-	-	30,615	30,615
Capital increase	-	16,500	-	-	-	-	16,500
Legal reserve	-	-	1,531	-	-	(1,531)	-
Statutory reserve	-	-	-	15,084	-	(15,084)	-
Interest on Equity (IOE)	-	-	-	-	-	(14,000)	(14,000)
Dividends	-	-	-	(23,374)	-	-	(23,374)
Market value adjustment - marketable securities and derivatives	-	-	-	-	440	-	440
Balances at December 31, 2017	177,000	16,500	9,438	21,784	1,855	-	226,577
Changes for the six-month period	-	16,500	1,531	(8,290)	440	-	10,181

See accompanying notes.

Banco Paulista S.A.

Statements of cash flows - indirect method
 Years ended December 31, 2017 and 2016 and
 Six-month period ended December 31, 2017
 (In thousands of reais)

	Years		
	2 nd half	2017	2016 (restated)
Net income for the six-month period/years	41,141	70,649	62,334
Net income for the six-month period/year	30,615	50,115	37,381
Adjustments to reconcile net income to net cash	10,526	20,534	24,953
Allowance for loan losses	225	1,323	4,666
Provisions for deferred income and social contribution taxes	12,648	25,965	22,030
Depreciation and amortization	717	1,190	1,058
Equity pickup in subsidiaries	(4,531)	(8,947)	(4,367)
Restatement of judicial deposits	(501)	(607)	(2,220)
Other monetary restatements	75	(459)	(573)
Reversal of judicial deposits	-	-	275
Reversal of provision for civil, tax and labor contingencies	(250)	(363)	(4,532)
Provisions for civil, tax, labor and other contingencies	1,647	1,923	2,815
Provisions for other contingencies	75	75	-
Provision for pledges	(19)	(817)	328
MtM adjustment	440	1,251	5,473
Changes in assets and liabilities			
(Increase) decrease in interbank investments	(7,372)	13,206	(45,008)
(Increase) in marketable securities	(49,688)	(60,403)	(71,830)
Decrease (increase) in interbank accounts	67,330	(32,853)	88,550
(Increase) in loans	(31,844)	(67,857)	(60,734)
Decrease (increase) in other receivables	414,279	88,700	(65,461)
Decrease (increase) in other assets	2,085	2,059	(4,276)
(Increase) decrease in derivative financial instruments	(5,225)	(2,235)	2,849
(Decrease) increase in other obligations	(415,889)	(71,937)	83,617
Increase (decrease) in deposits	60,278	(9,064)	50,027
(Decrease) increase in repurchase agreements	(49,255)	46,509	304,295
Net cash provided by (used in) operating activities	25,840	(23,226)	344,363
Cash flow from investing activities			
Subsidiary write-off	-	-	973
Acquisition of property and equipment in use	(650)	(921)	(467)
Investments in intangible assets	(396)	(1,796)	-
Disposals of property and equipment	10	63	201
Investments	83	(40)	(399)
Net cash provided by (used in) investing activities	(953)	(2,694)	308
Cash flow from financing activities			
Capital increase	16,500	16,500	15,000
Interest on Equity (IOE)	(14,000)	(14,000)	(13,000)
Dividends paid	(23,374)	(23,374)	(25,000)
Increase (decrease) in borrowings and onlending	184	(1,838)	4,492
Increase in funds from acceptance and issue of securities	17,657	28,484	7,782
Net cash provided by (used in) financing activities	(3,033)	5,772	(10,726)
Net increase (decrease) in cash and cash equivalents	21,854	(20,148)	333,945
Cash and cash equivalents			
Cash and cash equivalents at beginning of six-month period/years	1,360,776	1,402,778	1,068,833
Cash and cash equivalents at end of six-month period/years	1,382,630	1,382,630	1,402,778
	21,854	(20,148)	333,945

See accompanying notes.

Banco Paulista S.A.

Notes to financial statements
December 31, 2017 and 2016
(In thousands of reais)

1. Operations

Banco Paulista S.A. ("Bank") is a privately-held company established as a multipurpose 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 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 the Brazilian Corporation Law No. 6404/76, and the changes introduced by Laws No. 11638/07 and 11491/09, 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 based on its judgment. Significant items subject to these estimates and assumptions include: provisions for adjustment of assets to probable realizable value or recoverable amount, 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 significantly different from those recorded in the financial statements due to uncertainties inherent in their estimation process. Management reviews these estimates and assumptions at least semiannually. These financial statements were approved on March 14, 2018.

Pursuant to Accounting Pronouncement CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors - the financial statements for the year ended December 31, 2016 are being restated on account of the recognition of taxes recoverable and tax credit from prior periods.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

2. Presentation of financial statements (Continued)

Statements of financial position

	Prior disclosure 2016	Adjustments	Adjusted balance 2016
Assets			
Current assets	2,215,118	1,685	2,216,803
Other receivables (Note 11)	392,537	1,685	394,222
Noncurrent assets	486,241	3,236	489,477
Other receivables (Note 11)	54,097	3,236	57,333
Total assets	2,809,420	4,921	2,814,341
Equity	191,164	4,921	196,085
Income reserves	13,560	4,921	18,481
Total liabilities	2,809,420	4,921	2,814,341

Statements of profit or loss:

	Prior disclosure 2016	Adjustments	Adjusted balance 2016
Income and social contribution taxes	(24,100)	1,217	(22,883)
Deferred tax assets	(23,247)	1,217	(22,030)
Net income for the year	36,164	1,217	37,381
Earnings per thousand shares - in R\$	134.57	-	139.10

