

Financial Statements

Banco Paulista S.A.

December 31, 2018
with Independent Auditor's Report

Banco Paulista S.A.

Financial statements

December 31, 2018 and 2017

Contents

Independent auditor's report on financial statements	1
Audited financial statements	
Statement of financial position	5
Statement of profit or loss	7
Statement of changes in equity	8
Statement of cash flows – indirect method	9
Notes to financial statements	10



São Paulo Corporate Towers
Av. Presidente Juscelino Kubitschek, 1.909
Vila Nova Conceição
04543-011 - São Paulo - SP - Brasil

Tel: +55 11 2573-3000
ey.com.br

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

Independent auditor's report on financial statements

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

Disclaimer of opinion

We have been engaged to audit the financial statements of Banco Paulista S.A. (the "Bank"), which comprise the statement of financial position as at December 31, 2018 and the statements of profit or loss, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of Banco Paulista S.A., since due to the significance of the matters described in the "Basis for disclaimer of opinion" section below, we were unable to obtain adequate and sufficient audit evidence to support our audit opinion on these financial statements.

Basis for disclaimer of opinion

Ongoing investigation

As mentioned in Note 2.c, an administrative proceeding was initiated by the Central Bank of Brazil on June 15, 2018 and an investigation procedure was opened by the Federal Public Prosecutor's Office on May 8, 2019 regarding the alleged involvement of the Bank in illegal activities being investigated in an operation known as "Disfarces de Mamom" (Disguises of Mammon). As a consequence, the Bank's management is taking investigative actions with the purpose of identifying possible noncompliance with laws and regulations by its employees and directors and officers related to these allegations. As the above-mentioned operation is still in progress, and the investigative actions being conducted by the Bank's management are still inconclusive, we were unable to carry out audit procedures that would allow us to conclude on the possible impacts on the Bank's financial statements. In addition, at this time, it is also not possible to anticipate developments resulting from the investigation procedures conducted by the public authorities, nor their possible effects on the Bank's past and present financial statements.



Building a better
working world

Risks related to compliance with laws and regulations

As mentioned in Notes 2 and 28.d, investigations and other legal measures are being conducted by the public authorities on certain expenses and their allocations, including their deductibility in the calculation of Corporate Income Tax - "IRPJ" and Social Contribution Tax on Net Profit - "CSLL" from 2013 to 2015. As a result of internal investigations, the Bank identified payments to companies included, directly or indirectly, in the investigation "*Disfarces de Mamom*" from 2013 to 2018. The Bank's governance bodies authorized the hiring of a specialized company to analyze the internal procedures related to these expenses and investigate such allegations. Currently, the respective supporting documentation has not been made available, and thus, we are unable to audit it and conclude on any adjustments, if any, to the Bank's financial statements.

Emphasis of matter

We draw attention to Note 2 to the financial statements, which describes that on account of error corrections, the corresponding figures for the years ended December 31, 2016 and 2017, presented for comparison purposes, were adjusted and are restated as provided for in NBC TG 23, in CMN Resolution No. 4007/11 and in Accounting Pronouncement CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors.

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

The 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 material misstatement in the Management Report, we are required to report this fact. As described in the "Basis for disclaimer of opinion" section above, due to an administrative proceeding filed by the Central Bank of Brazil and an investigation procedure initiated by the Federal Public Prosecutor's Office, the Bank's management is taking investigative actions with the purpose of identifying possible noncompliance with laws and regulations by its employees and directors and officers related to these allegations. As the operation "*Disfarces de Mamom*" is still in progress, it is currently not possible to anticipate developments arising from the investigation procedures conducted by the public authorities, nor their possible effects on the Bank's financial statements.



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 the 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.

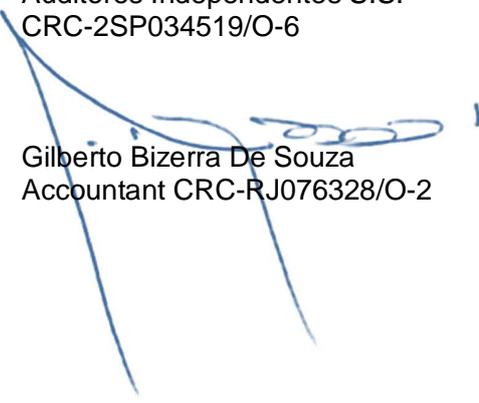
Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Bank's financial statements in accordance with the Brazilian and international standards on auditing and to issue an audit report. However, due to the matter described in the "Basis for disclaimer of opinion" section above, we were unable to obtain adequate and sufficient audit evidence to support our audit opinion on these financial statements.

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.

São Paulo, December 2, 2019.

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



Gilberto Bizerra De Souza
Accountant CRC-RJ076328/O-2

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

Banco Paulista S.A.

Statement of financial position December 31, 2018 and 2017 (In thousands of reais)

	Note	2018	2017 (restated)
Assets			
Current assets		2,259,209	2,087,348
Cash and due from banks		338,032	336,178
Local currency	4	174,490	70,381
Foreign currency	4	163,542	265,797
Interbank investments		1,123,251	1,078,254
Open market investments	4/5	1,121,745	1,046,452
Investments in interbank deposits	5	1,506	31,802
Marketable securities and derivative financial instruments		32,981	71,606
Own portfolio	6	30,760	70,628
Derivative financial instruments	7	2,221	978
Interbank accounts		22,635	22,613
Restricted loans		22,635	22,613
Loans		298,406	263,001
Loans - Private sector	9	305,123	268,719
(-) Allowance for loan losses	9	(6,717)	(5,718)
Other receivables		440,639	312,643
Foreign exchange portfolio	10	257,682	181,629
Securities trading and brokerage		22,286	18,819
Sundry	11	161,334	112,978
(-) Allowance for other loan losses	9	(604)	(783)
(-) Provision with no credit granting characteristics		(59)	-
Other assets		3,265	3,053
Prepaid expenses	12	172	139
Other assets	12	3,093	2,914
Noncurrent		746,132	591,483
Marketable securities and derivative financial instruments		474,881	400,675
Own portfolio	6	192,633	138,986
Subject to repurchase agreements	6	162,234	152,715
Subject to guarantees given	6	120,014	108,974
Loans		237,760	172,327
Loans - Private sector	9	243,101	176,074
(-) Allowance for loan losses	9	(5,341)	(3,747)
Other receivables		33,491	18,481
Sundry	11	33,491	18,481

	Note	2018	2017 (restated)
Permanent assets		113,134	117,413
Investments		104,970	108,782
Investments in local affiliates and subsidiaries	13	102,892	106,749
Other investments		2,330	2,285
(-) Provisions for losses		(252)	(252)
Property and equipment in use		2,485	2,559
Land and buildings in use		957	957
Other property and equipment in use		8,034	7,541
(-) Accumulated depreciation		(6,506)	(5,939)
Intangible assets		5,679	6,072
Intangible assets	14	8,252	8,198
(-) Accumulated amortization	14	(2,573)	(2,126)
Total assets		3,118,475	2,796,244

