(Convenience translation into English from the original previously issued in Portuguese)

BANCO PAULISTA S.A.
(Corporate Tax ID (CNPJ) No. 61.820.817/0001-09)

Independent auditor's report

Financial statements
As at December 31, 2019

BANCO PAULISTA S.A.

Financial statements
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INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS

To the
Shareholders and Management of
Banco Paulista S.A.
São Paulo - SP

Qualified opinion

We have audited the individual financial statements of **Banco Paulista S.A. (the “Bank”)**, which comprise the statements of financial position as at December 31, 2019, and the respective statements of operations, changes in equity and cash flows for the six-month period and year then ended, as well as the corresponding notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the following section of this report “Basis for qualified opinion”, the accompanying financial statements present fairly, in all material respects, the financial position of **Banco Paulista S.A.**, as at December 31, 2019, its financial performance and its cash flows for the six-month period and year then ended, in accordance with the Brazilian accounting practices applicable to entities authorized by the Central Bank of Brazil (BACEN) to operate.

Basis for qualified opinion

Independent investigations

In view of the proceedings filed by BACEN and the Federal Public Prosecutor’s Office (MPF) in respect of the investigations conducted by federal government authorities related to the operation known as “Operação Lava Jato – Disfarces de Mamom” (Car Wash Operation – Disguises of Mammon), as presented in Note 2.c, the current Management of the Bank concluded an independent investigation on the service providers appointed in the proceedings filed by BACEN and MPF in order to identify possible violation of laws and regulations from its former executives and service providers related to such Operation. The investigation counted on an independent internal committee guiding the work of the team established for the investigation carried out by a law firm and risk expert company, whose results are presented in Note 2.c. The investigation covered only the service providers included in the investigations conducted by federal government authorities, pointing out that certain service provision expenses arising from commissioning on foreign exchange transactions carried out by the Bank did not present adequate and sufficient evidence to corroborate the actual services rendered, and the identification of expenses without proper formalization in contracts, payments of expenses whose contracts did not stipulate the rationale of remuneration or percentage of commissions and absence of purchase orders or quotations with other suppliers, which resulted in an assessment of tax deficiency drawn up by the Brazilian Revenue Service (RFB) in the amount of R$ 55,586 thousand , according to Note 16.a. RFB concluded its assessment on December 03, 2019, filing a new assessment of tax deficiency in view of the conclusion of its investigation, based on the disallowance of deductions made in the calculation of Income Tax, Social Contribution Tax and Withholding Income Tax. In respect of this proceeding, the Bank filed an objection supported by its legal counselors, which considered the likelihood of loss for such disallowances remote and possible, as shown in Note 28.c and by the investigation conducted, which did not identify irregularities on those expenses. According to Note 2.c, on July 10, 2020, RFB issued a new assessment of tax deficiency, complementary to the second one, adjusting the assessment resulting from the inspection concluded on December 03, 2019 according to the rate of the fine applied, for which the legal counselors have the same interpretation as the original assessment.

On the administrative proceeding filed by BACEN, according to Notes 2.d and 28.d, the legal counselors have the opinion that there is no sufficient information for the disclosure or determination on whether a provision for losses is necessary. Accordingly, the investigation conducted, for not having included all service providers, may still require that other investigative procedures, not yet considered, be necessary as part of the whole process of investigation started. Additionally, it is not currently possible to estimate the future development of the investigations from the federal government authorities, which may include new sanctions, or its possible effects on the Bank's financial statements as at June 30 and December 31, 2019, considering the current stage of the investigations conducted by the federal government authorities.

Basis of presentation of the consolidated financial statements

Management is not presenting the Bank's consolidated financial statements, as per Note 3. Therefore, these financial statements must be read in conjunction with the controlled company's financial statements..

Confirmation letter replies (external confirmations) and reconciliation from foreign financial institutions

In accordance with the audit procedure established by NBC TA 55 – External Confirmation (confirmation letters), letters were sent to confirm operations conducted with other financial institutions as at June 30 and December 31, 2019, whose replies were not received. Also, according to Note 4, as at December 31, 2019, the Bank has cash and cash equivalents in foreign currencies in the amount of R$ 1,350 thousand, for which, until the conclusion of our examination, no reconciliations and bank statements were presented that could corroborate the mentioned balance, and we were unable, by means of alternative audit procedures, to obtain adequate and sufficient audit evidence to corroborate the balances accounted for. Accordingly, we were unable to conclude on these audit procedures and on possible impacts of this matter on the Bank's financial statements as at December 31, 2019.