Statements of changes in equity:

	Prior disclosure 2015	Adjustments	Adjusted balance 2015
Legal reserve	4,877	185	5,062
Statutory reserve	15,164	3,519	18,683
Equity	172,527	3,704	176,231
	Prior disclosure 2016	Adjustments	Adjusted balance 2016
Legal reserve	6,686	246	6,932
Statutory reserve	6,874	4,675	11,549
Equity	191,164	4,921	196,085

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

2. Presentation of financial statements (Continued)

Statements of cash flows:

	Prior disclosure 2016	Adjustments	Adjusted balance 2016
Net income for the year	36,164	1,217	37,381
Adjustments to reconcile net income to net cash	26,170	(1,217)	24,953
Provisions for deferred income and social contribution taxes	23,247	(1,217)	22,030

3. Summary of significant accounting practices

a) Determination of profit or loss (P&L)

Revenues and expenses are recorded on an accrual basis, using the daily *pro rata* criterion for those of a financial nature. Fees and commissions received are recognized over the period in which services are rendered (on an accrual basis).

Finance income and costs are calculated based on the compound interest rate method. Fixed rate transactions are recorded at redemption value and income and expenses corresponding to future periods are recognized as a reduction of respective assets or liabilities. Floating rate transactions are restated up to the statement of financial position date based on agreed-upon rates. Fees and commissions arising from third-party transactions, such as brokerage, are recognized upon completion of service or operation.

b) Cash and cash equivalents

In accordance with Resolution No. 3604/08, cash and cash equivalents includes cash, bank deposits and highly liquid short-term investments posing low risk of change in value or limits, maturing within 90 days from the investment date.

c) Interbank investments

Fixed rate investments are stated at redemption value, less unearned income, whereas floating rate investments are recorded at cost plus income earned through the statement of financial position date, less valuation allowance, when applicable. Repurchase agreements are classified according to their maturity term, regardless of the term of the securities backing such transactions.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments

As established by Circular No. 3068/01, portfolio marketable securities are classified into the following three 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, regardless of their maturity dates, and are intended to be actively and frequently traded. These are carried at market value and appreciation or depreciation is posted to P&L.

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 P&L. These securities are carried at market value and their appreciation or devaluation is matched against a specific account in equity (net of tax effects) and posted to P&L 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 P&L.

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

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

- *Future transactions* - the market value adjustments are daily recorded under asset or liability accounts and appropriated as income or expenses;
- *Forward transactions* - these are recorded at final contract value, less the difference between this amount and market value of the asset or right. Income and expenses are recorded over the terms of the contracts through the statement of financial position 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* day basis through the statement of financial position date.

Transactions involving derivative financial instruments not qualified for *hedge accounting* are marked to market at the statement of financial position date and appreciation or devaluation is recorded as income or expense in P&L 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. 2682/99, which requires regular analyses of the portfolio and its grading into nine rating levels, from "AA" (minimum risk) to "H" (loss).

Receivables from loans that are 60 days or more past due, regardless of the underlying risk level, are only recognized as income upon effective receipt.

Loan transactions rated "H" remain rated as such for 180 days, when they are charged against the existing allowance and controlled in memorandum accounts for at least five years, no longer appearing in the statement of financial position.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

e) Loans and allowance for loan losses (Continued)

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, deemed sufficient by management, meets the requirements set forth in the referred to BACEN Resolution, as described in Note 9.

f) Impairment of nonfinancial assets

The accounting record of an asset should evidence events or changes in economic, operating, or technological circumstances that may indicate impairment. When such evidence is identified and the net carrying amount exceeds the recoverable amount, a provision adjusting the net carrying amount is set up. These provisions are recognized in P&L for the period/year, as provided for by Resolution No. 3566/08.

Nonfinancial 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 cost, net of valuation allowance, when applicable.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

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 of property and equipment is calculated by the straight-line method at the rates of 20% p.a. for vehicles and EDP systems and 10% p.a. for the other items.

Intangible assets comprise acquired rights to assets of this nature intended or exercised for maintaining the Banks' 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 the statement of financial position date, recognized on a *pro rata* day basis. Foreign currency liabilities are restated at the official exchange rates prevailing on the statement of financial position date. Open market funding is classified in current liabilities considering their maturities, regardless of the term of the securities backing such transactions.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

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 10% surtax on taxable profit exceeding R\$240 in the year (R\$120 in a six-month period), whereas social contribution tax was computed at the rate of 15% until August 2015. For the period from September 2015 to December 2018, the rate was changed to 20%, in accordance with Law No. 13169/15 and will return to 15% from January 2019 onwards.

Income and social contribution tax credits were calculated on temporary additions and exclusions. Due to referred to rate change, the Bank recorded, in September 2015, additional social contribution tax credits, based on expected annual realization and respective rates in effect in each period, in accordance with a technical study conducted and management analyses.

k) Foreign exchange operations

These are stated at realizable value, including earnings thereon (on a *pro rata* day basis), foreign exchange gains, 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 described in Resolution No. 3823/09 and Accounting Pronouncement CPC 25, issued by Brazil's Financial Accounting Standard Board - FASB ("CPC"):

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

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Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

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

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 settlement, and when the amounts involved can be reliably measured. Contingent liabilities assessed as possible loss by legal advisors are only disclosed in the notes to financial statements, whereas those assessed 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 quantified, recorded and restated on a monthly basis.

m) Prepaid expenses

These refer mostly to prepaid amounts related to expenses with commissions paid on loans and financing taken out, which have been allocated to P&L under "Other operating expenses", over the same term of contracts originating them, or in full, when these credit facilities are granted.

n) Earnings per share

Earnings per share are calculated based on the number of shares on the statement of financial position date.