	Note	2018	2017 (restated)
Liabilities and equity			
Current liabilities		2,429,683	2,152,553
Deposits		665,356	628,856
Demand deposits	15	159,956	140,993
Interbank deposits	15	157,874	171,312
Time deposits	15	347,526	316,551
Open market funding		1,195,042	964,406
Own portfolio	16	161,978	152,351
Third-party portfolio	16	1,033,064	812,055
Funds from acceptance and issue of securities		65,932	49,513
Real estate and mortgage notes	17	65,932	49,513
Interbranch and interbank accounts		101,557	153,693
Correspondent banks		636	650
Third-party funds in transit		100,921	153,043
Borrowings and onlending		43,668	38,529
Foreign currency obligations	17	35,197	29,104
Local onlending - official institutions	17	8,471	9,425
Other obligations		358,128	317,556
Collection of taxes and other contributions		1,827	870
Foreign exchange portfolio	10	251,841	191,028
Tax and social security	18.a	26,297	4,923
Securities trading and brokerage		48,228	41,723
Subordinated debt	18.b	-	38,351
Sundry	18.c	29,935	40,661
Noncurrent		470,058	423,679
Deposits		362,696	326,990
Time deposits	15	362,696	326,990
Funds from acceptance and issue of securities		31,612	56,717
Real estate and mortgage notes	17	31,612	56,717
Other obligations		75,750	39,972
Tax and social security	18.a	42,352	6,986
Subordinated debt	18.b	29,060	27,056
Sundry	18.c	4,338	5,930
Equity		218,734	220,012
Capital - Brazilian residents	19	193,500	177,000
Capital increase		12,800	16,500
Income reserves		9,077	24,657
Market value adjustment - marketable securities and derivatives		3,357	1,855
Total liabilities and equity		3,118,475	2,796,244

See accompanying notes.

Banco Paulista S.A.

Statement of profit or loss

Years ended December 31, 2018 and 2017 and six-month period ended December 31, 2018
(In thousands of reais, except for earnings per thousand shares)

	Note	2 nd half	Years	
			2018	2017 (restated)
Trading revenues		198,715	387,557	399,304
Loans	9h	35,587	67,639	76,411
Income from interbank investments and marketable securities		69,345	126,077	138,302
Income from derivative financial instruments	7e	(1,852)	(5,328)	11,797
Income from foreign exchange transactions		95,635	199,169	172,794
Trading expenses		(81,994)	(167,322)	(201,523)
Funding	20	(73,337)	(143,577)	(188,136)
Borrowings and onlending		(8,812)	(20,922)	(12,064)
Allowance for loan losses	9e	155	(2,823)	(1,323)
Trading gross profit		116,721	220,235	197,781
Other operating income (expenses)		(123,508)	(181,334)	(116,246)
Service revenues	21	32,585	63,975	79,780
Personnel expenses		(36,357)	(65,743)	(65,487)
Other administrative expenses	22	(56,485)	(104,433)	(98,502)
Tax expenses		(9,013)	(17,479)	(18,134)
Equity pickup in subsidiaries	13	(9,973)	(4,275)	8,984
Other operating income	23	18,085	23,314	6,555
Other operating expenses	24	(62,350)	(76,693)	(29,442)
Operating income		(6,787)	38,901	81,535
Nonoperating income (expenses)		173	(1,372)	(961)
Income before income taxes and profit sharing		(6,614)	37,529	80,574
Income and social contribution taxes	25	(19,210)	(35,971)	(26,078)
Provision for income tax		(6,633)	(16,854)	(50)
Provision for social contribution tax		(5,779)	(14,167)	(63)
Deferred tax assets		(6,798)	(4,950)	(25,965)
Statutory profit sharing		-	(2,031)	(4,560)
Net income (loss) for the six-month period/years		(25,824)	(473)	49,936
Interest on equity	19.b	(9,833)	(15,107)	(14,000)
Earnings (losses) per thousand shares - in R\$		(86.65)	(1.59)	175.07

See accompanying notes.

Banco Paulista S.A.

Statement of changes in equity

Years ended December 31, 2018 and 2017 and six-month period ended December 31, 2018

(In thousands of reais)

	<u>Income reserves</u>					Retained earnings/ (accumulated losses)	Total
	Capital	Capital increase	Legal reserve	Statutory reserve	Market value adjustment		
Balances at December 31, 2016 (restated)	177,000	-	6,612	5,483	604	-	189,699
Net income for the year	-	-	-	-	-	49,936	49,936
Capital increase	-	16,500	-	-	-	-	16,500
Legal reserve	-	-	2,497	-	-	(2,497)	-
Statutory reserve	-	-	-	33,439	-	(33,439)	-
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 (restated)	177,000	16,500	9,109	15,548	1,855	-	220,012
Changes in the year	-	16,500	2,497	10,065	1,251	-	30,313
Balances at December 31, 2017 (restated)	177,000	16,500	9,109	15,548	1,855	-	220,012
Loss for the year	-	-	-	-	-	(473)	(473)
Transfer for capital increase	16,500	(16,500)	-	-	-	-	-
Capital increase	-	12,800	-	-	-	-	12,800
Interest on Equity (IOE)	-	-	-	-	-	(15,107)	(15,107)
Market value adjustment - marketable securities and derivatives	-	-	-	-	1,502	-	1,502
Absorption of losses with reserves	-	-	(32)	(15,548)	-	15,580	-
Balances at December 31, 2018	193,500	12,800	9,077	-	3,357	-	218,734
Changes in the year	16,500	(3,700)	(32)	(15,548)	1,502	-	(1,278)
Balances at June 30, 2018 (restated)	193,500	-	10,377	34,357	1,108	-	239,342
Loss for the six-month period	-	-	-	-	-	(25,824)	(25,824)
Capital increase	-	12,800	-	-	-	-	12,800
Legal reserve	-	-	(1,268)	-	-	1,268	-
Statutory reserve	-	-	-	(18,809)	-	18,809	-
Interest on Equity (IOE)	-	-	-	-	-	(9,833)	(9,833)
Market value adjustment - marketable securities and derivatives	-	-	-	-	2,249	-	2,249
Absorption of losses with reserves	-	-	(32)	(15,548)	-	15,580	-
Balances at December 31, 2018	193,500	12,800	9,077	-	3,357	-	218,734
Changes for the six-month period	-	12,800	(1,300)	(34,357)	2,249	-	(20,608)

See accompanying notes.

Banco Paulista S.A.