Loss on closing of foreign exchange operating activities

As mentioned in Note 23 to the financial statements, in 2019, the Bank recognized against income (loss) several accounting items related to the closing of its foreign exchange operating activities, resulting in losses of R$ 10,293 thousand, for which no appropriate and sufficient controls and documentation were presented that would enable us to conclude on this procedure, as well as on the proper accrual period of these transactions, allowing the application of CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by the National Monetary Council (CMN) Resolution No. 4.007/11. As a consequence, we were unable to audit the adjustments made or to determine the amounts involved for restatement and their respective impacts on the Bank's financial statements for the six-month period and year ended December 31, 2019.

Tax credits from previous years

As per Note 24 to the financial statements as at December 31, 2019, the bank recognized tax credits in the amount of R$ 12,810 thousand, of which R$ 2,780 thousand refer to credits taken on operations prior to 2019, from accrual periods prior to 2019, which led to the mandatory application of CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution No. 4.007/11 and the subsequent restatement of the financial statements involved. In relation to the matter, until the end of our audit, the necessary corrections of the accessory obligations with RFB were not carried out; a mandatory procedure so that credits can be used. As long as these processes are not finalized, we are unable to ensure their quality and their possible effects on the Bank's financial statements ended December 31, 2019.

Investment in controlled companies and affiliates

As mentioned in Note 11 to the financial statements, the Bank has investments in the controlled company SOCOPA - Sociedade Corretora Paulista S.A. (“Invested company”), representing one hundred percent (100%) of the capital of that investee. This controlled company did not conclude the audit process of its financial statements until the date of issue of our report. Consequently, we were unable to conclude, by means of alternative audit procedures, on the proper presentation of this investment, amounting to R$ 63,783 thousand, and of equity in earnings (losses) of controlled companies, amounting to R$ 870 thousand as at December 31, 2019.

Calculation of tax credits

As mentioned in Note 24 to the financial statements, the Bank has recorded tax credits in the amount of R$ 33,979 thousand, of which R$ 3,971 thousand did not have adequate and sufficient evidence to corroborate the recognition of this amount. Accordingly, the balances of tax credits, income (loss) for the six-month period and for the year, and equity are overstated by R$ 3,971 thousand as at December 31, 2019.

Payment of interest on equity capital

According to Note 17.b to the financial statements, the Bank paid interest on equity capital in the amount of R$ 4,539 thousand. However, the Bank did not present any profit for the year or balance of reserves that would enable the payment of interest on equity capital. In addition, the qualifications described in this report indicate that the income (loss) for the six-month period and for the year ended December 31, 2019 were overstated. Accordingly, the balance of statutory reserve is not properly presented.

Impairment of intangible assets

According to Note 12 to the financial statements, the Bank has Intangible assets referring to brands and patents in the amount of R$ 4,000 thousand, which was leased for a period of 240 months, requiring the application of CPC 01 (R1) Impairment of Assets, approved by CMN Resolution No. 3.566/08. Management did not perform impairment tests on its cash flows, and our audit pointed out the need for recognizing impairment loss in the amount of R$ 369 thousand. As a consequence, noncurrent assets, equity and income (loss) for the six-month period and for the year ended December 31, 2019, are overstated by R$ 369 thousand.

Allowance for loan losses

According to Note 8.d to the financial statements, the Bank presents the balance of allowance for loan losses of R$ 24,912 thousand, whereas our audit pointed to the amount of R$ 29,252 thousand, indicating an understatement of R$ 4,340 thousand, due to lack of guarantee to operations, and considering that they were fully provisioned by means of subsequent events, contrary to the provisions of CPC 24 - Subsequent Event and CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolutions No. 3.973/11 and 3.823/09, respectively, and CMN Resolution No. 2.682. Consequently, as at December 31, 2019, assets and equity are overstated, as well as income (loss) for the six-month period and for the year, by R$ 4,340 thousand.

Fines - Brazilian Securities and Exchange Commission (CVM)

According to Notes 16.c and 22 to the financial statements, the Bank reversed the provision for fines due to noncompliance with deadlines of CVM in the amount of R$ 4,002 thousand, understanding that they must be recognized upon their effective collection, regardless of their statute of limitations, contrary to the provisions of CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3.823/09. Parallel to this matter, the provision was set up in previous years and it cannot affect future income (loss) after its respective recognition, except when barred by the statute of limitations. As a consequence, current liabilities are understated, and equity and income (loss) for the six-month period and for the year are overstated by R$ 4,002 thousand.