4. Cash and cash equivalents

At December 31, 2017 and 2016, cash and cash equivalents are as follows:

	<u>2017</u>	<u>2016</u>
Cash and due from banks - local currency	70,381	75,271
Cash and due from banks - foreign currency	265,797	367,435
Open market investments (Note 5a)	1,046,452	960,072
Cash and cash equivalents	<u>1,382,630</u>	<u>1,402,778</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

5. Interbank investments

a) Open market investments

	2017		2016
	<u>1-30 days</u>	<u>Total</u>	<u>Total</u>
Open market investments			
Self-funded position:	234,397	234,397	141,256
Financial Treasury Bills (LFT)	183,341	183,341	8,001
National Treasury Bills (LTN)	51,056	51,056	17,798
National Treasury Notes (NTN)	-	-	115,457
Financed position:	812,055	812,055	818,816
Financial Treasury Bills (LFT)	313,028	313,028	-
National Treasury Bills (LTN)	499,027	499,027	689,232
National Treasury Notes (NTN)	-	-	129,584
Total	<u>1,046,452</u>	<u>1,046,452</u>	<u>960,072</u>

In the year ended December 31, 2017, income from repurchase agreements amounted to R\$ 93,286 (R\$ 122,087 in 2016).

b) Investments in interbank deposits

	<u>2017</u>	<u>2016</u>
90-360 days	31,802	45,008
Total	<u>31,802</u>	<u>45,008</u>

In the year ended December 31, 2017, income from interbank investments amounted to R\$ 1,992 (R\$ 1,778 in 2016).

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

6. Marketable securities

a) Marketable securities - breakdown by type

	2017		2016	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Securities held for trading				
Own portfolio - free	66,243	66,581	16,180	17,651
Financial Treasury Bills (LFT)	371	371	1,131	1,131
National Treasury Notes (NTN)	138	140	473	473
Agrarian Debt Bonds (TDA)	5	4	5	4
Investment Fund Shares (CFI)	30,244	30,244	10,242	10,242
Agribusiness Receivables Certificate (CRA)	19,613	19,084	-	-
Shares issued by publicly-held companies	1,251	2,314	4,329	5,801
Investments in marketable securities abroad	7,111	7,111	-	-
Certificates of Real Estate Receivables (CRI)	7,510	7,313	-	-
Total securities held for trading	66,243	66,581	16,180	17,651
Securities available for sale				
Own portfolio - free	141,262	143,033	177,326	178,147
Financial Treasury Bills (LFT)	74,475	74,491	63,087	62,996
National Treasury Bills (LTN)	2,078	2,078	1,870	1,891
National Treasury Notes (NTN)	30,695	32,445	91,820	92,806
Debentures	-	-	4,492	4,386
Agrarian Debt Bonds (TDA)	5	4	30	35
Investment Fund Shares (CFI)	34,009	34,015	16,027	16,033
Subject to repurchase agreements	152,678	152,715	99,363	99,422
Financial Treasury Bills (LFT)	152,678	152,715	54,747	54,707
National Treasury Notes (NTN)	-	-	44,616	44,715
Subject to pledges given	108,948	108,974	115,608	115,680
Financial Treasury Bills (LFT)	95,822	95,851	42,050	42,003
National Treasury Notes (NTN)	-	-	73,558	73,677
Investment Fund Shares (CFI)	13,126	13,123	-	-
Total securities available for sale	402,888	404,722	392,297	393,249
Total	469,131	471,303	408,477	410,900

(i) Cost value

In the case of fixed-rate securities, this refers to the acquisition cost, plus gains earned through the statement of financial position date; for shares, this is based on acquisition cost.

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Notes to financial statements (Continued)
December 31, 2017 and 2016
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6. Marketable securities (Continued)

a) Marketable securities – breakdown by type (Continued)

(ii) Market value

Government securities are marked to market according to daily bulletins issued by the National Association of Financial and Capital Market Institutions (ANBIMA). Shares and debentures are measured at the last-day-traded close price on the Stock Exchange. Corporate bonds are stated at cost, plus accrued daily earnings as adjusted to market value. The fund shares are restated by the share value provided by the Administrator.

b) Marketable securities - breakdown by maturity

	2017					Total	2016 Total
	No maturity	Within 3 months	From 3 to 12 months	From 1 to 3 years	Above 3 years		
Securities held for trading							
Financial Treasury Bills (LFT)	-	315	-	56	-	371	1,130
National Treasury Notes (NTN)	-	-	-	140	-	140	474
Agrarian Debt Bonds (TDA)	-	-	-	1	3	4	4
Shares issued by publicly-held companies	2,314	-	-	-	-	2,314	5,801
Investments in marketable securities abroad	-	-	-	7,111	-	7,111	-
Certificates of Real Estate Receivables (CRI)	-	-	-	7,313	-	7,313	-
Agribusiness Receivables Certificate (CRA)	-	-	-	19,084	-	19,084	-
Investment Fund Shares (CFI)	-	-	7,933	-	22,311	30,244	10,242
Total securities held for trading	2,314	315	7,933	33,705	22,314	66,581	17,651
Securities available for sale							
Financial Treasury Bills (LFT)	-	919	1,049	60,664	260,425	323,057	159,706
National Treasury Bills (LTN)	-	2,078	-	-	-	2,078	1,891
National Treasury Notes (NTN)	-	-	-	-	32,445	32,445	211,198
Agrarian Debt Bonds (TDA)	-	-	-	1	3	4	35
Debentures	-	-	-	-	-	-	4,386
Investment Fund Shares (CFI)	-	-	-	-	47,138	47,138	16,033
Total securities available for sale	-	2,997	1,049	60,665	340,011	404,722	393,249
Total	2,314	3,312	8,982	94,370	362,325	471,303	410,900

In the year ended December 31, 2017, income from marketable securities amounted to R\$43,024 (R\$66,014 in 2016).