Statements of cash flows - indirect method

Years ended December 31, 2018 and 2017 and six-month period ended December 31, 2018
(In thousands of reais)

	2 nd half	Years	
		2018	2017 (restated)
Net income for the six-month period/years	(10,468)	11,734	69,219
Net income (loss) for the six-month period/years	(25,824)	(473)	49,936
Adjustments to reconcile net income to net cash	15,356	12,207	19,246
Allowance for loan losses (Note 9e)	(155)	2,823	1,323
Provisions for deferred income and social contribution taxes	6,798	4,950	25,965
Depreciation and amortization (Note 24)	656	1,164	1,190
Equity pickup in subsidiaries (Note 13)	9,973	4,275	(8,984)
Restatement of judicial deposits	(69)	(139)	(607)
Other monetary restatements	371	264	(459)
Reversal of provision for civil, tax and labor contingencies	(3,188)	(3,528)	(363)
Provisions for civil, tax, labor and other contingencies (Note 24)	977	2,311	1,923
Provisions for other contingencies	-	-	75
Provision for pledges	(7)	87	(817)
Changes in assets and liabilities			
Decrease in interbank investments	4,941	30,296	13,206
(Increase) decrease in marketable securities	29,882	(32,836)	(59,152)
(Increase) decrease in in interbank accounts	(67,683)	(52,158)	(32,853)
(Increase) in loans	(76,234)	(103,661)	(67,857)
Decrease (increase) in other receivables	61,803	(148,081)	88,970
(Increase) decrease in other assets	36	(212)	2,059
Decrease (increase) in derivative financial instruments	2,110	(1,243)	(2,235)
(Decrease) increase in other obligations	(91,089)	77,480	(71,991)
Increase (decrease) in deposits	123,381	72,206	(9,064)
(Decrease) increase in repurchase agreements	(143,705)	230,636	46,509
Net cash from (used in) operating activities	(167,026)	84,161	(23,189)
Cash flow from investing activities			
Acquisition of property and equipment in use	(471)	(664)	(921)
Investments in intangible assets	(1,281)	(1,454)	(1,796)
Disposals of property and equipment	22	21	63
Disposals of intangible assets	1,140	1,400	-
Investments	(449)	(463)	(40)
Net cash from (used in) investing activities	(1,039)	(1,160)	(2,694)
Cash flow from financing activities			
Capital increase (Note 19)	12,800	12,800	16,500
Interest on equity paid (Note 19.b)	(15,107)	(15,107)	(14,000)
Dividends paid	-	-	(23,374)
Increase (decrease) in borrowings and onlending	4,449	5,139	(1,838)
Increase in funds from acceptance and issue of securities	2,368	(8,686)	28,484
Net cash from (used in) financing activities	4,510	(5,854)	5,772
(Decrease) increase in cash and cash equivalents	(163,555)	77,147	(20,148)
Cash and cash equivalents			
Cash and cash equivalents at beginning of six-month period/years (Note 4)	1,623,332	1,382,630	1,402,778
Cash and cash equivalents at end of six-month period/years (Note 4)	1,459,777	1,459,777	1,382,630
	(163,555)	77,147	(20,148)

See accompanying notes.

Banco Paulista S.A.

Notes to financial statements
December 31, 2018 e 2017
(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

- (a) The financial statements were prepared in accordance with the accounting practices adopted in Brazil, pursuant to the accounting guidance contained in 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).
- (b) 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 December 2, 2019.
- (c) As an initial matter and in order to complete the analysis of the financial statements for the period ended December 31, 2018, it must be clarified that the Bank was cited in a plea bargain by former Odebrecht executives. As a consequence, as mentioned in Note 28.d, an administrative proceeding was initiated by the Central Bank of Brazil on June 15, 2018, in which the Bank's statements and responses were presented. Likewise, it is worth mentioning, as described in Note 18.a, that the Bank was served a tax assessment notice by the Brazilian IRS at the end of 2018 referring to corporate income tax (IRPJ), social contribution tax on net profit (CSLL) and withholding income tax (IRRF), related to Administrative Proceeding No. 16327-721.025/2018-35, drawn up due to the disallowance of expenses that made up the tax base of the above-mentioned taxes. The debt was subject to a tax installment plan formally stated with the Brazilian IRS and the installments are being paid regularly.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

2. Presentation of financial statements (Continued)

While the Bank was still in the process of preparing its financial statements, on May 8, 2019, the Bank was targeted for investigation in the 61st phase of “*Operação Lava-jato*”, called *Disfarces de Mamom*, in which the Federal Public Prosecutor’s Office and the Federal Police investigate money-laundering operations related to members of the Odebrecht Group’s “Division of Structured Operations”. The investigations resulted in the execution of a search warrant at the Bank’s headquarters to look into possible irregular service contracts.

It should be noted that the investigation targets specific transactions related to the foreign exchange department, in which two former managing officers were indicted, one former Chief Foreign Exchange Officer and one former Chief Administrative Officer, as well as a former service provider, who were ordered to prison.

Based on that fact, the Bank, unaware of any illegal acts, underwent a restructuring process and created a new Board of Directors and Officers that adopted measures to assist the authorities and minimize the impacts on the Bank, to wit: removal of directors and officers who were indicted and subject to search warrants; suspension of the service contract with the third party involved; provision of information/documentation to external bodies; changes to the Bank’s organizational structure, such as the resignation of the Chief Executive Officer, in addition to the adoption of a program of integrity that consists of the adoption of measures to strengthen governance and compliance, such as management, control, auditing and information transparency.

Considering the events, the Bank’s management decided to set up an Investigation Committee, composed of the Felsberg Advogados office and independent members, to supervise and conduct an investigation, ensuring the confidentiality of all information, documents and reports produced by the investigation team. The investigative process is ongoing, as it is necessary to carry out an extensive review of the documentation related to the matter, which includes interviews with relevant persons and financial analyses related to specific transactions.

Based on the activities carried out until the date of approval of the financial statements for December 31, 2018, there was no information on any new events, either from the Board of Directors or from the Investigation Committee. The investigative process is thorough and comprehensive, which is why it is difficult to estimate when it will be completed. However, the persons involved are committed and collaborating to reach a conclusion as soon as possible.

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(In thousands of reais)

2. Presentation of financial statements (Continued)

The objective is to investigate the facts that were already being dealt with in an administrative proceeding filed by the Central Bank of Brazil. It is important to note that the Bank had already completed an internal audit in July 2017 and that it started to implement more stringent internal policies, procedures and controls, in a manner compatible with its size and volume of operations, to comply with AML obligations and ensure an effective and structured Compliance program, implementing new control mechanisms from 2016 and carrying out the following actions since 2018: a) review of the governance system, b) creation of an Ethics Hotline, c) engagement of independent consulting firms and new employees to strengthen the departments, d) implementation of transaction monitoring solutions and, e) implementation of new internal procedures for obtaining and checking information from customers, suppliers and partners.

The Bank continues to monitor and support the investigation process conducted by the competent authorities until its completion, while systematically assessing any new information that may require additional measures.

- (d) According to Accounting Pronouncement CPC 23 - Accounting policies, changes in accounting estimates and errors - (CMN Resolution No. 4007/11), the years ended December 31, 2017 are restated due to the recognition of the effects of prior period adjustments stemming from the restatement of own government securities to cover court-ordered debts, recorded under Group of Other Receivables.

Statements of financial position

	Prior disclosure 2017	Adjustments	Adjusted balance 2017
Assets			
Noncurrent assets	598,315	(6,832)	591,483
Other receivables (Note 11)	25,313	(6,832)	18,481
Permanent assets	118,512	(1,099)	117,413
Investments	109,881	(1,099)	108,782
Total assets	2,804,175	(7,931)	2,796,244
Liabilities and equity			
Noncurrent liabilities	425,045	(1,366)	423,679
Other obligations (Note 18.c)	7,296	(1,366)	5,930
Equity	226,577	(6,565)	220,012
Income reserves	31,222	(6,565)	24,657
Total liabilities and equity	2,804,175	(7,931)	2,796,244

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

2. Presentation of financial statements (Continued)

Statements of profit or loss

	Prior disclosure 2017	Adjustments	Adjusted balance 2017
Other operating income (expenses)	(116,067)	(179)	(116,246)
Equity pickup in affiliates and subsidiaries	8,947	37	8,984
Other operating income	6,771	(216)	6,555
Net income for the year	50,115	(179)	49,936
Earnings per thousand shares - in R\$	175.70	-	175.07

Statements of changes in equity

	Prior disclosure 2016	Adjustments	Adjusted balance 2016
Legal reserve	6,932	(320)	6,612
Statutory reserve	11,549	(6,066)	5,483
Equity	196,085	(6,386)	189,699

	Prior disclosure 2017	Adjustments	Adjusted balance 2017
Legal reserve	9,438	(329)	9,109
Statutory reserve	21,784	(6,236)	15,548
Equity	226,577	(6,565)	220,012

	Prior disclosure 2018	Adjustments	Adjusted balance 2018
Legal reserve	10,616	(239)	10,377
Statutory reserve	38,884	(4,527)	34,357
Equity	244,108	(4,766)	239,342

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

2. Presentation of financial statements (Continued)

Statements of cash flows

	Prior disclosure 2017	Adjustments	Adjusted balance 2017
Adjusted net income for year	69,398	(179)	69,219
Net income for the year	50,115	(179)	49,936
Decrease (increase) in other receivables	88,700	270	88,970
(Decrease) increase in other obligations	(71,937)	(54)	(71,991)
Investments	(40)	(37)	(77)

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 *pro rata die* 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 include 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.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

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.

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, 2018 e 2017

(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 daily *pro rata* 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 and financing and other credits (credit assignment without joint obligation) are recorded at present value, calculated on a daily *pro rata* basis based on the index variation and agreed-upon interest rate, to be restated up to the sixtieth day of delay, observing the expectation of receipt.

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, 2018 e 2017
(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 using 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 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.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

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

Intangible assets comprise acquired rights to assets of this nature intended or exercised for maintaining the 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 daily *pro rata* 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.

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. Tax credits on temporary additions will be realized upon use and/or reversal of the respective provisions for which they were set up, and are based on current realization expectations, considering management's technical studies and analyses.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

3. Summary of significant accounting practices (Continued)

k) Foreign exchange operations

These are stated at realizable value, including earnings thereon (on a daily *pro rata* 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.

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 or loss per share

Net earnings or loss per share are calculated based on the number of shares on the statement of financial position date.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

4. Cash and cash equivalents

At December 31, 2018 and 2017, cash and cash equivalents are as follows:

	<u>2018</u>	<u>2017</u>
Cash and due from banks - local currency	174,490	70,381
Cash and due from banks - foreign currency	163,542	265,797
Open market investments (Note 5.a)	1,121,745	1,046,452
Cash and cash equivalents	<u>1,459,777</u>	<u>1,382,630</u>

5. Interbank investments

a) Open market investments

	<u>2018</u>		<u>2017</u>
	<u>1 to 30 days</u>	<u>Total</u>	<u>Total</u>
Open market investments			
Self-funded position:	88,681	88,681	234,397
Financial Treasury Bills (LFT)	3,560	3,560	183,341
National Treasury Bills (LTN)	70,000	70,000	51,056
National Treasury Notes (NTN)	15,121	15,121	-
Financed position:	1,033,064	1,033,064	812,055
Financial Treasury Bills (LFT)	998,186	998,186	313,028
National Treasury Bills (LTN)	-	-	499,027
National Treasury Notes (NTN)	34,878	34,878	-
Total	<u>1,121,745</u>	<u>1,121,745</u>	<u>1,046,452</u>

In the year ended December 31, 2018, income from repurchase agreements amounted to R\$75,992 (R\$93,286 in 2017).

b) Investments in interbank deposits

	<u>2018</u>	<u>2017</u>
Maturity within 90 days	1,506	-
90-360 days	-	31,802
Total	<u>1,506</u>	<u>31,802</u>

In the year ended December 31, 2018, income from interbank investments amounted to R\$734 (R\$1,992 in 2017).

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

6. Marketable securities

a) Marketable securities - breakdown by type

	2018		2017	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Securities held for trading				
Own portfolio - free	29,268	30,760	66,243	66,581
Financial Treasury Bills (LFT)	967	967	371	371
National Treasury Bills (LTN)	372	375	-	-
National Treasury Notes (NTN)	597	615	138	140
Agrarian Debt Bonds (TDA)	4	3	5	4
Investment Fund Shares (CFI)	12,558	12,558	30,244	30,244
Agribusiness Receivables Certificate (CRA)	4,492	4,492	19,613	19,084
Shares issued by publicly-held companies	1,251	2,723	1,251	2,314
Investments in marketable securities abroad	9,027	9,027	7,111	7,111
Certificates of Real Estate Receivables (CRI)	-	-	7,510	7,313
Total securities held for trading	29,268	30,760	66,243	66,581
Securities available for sale				
Own portfolio - free	192,576	192,633	141,262	143,033
Financial Treasury Bills (LFT)	169,235	169,263	74,475	74,491
National Treasury Bills (LTN)	241	242	2,078	2,078
National Treasury Notes (NTN)	671	698	30,695	32,445
Agrarian Debt Bonds (TDA)	24	19	5	4
Investment Fund Shares (CFI)	22,405	22,411	34,009	34,015
Subject to repurchase agreements	162,211	162,234	152,678	152,715
Financial Treasury Bills (LFT)	162,211	162,234	152,678	152,715
Subject to guarantees given	119,992	120,014	108,948	108,974
Financial Treasury Bills (LFT)	106,020	106,042	95,822	95,851
Investment Fund Shares (CFI)	13,972	13,972	13,126	13,123
Total securities available for sale	474,779	474,881	402,888	404,722
Total	504,047	505,641	469,131	471,303

(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.