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

7. Derivative financial instruments

The Bank performs operations involving derivative financial instruments, which are recorded in asset, liability and memorandum accounts to 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, 2017 and 2016, the amounts recorded in statement of financial position accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2017				2016			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards (NDF)	53,845	978	-	978	113,906	2,673	(3,930)	(1,257)
Total	53,845	978	-	978	113,906	2,673	(3,930)	(1,257)

a) Breakdown of transactions

Description	Notional value	Net value receivable/(payable)
Forwards		
USD vs. EUR	(9,778)	368
USD vs. CAD	3,903	35
USD vs. AUD	1,423	1
USD vs. GBP	4,605	(88)
USD vs. JPY	1,734	3
USD vs. CHF	1,172	10
USD vs. NOK	96	4
USD vs. NZD	332	4
USD vs. XAU	11,200	(139)
USD vs. MXN	101	5
Real vs. USD	39,057	775
Total	53,845	978

The Bank carries out transactions involving derivative financial instruments in future market - B3, which are exclusively tied to future foreign currency indexes for which notional value at December 31, 2017 totals R\$ 80,587 (R\$ 240,937 in 2016), and an adjustment receivable of R\$ 20 (R\$ 1,239 receivable in 2016) was computed.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

7. Derivative financial instruments (Continued)

b) Derivative financial instruments mature as follows:

Description	2017			Total	2016
	Within 3 months	From 3 to 12 months	Above 12 months		Total
Forwards (NDF)	-	978	-	978	(1,257)

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

All derivatives operations carried out by the Bank are recorded at B3. DI and foreign currency-denominated forward contracts are mostly used as instruments to limit fundraising rates due to mismatches between terms, currencies, and/or indexes and active operations.

c) Guarantee margin

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

	2017	2016
Financial Treasury Bills (LFT)	95,851	42,003
National Treasury Notes (NTN)	-	73,677
Fund shares	13,123	-
	<u>108,974</u>	<u>115,680</u>

d) Income from derivative financial instruments

Income (loss) from derivative financial instrument transactions for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Futures	18,583	54,326
Forward transactions - NDF	(6,786)	3,911
	<u>11,797</u>	<u>58,237</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

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: operational and business context, governance structure and flowchart of the areas.

- Operating and business context, in order to identify, analyze, assess, address, 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, operational and capital management risks.

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 threshold. In the short-term threshold, diversification of fund sources is prioritized whereas in the long-term, temporary matching between funding and investments is prioritized. The practices adopted comply with the criteria set forth by CMN Resolution No. 4090/12.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2017 and 2016
(In thousands of reais)

8. Risk management (Continued)

b) Credit risk

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

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

c) Market risk

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

The purpose of market risk management is to maximize the ratio between financial return and risks arising from changes in the market value of exposures, in a manner compatible with the strategy and term of these exposures, whether banking or trading. The practices adopted comply with 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 customers 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.

Banco Paulista S.A.

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

d) Operational risk (Continued)

The purpose of operational risk management is to gather information on weaknesses in the operating processes in order to evaluate and adopt adequate improvement plans. The practices adopted comply with 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 the budget plan and trade and business strategies, for coverage of the risks thereof.

Capital is to be understood as the set of own and third-party's long-term funds, subdivided into Tier I (Principal Capital and Supplementary Capital) and Tier II (Hybrid instruments) specifically classified and authorized by BACEN for this purpose, and which enable absorption of risks, analysis and compliance with the required leverage ratios and limits. The practices adopted comply with the criteria set forth by CMN Resolutions No. 4192/13, 4193/13 and 3988/11.

Banco Paulista S.A.

Notes to financial statements (Continued)
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9. Loans

At December 31, 2017 and 2016, loans are broken down as follows:

a) By type of transaction

	<u>2017</u>	<u>2016</u>
Loans:		
Loans and discounted notes	315,077	305,049
Financing - Export credit notes	-	2,515
Financing - Export credit notes	<u>129,716</u>	<u>70,816</u>
	<u>444,793</u>	<u>378,380</u>
Other receivables:		
Credit assignment without joint obligation (Note 11)	49,796	42,559
	<u>49,796</u>	<u>42,559</u>
Total loans	<u>494,589</u>	<u>420,939</u>
Allowance for loan losses	(9,465)	(9,586)
Allowance for losses on other receivables	(783)	(468)
Total allowance for loan losses	<u>(10,248)</u>	<u>(10,054)</u>
	<u>484,341</u>	<u>410,885</u>

b) Breakdown by sector

	<u>2017</u>	<u>2016</u>
Private sector		
Manufacturing	171,941	121,912
Trade	125,791	75,608
Services	180,128	192,069
Individuals	<u>16,729</u>	<u>31,350</u>
Total	<u>494,589</u>	<u>420,939</u>

c) Loans by maturity

	<u>2017</u>	<u>2016</u>
Amounts overdue	3,284	2,149
Amounts falling due		
Within 90 days	110,473	181,504
From 91 to 180 days	118,654	124,431
From 181 to 360 days	86,105	72,355
Above 360 days	<u>176,073</u>	<u>40,500</u>
Total	<u>494,589</u>	<u>420,939</u>

Banco Paulista S.A.