(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.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

6. Marketable securities (Continued)

b) Marketable securities - breakdown by maturity

	2018				2017	
	No maturity	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total	Total
Securities held for trading						
Financial Treasury Bills (LFT)	-	-	-	967	967	371
National Treasury Bills (LTN)	-	-	375	-	375	-
National Treasury Notes (NTN)	-	142	-	473	615	140
Agrarian Debt Bonds (TDA)	-	-	1	2	3	4
Shares issued by publicly-held companies	2,723	-	-	-	2,723	2,314
Investments in marketable securities abroad	-	-	9,027	-	9,027	7,111
Certificates of Real Estate Receivables (CRI)	-	-	-	-	-	7,313
Agribusiness Receivables Certificate (CRA)	-	-	4,492	-	4,492	19,084
Investment Fund Shares (CFI)	-	-	-	12,558	12,558	30,244
Total securities held for trading (i)	2,723	142	13,895	14,000	30,760	66,581
Securities available for sale						
Financial Treasury Bills (LFT)	-	-	310,282	127,257	437,539	323,057
National Treasury Bills (LTN)	-	-	242	-	242	2,078
National Treasury Notes (NTN)	-	-	687	11	698	32,445
Agrarian Debt Bonds (TDA)	-	-	2	17	19	4
Investment Fund Shares (CFI)	-	-	-	36,383	36,383	47,138
Total securities available for sale (i)	-	-	311,213	163,668	474,881	404,722
Total	2,723	142	325,108	177,668	505,641	471,303

(i) In the allocation of terms, the maturities of the securities were considered, regardless of their accounting classification.

In the year ended December 31, 2018, income from marketable securities amounted to R\$49,351 (R\$43,024 in 2017).

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.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

7. Derivative financial instruments (Continued)

At December 31, 2018 and 2017, the amounts recorded in statement of financial position accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2018				2017			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards (NDF)	321,366	2,221	-	2,221	53,845	978	-	978
Total	321,366	2,221	-	2,221	53,845	978	-	978

a) Breakdown of transactions

Description	Notional value (in reais)	Net value receivable/(payable)
Forwards		
USD vs. EUR	64,312	2,127
USD vs. CAD	5,944	245
USD vs. AUD	3,343	53
USD vs. GBP	8,497	285
USD vs. JPY	3,856	(62)
USD vs. CHF	2,546	38
USD vs. NOK	138	-
USD vs. NZD	694	(10)
USD vs. XAU	25,448	(2,091)
USD vs. MXN	151	8
Real vs. USD	206,437	1,628
Total	321,366	2,221

b) Derivative financial instruments mature as follows:

Description	2018			Total	2017
	Within 3 months	From 3 to 12 months	Above 12 months		Total
Forwards (NDF)	2,449	(228)	-	2,221	978

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

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

7. Derivative financial instruments (Continued)

c) Derivative financial instruments – futures market

The Bank carries out transactions involving derivative financial instruments in futures market - B3, which are exclusively tied to future foreign currency indexes for which notional value at December 31, 2018 totals R\$300,176 (R\$80,587 in 2017), and an adjustment receivable of R\$779 (R\$20 receivable in 2017) was computed.

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.

d) Guarantee margin

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

	<u>2018</u>	<u>2017</u>
Financial Treasury Bills (LFT)	37,581	95,851
Fund shares	25,979	13,123
	<u>63,560</u>	<u>108,974</u>

e) Gain (loss) on derivative financial instruments

Income (loss) from derivative financial instrument transactions for the years ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Futures	(15,719)	18,583
Forward transactions - NDF	10,391	(6,786)
	<u>(5,328)</u>	<u>11,797</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

8. Risk management

Risk appetite

The Executive Board is responsible for approving the guidelines and thresholds for risk appetite, performing its responsibilities with the support of the Risk and Control Committee and the Chief Risk Officer (CRO).

The risk appetite thresholds are frequently monitored and reported to the Risk and Control Committee and to the Executive Board, which provided guidance on preventive measures to be taken to ensure that the exposures are in line with the Bank's and Socopa's strategy.

There is a centralized and independent risk management and control structure for the business units, which establishes risk thresholds and risk mitigation mechanisms, in addition to establishing processes and instruments to measure, monitor and control risks.

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; and
- Organizational structure based on functional roles, assuring independence and segregation of duties.

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.

Types of risks

a) *Liquidity risk*

Liquidity risk is the risk that the institution may be unable to effectively meet its expected and unexpected, current and future, obligations, without affecting its daily operations and without incurring significant losses. 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.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

8. Risk management (Continued)

Types of risk (Continued)

a) *Liquidity risk (Continued)*

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. 4557/17.

b) *Credit risk*

Credit risk is the risk that a borrower, issuer or counterparty will default on their contractual 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. 4557/17.

c) Market risk

Market risk is the risk of possible losses arising from fluctuations in the market values of the positions held by the financial institution. These losses may be subject to exchange rate parity, interest rates, share price, price indexes and commodity price.

Risk management seeks to balance the Bank's business objectives in the Banking and Trading portfolio considering, among others: political, economic and market conditions, portfolio profile and the ability to operate in specific markets. The practices adopted comply with the criteria set forth by CMN Resolution No. 4557/17.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

8. Risk management (Continued)

d) Operational risk

Operational risk arises from fraud, internal or external, labor claims and lack of workplace safety, inappropriate practices related to customers, products and services, damage to own physical assets or to assets in use by the institution, situations that cause the interruption of the institution's activities and failures in IT systems, processes or infrastructure. 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 adequate improvement plans. The practices adopted comply with the criteria set forth by CMN Resolution No. 4557/17.

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 are in compliance with CMN Resolution No. 4557/17.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

9. Loans

At December 31, 2018 and 2017, loans are broken down as follows:

a) By type of transaction

	<u>2018</u>	<u>2017</u>
Loans:		
Loans and discounted notes	412,260	315,077
Financing - Export credit notes	135,964	129,716
	<u>548,224</u>	<u>444,793</u>
Other receivables:		
Credit assignment without joint obligation (Note 11)	72,175	49,796
	<u>72,175</u>	<u>49,796</u>
Total lending operations	<u>620,399</u>	<u>494,589</u>
Allowance for loan losses	(12,058)	(9,465)
Allowance for losses on other receivables	(604)	(783)
Total allowance for loan losses	<u>(12,662)</u>	<u>(10,248)</u>
	<u>607,737</u>	<u>484,341</u>

b) Breakdown by sector

	<u>2018</u>	<u>2017</u>
Private sector		
Manufacturing	172,998	171,941
Trade	184,371	125,791
Services	244,532	180,128
Individuals	18,498	16,729
Total	<u>620,399</u>	<u>494,589</u>

c) Loans by maturity

	<u>2018</u>	<u>2017</u>
Amounts overdue	4,709	3,284
Amounts falling due		
Within 90 days	92,000	110,473
From 91 to 180 days	138,688	118,654
From 181 to 360 days	141,901	86,105
Above 360 days	243,101	176,073
Total	<u>620,399</u>	<u>494,589</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