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

d) Portfolio broken down by risk level

Level	Portfolio balances					
	2017				2016	
	Ordinary course	Overdue	Total	%	Total	%
A	12,015	-	12,015	2.43	-	-
B	357,963	878	358,841	72.56	288,088	68.44
C	112,003	532	112,535	22.75	120,724	28.68
D	1,330	-	1,330	0.27	1,689	0.40
E	7,642	1,810	9,452	1.91	9,899	2.35
F	154	49	203	0.04	-	-
G	197	3	200	0.04	423	0.10
H	1	12	13	-	116	0.03
	491,305	3,284	494,589	100.00	420,939	100.00

Level	Allowance						
	2017				2016		
	Allowance %	Ordinary course	Overdue	Total	%	Total	%
A	0.5	60	-	60	0.59	-	-
B	1.0	3,579	9	3,588	35.01	2,881	28.65
C	3.0	3,360	16	3,376	32.94	3,621	36.02
D	10.0	133	-	133	1.30	169	1.68
E	30.0	2,293	543	2,836	27.67	2,970	29.54
F	50.0	77	25	102	1.00	-	-
G	70.0	138	2	140	1.37	297	2.96
H	100.0	1	12	13	0.12	116	1.15
		9,641	607	10,248	100.00	10,054	100.00

e) Movimentação da provisão para créditos de liquidação duvidosa

	2017	2016
Balance at beginning of year	10,054	11,330
Setting-up, net	1,323	4,666
Loans written off against losses	(1,129)	(5,942)
Balance at end of year	10,248	10,054

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2017 total R\$ 10,672 (R\$ 10,087 in 2016).

Recovered loans in the year ended December 31, 2017 total R\$ 2,090 (R\$ 1,581 in 2016).

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Notes to financial statements (Continued)
December 31, 2017 and 2016
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9. Loans (Continued)

g) Credit assignments

In the years ended December 31, 2017 and 2016, the Bank did not engage in assignment of loans with joint obligation.

h) Income from loans

	<u>2017</u>	<u>2016</u>
Loans and discounted notes	58,717	65,173
Financing	15,332	11,441
Recovery of loans written off as losses	2,090	1,581
Advances to deposit holders	272	199
Total loans	<u>76,411</u>	<u>78,394</u>

10. Foreign exchange portfolio

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Foreign exchange purchase pending settlement	74,477	148,611
Rights on foreign exchange sales	112,478	136,585
Advances received in local and foreign currency	(5,326)	(3,035)
	<u>181,629</u>	<u>282,161</u>
Liabilities		
Current liabilities		
Foreign exchange sale pending settlement	117,275	136,872
Foreign exchange purchase obligations	73,753	148,847
	<u>191,028</u>	<u>285,719</u>

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

	<u>2017</u>	<u>2016</u>
Current		
Taxes to be offset	18,891	20,124
Tax credits (Note 25.b)	19,950	18,000
Sundry debtors - domestic (ii)	10,301	2,242
Debtors for guarantee deposits (Note 28.b)	5,955	-
Securities and receivables (i)	57,546	43,402
Other	335	813
	<u>112,978</u>	<u>84,581</u>
Noncurrent		
Tax credits (Note 25.b)	12,346	40,099
Debtors for guarantee deposits (Note 28.b)	5,440	10,470
Securities and receivables (i)	7,502	6,739
Other	25	25
	<u>25,313</u>	<u>57,333</u>

(i) This includes the amount of R\$49,796 (R\$42,559 in 2016) referring to Credit assignment without joint obligation (Note 9.a);

(ii) Prepaid exchange funds.

12. Other assets

	<u>2017</u>	<u>2016</u>
Current		
Non-use goods - Vehicles / properties / machinery	2,914	4,936
Prepaid expenses	139	176
	<u>3,053</u>	<u>5,112</u>

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Notes to financial statements (Continued)
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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:

	2017	2016
Number of shares held	3,200	3,200
Capital	66,000	66,000
Equity	98,970	94,626
Market value adjustment - marketable securities and derivatives	(69)	(18)
Net income for the year	8,947	4,367
Interest percentage	100%	100%
Investment balance	107,848	98,970
Equity pickup	8,947	4,367

14. Intangible assets

	Amortization rate	Cost	Amortization	12/31/2017	12/31/2016
Software	20%	2,798	(2,126)	672	585
Other intangible assets (*)	-	5,400	-	5,400	4,000
	-	8,198	(2,126)	6,072	4,585

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

15. Deposits

	2017				Total	2016
	No maturity	From 1 to 90 days	91 to 360 days	Above 360 days		Total
Demand - Local currency	89,205	-	-	-	89,205	100,307
Demand - Foreign currency	51,788	-	-	-	51,788	50,435
Interbank	-	125,322	45,990	-	171,312	114,428
Time	-	151,055	165,496	326,990	643,541	699,740
	140,993	276,377	211,486	326,990	955,846	964,910

In the year ended December 31, 2017, expenses with "Deposits" totaled R\$ 78,744 (R\$ 113,458 in 2016 - see Note 20).

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Notes to financial statements (Continued)
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16. Open market funding

	<u>2017</u>	<u>2016</u>
Own portfolio		
Financial Treasury Bills (LFT)	152,351	54,624
National Treasury Notes (NTN)	-	44,458
	<u>152,351</u>	<u>99,082</u>
Third-party portfolio		
Financial Treasury Bills (LFT)	313,028	-
National Treasury Bills (LTN)	499,027	689,231
National Treasury Notes (NTN)	-	129,584
	<u>812,055</u>	<u>818,815</u>
Total	<u><u>964,406</u></u>	<u><u>917,897</u></u>

In the year ended December 31, 2017, expenses with “Open market funding” totaled R\$ 92,512 (R\$ 108,790 in 2016 - see Note 20).

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

	<u>2017</u>					<u>2016</u>	
	No maturity	From 1 to 90 days	91 to 180 days	From 181 to 360 days	Above 360 days	Total	Total
Borrowings							
Foreign borrowings (i)	-	24,778	4,326	-	-	29,104	27,547
Onlending							
Local onlending - official institutions (ii)	9,425	-	-	-	-	9,425	12,820
Funds from acceptance and issue of securities							
Obligations due to issue of Agribusiness Credit Bills (LCA) (iii)	-	9,112	12,478	12,882	34,535	69,007	45,085
Obligations due to issue of Real Estate Equity Securities (LCI) (iv)	-	9,420	5,621	-	22,182	37,223	32,661
	<u>9,425</u>	<u>43,310</u>	<u>22,425</u>	<u>12,882</u>	<u>56,717</u>	<u>144,759</u>	<u>118,113</u>

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Notes to financial statements (Continued)
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17. Borrowings and onlending and funds from acceptance and issue of securities (Continued)

- (i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rate adopted ranged from 4.5% to 4.75% p.a., depending on volumes, terms and market conditions.
- (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). The rate used ranged from 85% to 100% of the CDI.
- (iv) These refer to Real Estate Equity Securities (LCI) with the Bank's controlling shareholder.

In the year ended December 31, 2017, expenses with "Funds from acceptance and issue of securities" totaled R\$ 8,853 (R\$ 8,562 in 2016 - see Note 20).

18. Other liabilities

a) Tax and social security

	<u>2017</u>	<u>2016</u>
Current		
Taxes and contributions payable	4,923	5,248
Income taxes and contributions	-	853
	<u>4,923</u>	<u>6,101</u>
Noncurrent		
Taxes and contributions payable (Note 28.b)	-	640
Provision for deferred taxes and contributions (Note 25b)	6,986	5,744
Provision for tax contingencies (Note 28b)	-	2,628
	<u>6,986</u>	<u>9,012</u>

b) Subordinated debts

	<u>2017</u>	<u>2016</u>
Current		
Capital-eligible subordinated debts (i)	38,351	-
Noncurrent		
Capital-eligible subordinated debts (i) (Note 26)	27,056	58,649
	<u>65,407</u>	<u>58,649</u>

(i) This refers to 6-year-term Financial Bills providing for subordination clauses, corresponding to Tier II eligible instruments authorized pursuant to Resolution No. 4192/13. This operation is remunerated at 115.00% of the CDI.

In the year ended December 31, 2017, expenses with "Subordinated Debts" totaled R\$ 6,758 (R\$ 10,961 in 2016 - see Note 20).

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Notes to financial statements (Continued)
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18. Other liabilities (Continued)

c) Sundry

	<u>2017</u>	<u>2016</u>
Current		
Accrued payments	18,761	16,830
Provisions for pledges given (Note 27)	593	798
Items to be settled - foreign exchange	17,163	5,739
Brokerage to credit - Foreign exchange	3,700	4,961
Charges on funds received - PSH	142	1,962
Payables to related parties (Note 26)	-	-
Other amounts payable	302	848
	<u>40,661</u>	<u>31,138</u>
Noncurrent		
Accrued payments	1,500	1,348
Provision for contingent liabilities (Note 28.b)	5,796	2,559
	<u>7,296</u>	<u>3,907</u>

19. Equity

a) Capital

At December 31, 2017, Company fully subscribed and paid-up capital is represented by 285,231,760 registered shares with no par value, divided into 142,615,880 common shares and 142,615,880 preferred shares.

The Special General Meeting held on December 13, 2017 passed a resolution proposing capital increase from R\$177,000 to R\$193,500, through cash payment by shareholders of R\$16,500, corresponding to the issue of 8,250,000 common shares and 8,250,000 preferred shares, all of them registered shares with no par value. This increase was approved by the Central Bank of Brazil on January 10, 2018.

b) Dividend and interest on equity

The Bank's Charter provides for mandatory minimum dividend of 25% on net income for the year, calculated under the terms of the Brazilian Corporation Law. In 2017, interest on equity paid amounted to R\$14,000 (R\$13,000 in 2016) and dividends paid amounted to R\$23,374 (R\$15,000 in 2016). This IOE payment generated a reduction of R\$6,300 on taxes.

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Notes to financial statements (Continued)
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19. Equity (Continued)

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. At December 31, 2017, income earned in the year amounted to R\$50,115 (R\$37,381 in 2016).

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.

e) Statutory reserve

The Bank must allocate 10% of net income, which shall not exceed 100% of capital, to set up the statutory reserve, which is intended for ensuring an adequate operational margin to the Bank.