9. Loans (Continued)

d) Portfolio broken down by risk level

Level	Portfolio balances					
	2018				2017	
	Ordinary course	Overdue	Total	%	Total	%
A	35,739	-	35,739	5.76	12,015	2.43
B	472,967	6,719	479,686	77.32	358,841	72.56
C	90,548	1,080	91,628	14.77	112,535	22.75
D	759	1,965	2,724	0.44	1,330	0.27
E	5,697	1,800	7,497	1.21	9,452	1.91
F	-	1,078	1,078	0.17	203	0.04
G	-	563	563	0.09	200	0.04
H	-	1,484	1,484	0.24	13	-
	615,690	4,709	620,399	100.00	494,589	100.00

Level	Allowance						
	2018				2017		
	Allowance %	Ordinary course	Overdue	Total	%	Total	%
A	0.5	178	-	178	1.41	60	0.59
B	1.0	4,730	67	4,797	37.88	3,588	35.01
C	3.0	2,717	32	2,749	21.70	3,376	32.94
D	10.0	76	196	272	2.16	133	1.30
E	30.0	1,709	540	2,249	17.76	2,836	27.67
F	50.0	-	539	539	4.26	102	1.00
G	70.0	-	394	394	3.10	140	1.37
H	100.0	-	1,484	1,484	11.72	13	0.12
		10,818	1,844	12,662	100.00	10,248	100.00

e) Changes in allowance for loan losses

	2018	2017
Balance at beginning of year	10,248	10,054
Setting-up, net	2,823	1,323
Loans written off against losses	(409)	(1,129)
Balance at end of year	12,662	10,248

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2018 total R\$8,271 (R\$10,672 in 2017).

Recovered loans in the year ended December 31, 2018 total R\$2,097 (R\$2,090 in 2017).

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

9. Loans (Continued)

g) Credit assignment

In the years ended December 31, 2018 and 2017, the Bank did not engage in assignment of loans with joint obligation.

h) Income from loans

	<u>2018</u>	<u>2017</u>
Loans and discounted notes	49,036	58,717
Financing	16,337	15,332
Recovery of loans written off as losses	2,097	2,090
Advances to deposit holders	169	272
Total loans	<u>67,639</u>	<u>76,411</u>

10. Foreign exchange portfolio

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Foreign exchange purchase pending settlement	144,804	74,477
Rights on foreign exchange sales	113,101	112,478
Advances received in local and foreign currency	(223)	(5,326)
	<u>257,682</u>	<u>181,629</u>
Liabilities		
Current liabilities		
Foreign exchange sale pending settlement	107,827	117,275
Foreign exchange purchase obligations	144,014	73,753
	<u>251,841</u>	<u>191,028</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

11. Other receivables - sundry

	<u>2018</u>	<u>2017</u>
Current		
Taxes to be offset	22,980	18,891
Tax credits (Note 25.b)	3,230	19,950
Sundry debtors - domestic (ii)	61,706	10,301
Debtors for guarantee deposits (Note 28.b)	902	5,955
Securities and receivables (i)	72,175	57,546
Other	341	335
	<u>161,334</u>	<u>112,978</u>
Noncurrent		
Tax credits (Note 25.b)	22,759	12,346
Debtors for guarantee deposits (Note 28.b)	4,286	5,440
Securities and receivables (i)	6,421	670
Other	25	25
	<u>33,491</u>	<u>18,481</u>

- (i) This includes the amount of R\$72,175 (R\$49,796 in 2017) referring to Credit assignment without joint obligation (Note 9.a);
- (ii) Prepaid exchange funds.

12. Other assets

	<u>2018</u>	<u>2017</u>
Current		
Assets not for own use	3,093	2,914
Prepaid expenses	172	139
	<u>3,265</u>	<u>3,053</u>

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:

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

13. Investments in subsidiaries and affiliates (Continued)

	2018	2017
Number of shares held	3,200	3,200
Capital	66,000	66,000
Equity	102,892	106,749
Market value adjustment - marketable securities and derivatives	418	(69)
Net income (loss) for the year	(4,275)	8,984
Interest percentage	100%	100%
Investment balance	102,892	106,749
Equity pickup	(4,275)	8,984

14. Intangible assets

	Amortization rate	Cost	Amortization	31/12/2018	31/12/2017
Software	20%	4,252	(2,573)	1,679	672
Other intangible assets (*)	-	4,000	-	4,000	5,400
	-	8,252	(2,573)	5,679	6,072

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

15. Deposits

	2018				2017	
	No maturity	From 1 to 90 days	From 91 to 360 days	Above 360 days	Total	Total
Demand - Local currency	122,173	-	-	-	122,173	89,205
Demand - Foreign currency	37,783	-	-	-	37,783	51,788
Interbank	-	117,081	40,793	-	157,874	171,312
Time	-	139,320	208,206	362,696	710,222	643,541
	159,956	256,401	248,999	362,696	1,028,052	955,846

In the year ended December 31, 2018, expenses with "Deposits" totaled R\$54,000 (R\$78,744 in 2017) and expenses with "Deposit Insurance Fund" amounted to R\$1,055 (R\$1,269) – see Note 20.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

16. Open market funding

	<u>2018</u>	<u>2017</u>
Own portfolio		
Financial Treasury Bills (LFT)	161,978	152,351
	161,978	152,351
Third-party portfolio		
Financial Treasury Bills (LFT)	998,186	313,028
National Treasury Bills (LTN)	-	499,027
National Treasury Notes (NTN)	34,878	-
	1,033,064	812,055
Total	1,195,042	964,406

In the year ended December 31, 2018, expenses with "Open market funding" totaled R\$79,340 (R\$92,512 in 2017 - see Note 20).

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

	<u>2018</u>					<u>2017</u>	
	No maturity	From 1 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	Total	Total
Borrowings							
Foreign borrowings (i)	-	29,241	5,956	-	-	35,197	29,104
Onlending							
Local onlending - official institutions (ii)	8,471	-	-	-	-	8,471	9,425
Funds from acceptance and issue of securities							
Obligations due to issue of Agribusiness Credit Bills (LCA) (iii)	-	7,689	28,252	9,300	30,604	75,845	69,007
Obligations due to issue of Real Estate Equity Securities (LCI) (iv)	-	-	8,207	12,484	-	20,691	37,223
Obligations due to issue of Financial Bills (v)	-	-	-	-	1,008	1,008	-
	8,471	36,930	42,415	21,784	31,612	141,212	144,759

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(In thousands of reais)

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) (iii) These refer to Agribusiness Credit Bills (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;
- (iv) These refer to Financial Bills (LF). The rate used was 115.5% of the CDI maturing on November 8, 2021.

In the year ended December 31, 2018, expenses with "Funds from acceptance and issue of securities" totaled R\$5,762 (R\$8,853 in 2017 - see Note 20).