20. Funding expenses

	<u>2017</u>	<u>2016</u>
Time deposits (Note 15)	66,213	99,905
Open market funding (Note 16)	92,512	108,790
Contributions Deposit Insurance Fund (DIF)	1,269	1,572
Interbank deposits (Note 15)	12,531	13,553
Financial Bills (Notes 18b and 26)	6,758	10,961
Agribusiness Credit Bills (LCA) (Notes 17 and 26)	4,970	4,719
Real Estate Equity Securities - LCI (Notes 17 and 26)	3,883	3,843
	<u>188,136</u>	<u>243,343</u>

21. Service revenues

	<u>2017</u>	<u>2016</u>
Foreign exchange operation charges	4,527	5,491
Bank charges	46,103	34,195
Custody services	27,545	37,977
Investment fund administration fee	312	238
Other services	1,293	828
	<u>79,780</u>	<u>78,729</u>

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Notes to financial statements (Continued)
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22. Other administrative expenses

	<u>2017</u>	<u>2016</u>
Transport of currency - Exchange	58,760	33,434
Transport of currency - Other	2,095	2,323
Specialized technical services	11,056	14,616
Data processing	11,727	17,001
Rent	3,309	3,876
Financial system	3,150	2,849
Communications	1,527	1,804
Third-party services	893	1,368
Notarial fees	1,159	921
Surveillance and security services	276	465
Materials	281	329
Advertising and publicity	48	141
Other	4,221	4,820
	<u>98,502</u>	<u>83,947</u>

23. Other operating revenues

	<u>2017</u>	<u>2016</u>
Income from pledges given	320	789
Monetary gains	1,593	2,556
Interest on National Treasury securities issued to cover court-ordered debts	279	471
Monetary gains on judicial deposits	209	644
Monetary variations on guarantees	460	573
Recovery of charges and expenses	1,983	1,864
Reversal of provisions for expenses	390	4,468
Reversal of provisions for tax contingencies	734	-
Reversal of provisions for pledges	347	-
Other	456	309
	<u>6,771</u>	<u>11,674</u>

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Notes to financial statements (Continued)
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24. Other operating expenses

	<u>2017</u>	<u>2016</u>
Loan consulting	11,197	7,940
Gold transactions	3,118	8,024
Loan loss provision	37	2,065
Expenses with Direct Consumer Credit (CDC) contract recovery	3,200	2,716
Prepaid card	805	2,212
Amortization and depreciation	1,190	1,058
Interbank fees	1,679	1,662
Financial expenses - PSH	378	511
Monetarily restated taxes and contributions	2,127	6,563
Commissions on financing agreements	158	133
Financial advisory - Câmbio Fácil	1,664	760
Provision for pledges given	141	331
Other expenses - fund controlling services	1,322	441
Fines - CVM (i)	1,911	4,888
Other	515	894
	<u>29,442</u>	<u>40,198</u>

(i) Banco Paulista conducts 'Fund Controlling' services. These fines refer to delay in the delivery of Investment Funds' Financial Statements.

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

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

	<u>2017</u>	<u>2016</u>
Income before income taxes and profit sharing	85,313	73,638
(-) Interest on equity	(14,000)	(13,000)
(-) Profit sharing	(4,560)	(6,687)
Income before taxes and after profit sharing	66,753	53,951
Temporary additions and exclusions	(59,752)	(21,156)
Marketable securities marked to market	6,217	(1,985)
Allowance for loan losses	(66,207)	(18,935)
Provision for tax contingencies	689	108
Other temporary additions and exclusions	(451)	(344)
Permanent additions and exclusions	(6,688)	(30,778)
Equity pickup of subsidiary	(8,947)	(4,367)
PIS and COFINS payments in installments	-	(26,089)
Effective losses on loans	-	(5,721)
Other permanent additions and exclusions	2,259	5,399
Tax base	313	2,017
Income and social contribution taxes	117	883
Deductions - tax incentives	(4)	(30)
Income and social contribution taxes (*)	113	853
Deferred tax assets	25,965	22,030
Total income and social contribution taxes	26,078	22,883

(*) Effective rates: (i) 25% for income tax; (ii) 20% for social contribution tax, pursuant to Law No. 13169/15.

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

b) Tax credits

Changes in tax credits for the year were as follows:

	12/31/2016	Set up	Realization / reversal	12/31/2017
Allowance for losses on other receivables	48,151	595	(30,389)	18,357
Provision for tax risks and contingencies	6,684	(451)	(203)	6,030
Adjustment to market value - Marketable securities - held for trading / available for sale	(795)	2,798	(1,080)	923
Total tax credits (*)	54,040	2,942	(31,672)	25,310

(*) Tax credits comprise the following amounts:

Other sundry credits - tax credits (Note 11)	32,296
Other Obligations - Provision for deferred taxes and contributions (Note 18a)	(6,986)
Total tax credits	25,310

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

Present value of tax credits at December 31, 2017 amounts to R\$ 23,664, as determined by reference to the CDI/B3 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 at an amount that renders it justifiable to record such amounts as assets.

Based on projected results, which include developments in the business plan, management understands 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.