18. Other obligations

a) Tax and social security

	<u>2018</u>	<u>2017</u>
Current		
Taxes and contributions payable (i)	14,835	4,923
Income taxes and contributions	11,462	-
	<u>26,297</u>	<u>4,923</u>
Noncurrent		
Taxes and contributions payable (i)	36,293	-
Provision for deferred taxes and contributions (Note 25.b)	6,059	6,986
	<u>42,352</u>	<u>6,986</u>

- (i) These refer to the IRPJ, CSLL and IRRF tax assessment notices in the amount of R\$43,528, related to Administrative Proceeding No. 16327-721.025/2018-35, drawn up due to the disallowance of expenses that made up the tax base of the above-mentioned taxes. The debt was subject to a 60-month tax installment plan formally stated with the Brazilian IRS and the installments are being paid regularly.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

18. Other obligations (Continued)

b) Subordinated debts

	<u>2018</u>	<u>2017</u>
Current		
Capital-eligible subordinated debts (i)	-	38,351
Noncurrent		
Capital-eligible subordinated debts (i) (Note 26)	<u>29,060</u>	<u>27,056</u>
	<u>29,060</u>	<u>65,407</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, and was settled on July 2, 2018.

In the year ended December 31, 2018, expenses with "Subordinated Debts" totaled R\$3,420 (R\$6,758 in 2017 - see Note 20).

c) Sundry

	<u>2018</u>	<u>2017</u>
Current		
Accrued payments	11,522	18,761
Provisions for pledges given (Note 27)	681	593
Items to be settled - foreign exchange	15,406	17,163
Brokerage to credit - Foreign exchange	2,100	3,700
Charges on funds received - PSH	9	142
Other amounts payable	217	302
	<u>29,935</u>	<u>40,661</u>
Noncurrent		
Accrued payments	106	134
Provisions for contingent liabilities (Note 28.b)	4,232	5,719
	-	77
	<u>4,338</u>	<u>5,930</u>

19. Equity

a) Capital

At December 31, 2018, the Bank's fully subscribed and paid-up capital of R\$193,500 (R\$177,000 in 2017) is represented by 298,031,760 (285,231,760 in 2017) registered shares with no par value, of which 149,015,880 (142,615,880 in 2017) are common shares and 149,015,880 (142,615,880 in 2017) are preferred shares.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

19. Equity (Continued)

b) Capital

The Special General Meeting held on December 21, 2018 passed a resolution proposing capital increase from R\$193,500 to R\$206,300, through cash payment by shareholders of R\$12,800, corresponding to the issue of 6,400,000 common shares and 6,400,000 preferred shares, all of them registered shares with no par value. This increase was approved by the Central Bank of Brazil on January 10, 2019.

c) 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 2018, interest on capital was paid in the amount of R\$15,107 (R\$14,000 in 2017), by decision of the Executive Board and due to the non-existence of profits to be distributed, no dividends were paid in 2018 (R\$23,374 in 2017).

d) Income reserves and accumulated losses

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, 2018, losses for the year amounted to R\$473 (R\$49,936 in 2017).

e) 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.

f) 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.

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(In thousands of reais)

20. Funding expenses

	<u>2018</u>	<u>2017</u>
Time deposits (Note 15)	43,450	66,213
Open market funding (Note 16)	79,340	92,512
Contributions Deposit Insurance Fund (DIF)	1,055	1,269
Interbank deposits (Note 15)	10,307	12,531
Financial Bills (Notes 18.b and 26)	3,420	6,758
Agribusiness Credit Bills (LCA) (Notes 17 and 26) (i)	4,044	4,970
Real Estate Equity Securities - LCI (i) (Notes 17 and 26)	1,718	3,883
Exchange differences of deposits in foreign currencies	243	-
	<u>143,577</u>	<u>188,136</u>

(i) Of the total amount, R\$3,846 (R\$824 in 2017) refer to expenses with related parties.

21. Service revenues

	<u>2018</u>	<u>2017</u>
Foreign exchange operation charges	6,638	4,527
Bank charges	55,830	46,103
Custody services (i)	810	27,545
Investment fund administration fee	215	312
Other services	482	1,293
	<u>63,975</u>	<u>79,780</u>

(i) As of July 2017, Custody and Fund Controlling Services are conducted by the Bank's wholly-owned subsidiary SOCOPA.

22. Other administrative expenses

	<u>2018</u>	<u>2017</u>
Transport of currency - Exchange	57,730	58,760
Transport of currency - Other	2,051	2,095
Specialized technical services	14,373	11,056
Data processing	10,633	11,727
Rent	3,571	3,309
Financial system	6,030	3,150
Communications	1,181	1,527
Third-party services	1,218	893
Notarial fees	1,340	1,159
Surveillance and security services	227	276
Materials	263	281
Advertising and publicity	93	48
Other	5,723	4,221
	<u>104,433</u>	<u>98,502</u>

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(In thousands of reais)

23. Other operating income

	2018	2017
Income from guarantees given	308	320
Income and social contribution taxes (IRPJ and CSLL) to be offset	4,696	1,593
Interest on National Treasury securities issued to cover court-ordered debts	1,680	63
Monetary gains on judicial deposits	139	209
Monetary variations on guarantees	107	460
Recovery of charges and expenses	1,385	1,983
Reversal of provisions for expenses (i)	4,568	390
Reversal of provisions for tax contingencies	-	734
Reversal of provisions for pledges	48	347
Interest on equity - Shares	71	46
Income from social-security related severance pay	1,031	-
Exchange differences of deposits in foreign currencies	7,030	-
Non deductible reversal	1,243	-
Other	1,008	410
	23,314	6,555

(i) Comprises substantially reversals of provisions for contingencies (Note 28.b).

24. Other operating expenses

	2018	2017
Loan consulting	13,336	11,197
Gold transactions	2,318	3,118
Loan loss provision	1,057	37
Expenses with Direct Consumer Credit (CDC) contract recovery	2,475	3,200
Prepaid card	780	805
Amortization and depreciation	1,164	1,190
Interbank fees	694	1,679
Financial expenses - PSH	550	378
Restatement of judicial deposits	88	131
Contingencies – judicial provisions and legal obligations	2,223	1,996
Provision for attorney fees	161	-
Expenses with the tax assessment notice served by the Brazilian IRS (ii) (Note 18.a)	43,528	-
Commissions on financing agreements	21	158
Financial advisory - Câmbio Fácil	91	1,664
Provision for pledges given	135	141
Other expenses - fund controlling services	-	1,322
Fines - CVM (i)	828	1,911
Expenses with discounts granted in renegotiations	4,606	-
Expenses with restatement of government securities to cover court-ordered debts	1,964	34
Other	674	481
	76,693	29,442

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

(ii) These refer to the IRPJ, CSLL and IRRF tax assessment notices related to Administrative Proceeding No. 16327-721.025/2018-35, drawn up due to the disallowance of expenses that made up the tax base of the above-mentioned taxes. The debt was subject to a tax installment plan with the Brazilian IRS and the installments are being paid regularly.

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(In thousands of reais)

25. Income and social contribution taxes

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

	<u>2018</u>	<u>2017</u>
Income before income taxes and profit sharing	37,529	80,574
(-) Interest on equity paid (Note 19.b)	(15,107)	(14,000)
(-) Profit sharing	(2,031)	(4,560)
Income before taxes and after profit sharing	<u>20,391</u>	62,014
Temporary additions and exclusions	<u>9,349</u>	(59,752)
Marketable securities marked to market	573	6,217
Allowance for loan losses (Note 9.e)	2,823	(66,207)
Provision for tax contingencies	5,580	689
Other temporary additions and exclusions	373	(451)
Permanent additions and exclusions	<u>41,093</u>	(6,509)
Equity pickup of subsidiary (Note 13)	4,275	(8,984)
Other permanent additions and exclusions (i)	36,818	2,475
Tax base	<u>70,833</u>	(4,247)
Income and social contribution taxes	31,851	117
Deductions - tax incentives	(830)	(4)
Income and social contribution taxes (*)	31,021	113
Deferred tax assets	4,950	25,965
Total income and social contribution taxes	<u>35,971</u>	<u>26,078</u>

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

(i) These refer to the IRPJ, CSLL and IRRF tax assessment notices related to Administrative Proceeding No. 16327-721.025/2018-35 (Note 18.a), drawn up due to the disallowance of expenses that made up the tax base of the above-mentioned taxes. The debt was subject to a tax installment plan formally stated with the Brazilian IRS and the installments are being paid regularly.

b) Tax credits

Changes in tax credits for the year were as follows:

	<u>31/12/2017</u>	<u>Set up</u>	Realization /	<u>31/12/2018</u>
			<u>Reversal</u>	
Allowance for losses on other receivables	18,357	1,129	(2,023)	17,463
Provision for tax risks and contingencies	6,030	-	(4,064)	1,966
Adjustment to market value - Marketable securities - held for trading / available for sale	923	-	(422)	501
Total tax credits (*)	<u>25,310</u>	<u>1,129</u>	<u>(6,509)</u>	<u>19,930</u>

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

25. Income and social contribution taxes (Continued)

b) Tax credits (Continued)

(*) Tax credits comprise the following amounts:

	<u>2018</u>	<u>2017</u>
Other sundry credits - tax credits (Note 11)	25,989	32,296
Other Obligations - Provision for deferred taxes and contributions (Note 18.a)	<u>(6,059)</u>	<u>(6,986)</u>
Total tax credits	<u>19,930</u>	<u>25,310</u>

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, 2018 amounts to R\$18,611, 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.

Tax credits are expected to be realized as follows:

	<u>2019</u>	<u>2020</u>	<u>Total</u>
Allowance for loan losses	1,745	15,718	17,463
Provision for tax risks and contingencies	983	983	1,966
Market value adjustment - Marketable securities - held for trading/available for sale	501	-	501
Total	<u>3,229</u>	<u>16,701</u>	<u>19,930</u>
Present value	<u>3,034</u>	<u>15,577</u>	<u>18,611</u>

Banco Paulista S.A.

Notes to financial statements (Continued)

December 31, 2018 e 2017

(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)		Revenues (expenses)	
	2018	2017	2018	2017
Demand deposits	(11,025)	(8,740)	-	-
Cash and due from banks - foreign currency	(273)	(4,273)	-	-
Time deposits	(133,257)	(112,668)	(26,021)	(18,342)
Interbank deposits	(151,422)	(131,206)	(8,440)	(11,544)
Open market funding	(18,942)	(49,466)	(1,688)	(1,561)
Debtors - account "Pending settlement"	779	(999)	-	-
Financial bill - subordinated debt (Note 18.b)	(29,060)	(27,056)	(3,420)	(6,758)
Real Estate Equity Securities - LCI (Notes 17 and 20)	(20,691)	(37,223)	(1,718)	(3,883)
Agribusiness Credit Bills - LCA (Notes 17 and 20)	(72,449)	(65,612)	(3,846)	(4,146)

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:

	2018	2017
Fixed compensation	13,795	12,635
Social charges	3,144	2,843
Total	17,119	15,478

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, 2018, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits totaled R\$23,027 (R\$21,554 in 2017), with provision for possible losses amounting to R\$681 (R\$593 in 2017).

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

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

a) Contingent assets

At December 31, 2018 and 2017, 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.

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 Bank computed and paid CSLL at 18% based on Law No. 9249/95.

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

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

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

b.3) *Provisions for tax and social security proceedings* (Continued)

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

	Provision for contingencies				2018	2017
	Labor	Civil	Tax			
Balance at beginning of year	445	2,696	2,578		5,719	5,187
Setting-up	1,569	654	88		2,311	1,949
Realizations	-	(431)	-		(431)	-
Reversals	(1,443)	(2,085)	-		(3,528)	(1,417)
Fees	-	161	-		161	-
Balance at end of year	571	995	2,666		4,232	5,719

	Judicial deposits				2018	2017
	Labor	Civil	Tax	Other		
Balance at beginning of year	213	826	5,228	5,128	11,395	10,470
Restatement	-	-	139	(264)	(125)	670
Setting-up	18	391	-	2	411	255
Reversals	(151)	(30)	-	-	(181)	398
Withdrawals	-	(292)	(1,161)	(4,859)	(6,312)	(398)
Balance at end of year	80	895	4,206	7	5,188	11,395

c) Contingent liabilities assessed as possible losses

At December 31, 2018, contingent liabilities assessed as possible losses refer to 20 proceedings (36 proceedings in 2017) of a civil nature totaling R\$8,225 (R\$10,138 in 2017), 7 proceedings (7 proceedings in 2017) of a labor nature totaling R\$795 (R\$860 in 2017), and 14 proceedings (11 proceedings in 2017) of a tax nature amounting to R\$2,527 (R\$3,295 in 2017), based on the amounts attributed to the 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:

Banco Paulista S.A.

Notes to financial statements (Continued)
December 31, 2018 e 2017
(In thousands of reais)

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

d) Regulatory agencies

There is an administrative proceeding filed by the Central Bank of Brazil on June 15, 2018 in its initial phase. The proceeding is in progress and Bank's statements and responses have been presented. In addition, the Brazilian IRS initiated a tax audit on February 8, 2018 to verify the Bank's income tax returns for the base years 2013 to 2015. The audit is currently in progress.

29. Operating limits

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

	31/12/2018	31/12/2017
Risk Weighted Assets (RWA) and Basel index		
Base Capital (BC)	218,965	226,220
BC - tier I	201,529	209,986
Principal capital	201,529	209,986
BC - tier II	17,436	16,234
RWA calculated using the standardized approach (Cpad) - Credit	944,295	791,640
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	35,184	13,956
RWA Trading - Interest, Commodities, Shares	1,517	-
RWA for operational risks (Opad) - Operational	500,363	284,844
RWA - Total	1,481,359	1,090,440
MRC	127,767	100,866
Basel index (BC/RWA Total)	14.78%	20.75%
Tier I index (BC tier I / RWA Total)	13.60%	19.26%
Principal Capital ratio (PC/RWA Total)	13.60%	19.26%

The Basel index for the Financial Conglomerate at December 31, 2018, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions No. 4192/13 and No. 4193/13, is 14.78%.