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

b) Tax credits (Continued)

Tax credits are expected to be realized as follows:

	<u>2018</u>	<u>2019</u>	<u>Total</u>
Allowance for loan losses	18,357	-	18,357
Provision for tax risks and contingencies	670	5,360	6,030
Adjustment to market value - Marketable securities - held for trading/available for sale	923	-	923
Total	19,950	5,360	25,310
Present value	18,696	4,968	23,664

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:

	<u>Assets (liabilities)</u>		<u>Revenues (expenses)</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
Demand deposits	(8,740)	(2,141)	-	-
Cash and due from banks - foreign currency	(4,273)	(2,422)	-	-
Time deposits	(112,668)	(130,740)	(18,342)	(16,129)
Interbank deposits	(131,206)	(106,569)	(11,544)	(12,516)
Open market funding	(49,466)	(7,101)	(1,561)	(1,621)
Debtors - account "Pending settlement"	(999)	1,238	-	-
Financial bill - subordinated debt (Note 18b)	(27,056)	(24,261)	(2,796)	(3,398)
Real Estate Equity Securities - LCI (Notes 17 and 20)	(37,223)	(32,661)	(3,883)	(3,843)
Agribusiness Credit Bills (LCA) (Notes 17 and 20)	(65,612)	(33,420)	(4,146)	(3,318)

a) Key management personnel compensation

As per the Bank's Charter, 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:

	<u>2017</u>	<u>2016</u>
Fixed compensation	12,635	6,812
Social charges	2,843	1,533
Total	15,478	8,345

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

The Bank 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

At December 31, 2017, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits, totaled R\$ 21,554 (R\$ 28,981 in 2016), with provision for possible losses, amounting to R\$ 593 (R\$ 798 in 2016).

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

a) Contingent assets

At December 31, 2017 and 2016, the Bank did not record contingent assets.

b) Contingent liabilities assessed as probable loss and legal obligations

b.1) *Provisions for labor claims*

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.

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Notes to financial statements (Continued)
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28. Contingent assets and liabilities and legal, tax and social security obligations (Continued)

b.2) Provisions for civil contingencies

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, property damage 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 civil proceedings, 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) Provisions for tax and social security proceedings

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

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and elected the installment payment provided for by Law No. 11941/09. In 2012, the amount of R\$43,383 was reallocated to "Other taxes payable", whose balance in 2016 of R\$640 was reversed in the first half of 2017 (see Note 18a).

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Notes to financial statements (Continued)
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28. Contingent assets and liabilities, and legal, tax, and social security obligations (Continued)

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

	Provision for contingencies				2017	2016
	Labor	Civil	Tax	Other		
Balance at beginning of year	808	1,751	2,628	-	5,187	12,452
Setting-up	-	1,818	131	77	2,026	2,815
Realization/restatement	-	-	-	-	-	(5,548)
Reversals	(363)	(873)	(181)	-	(1,417)	(4,532)
Balance at end of year	445	2,696	2,578	77	5,796	5,187

	Judicial deposits				2017	2016
	Labor	Civil	Tax	Other		
Balance at beginning of year	213	568	5,019	4,670	10,470	12,739
Restatement	-	-	209	461	670	2,793
Setting-up	-	255	-	-	255	-
Reversals	-	398	-	-	398	(275)
Withdrawals	-	(395)	-	(3)	(398)	(4,787)
Balance at end of year	213	826	5,228	5,128	11,395	10,470

c) Contingent liabilities assessed as possible losses

At December 31, 2017, contingent liabilities assessed as possible losses refer to 36 proceedings (44 proceedings in 2016) of a civil nature totaling R\$ 10,138 (R\$ 14,466 in 2016), and 7 proceedings (5 proceedings in 2016) of a labor nature totaling R\$ 860 (R\$619 in 2016), based on the amounts attributed to respective proceedings filed by claimants (and not necessarily representing 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:

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.

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Notes to financial statements (Continued)
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29. Operating limits

Minimum Required Capital (MRC), in accordance with the standards in force, is stated as follows:

Risk Weighted Assets (RWA) and Basel index	12/31/2017	12/31/2016
Base Capital (BC)	226,220	197,025
BC - tier I	209,986	174,899
Principal capital	209,986	174,899
BC - tier II	16,234	22,126
RWA calculated using the standardized approach (Cpad) - Credit	791,640	713,123
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	13,956	32,504
RWA Trading - Interest, Commodities, Shares	-	2,094
RWA for operational risks (Opad) - Operational	284,844	185,958
RWA - Total	1,090,440	933,679
MRC	100,866	92,201
Basel index (BC/RWA Total)	20.75%	21.10%
Tier I index (BC tier I / RWA Total)	19.26%	18.73%
Principal Capital ratio (PC/RWA Total)	19.26%	18.73%

The Basel index for the Financial Conglomerate at December 31, 2017, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 4192/13 and 4193/13, is 20.75%.

30. Other matters

- The Conglomerate management decided to transfer the Fund's Custody and Controlling Services, currently conducted by Banco Paulista, to its wholly-owned subsidiary SOCOPA, from the second half of July 2017 onwards. The purpose of this migration is to unify the services offered to this industry in SOCOPA, providing synergy of communication and improved operational processes.

Banco Paulista S.A.

Notes to financial statements (Continued)
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30. Other matters (Continued)

- **Clearing and settlement agreements related to obligations in the scope of the National Financial System (COSIF)** - A clearing and settlement agreement was entered into for asset and liability transactions pursuant to CMN Resolution No. 3263 of 02/24/2005, whose purpose is to allow the clearing of credits and debts kept with a same counterparty, whereby maturities of rights and obligations may be accelerated to the date on which a default event takes place by one of the parties or in case of bankruptcy of the debtor.