Asset and liability valuation adjustment

As mentioned in Note 22 to the financial statements, the Bank recognized an adjustment as revenue related to the fair value of marketable securities available for sale in the amount of R$ 2,983 thousand, arising from securities traded and settled prior to 2019. Management chose not to restate the financial statements for the year ended December 31, 2018, with the necessary corrections, as provided for by CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution 4.007/11. As a consequence, income (loss) for the six-month period and for the year ended December 31, 2019 are overstated by R$ 2,983 thousand.

Loss on derivatives

In the six-month period ended December 31, 2019, the Bank recognized loss on derivative financial instruments in the amount of R$ 13,282 thousand, of which R$ 3,547 thousand refer to expenses incurred in the six-month period ended June 30, 2019. Management did not restate the financial statements for the six-month period ended June 30, 2019, with the necessary corrections, as required by CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution 4.007/11. As a result, income (loss) for the six-month period ended December 31, 2019 is understated by R$ 3,547 thousand.

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). 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 relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Uncertainty as to going concern

As mentioned in Note 2.c, as a result of the administrative proceeding initiated by BACEN on April 13, 2018, and of the investigation process of MPF initiated on May 08, 2019, regarding the alleged involvement of the Bank in the investigation process conducted by federal government authorities in the operation known as “Disfarces de Mamom”, the Bank ended its activities in the foreign exchange market during the year ended on December 31, 2019, with the beginning of this closing in April 2019, and the discontinuation of the activities of importation of Brazilian Reais, being these operations responsible for a significant portion of the Bank’s revenue from financial intermediation, according to Note 1. Within the process of corporate restructuring, BACEN ratified the Bank’s capital reduction on July 03, 2020, through the transfer of the shares of its fully-owned controlled company to the shareholders as presented in Note 31 and, as a result, the Bank no longer has the amount of equity in earnings (losses) of controlled companies obtained in previous years, according to Note 11. These issues, in addition to the significance of the abovementioned matters, reported in Notes 8.d, 16.c, 12, 22, 23 and 24, related to accounting procedures adopted by Management and carried out in disagreement with Brazilian accounting practices applicable to institutions authorized to operate by BACEN, and which were the subject of the qualifications described, require Management to continue adopting measures to safeguard the Bank’s going concern, on the risk of not being able to continue operations if such measures are not successful.

Emphasis

Related-party transactions

As mentioned in Note 22, in the six-month period and year ended December 31, 2019, the Bank recognized income (loss) from assignments of court-ordered debt securities in the amount of R$ 5,243 thousand, which were conducted with related parties. Our opinion is not qualified in respect of this matter.

Uncertainty on the realization of assets

As at December 31, 2019, the Bank held shares of Industrial Parks Brasil Fundo de Investimento em Participações Multiestratégia (“Invested Fund”) in the amount of R$ 7,494 thousand. The financial statements of the Invested Fund for the year ended February 28, 2019 were audited by us and our report thereon, dated July 26, 2019, had the following paragraph on material uncertainty as to going concern:

> *“We draw attention to Note 4, which describes that the Fund has investments in the companies GPR Empreendimentos (GPR20), GPR Empreendimentos (GPR23), GPR Empreendimentos (GPR28) and GPR Empreendimentos (GPR29), which are currently on the development stage of their operations with revenue cycle not yet started. The revenues to be obtained by these Companies will depend on the success of the operations still being developed. In this context, until these operations become profitable, the Companies will depend on the financial support of shareholders and/or third-party funds. Accordingly, the continuity of the Companies depends on the success of the plan developed by management. The financial statements of the companies do not include any adjustments referring to the recovery and classification of assets or to the values and classification of liabilities, which would be required to solve such uncertainty. Our opinion is not modified in respect of this matter.*

Consequently, in case the actions developed by the management of the Companies Invested by the Invested Fund are not confirmed, the value recorded for this investment will be different from the value estimated as at December 31, 2019. Our opinion is not modified in respect of this matter.

Other matters

Audit of corresponding amounts of June 30, 2019
The Bank's financial statements for the six-month period ended June 30, 2019, were previously audited by us, and our report thereon, dated May 15, 2020, contained a disclaimer of opinion, with these important points:

- During the year ended December 31, 2019, no transactions related to the ones identified by MPF were identified, nor were there any new steps taken by this body with the Bank, its shareholders or its executives as counterparty;
- RFB ended its inspection and its notes are included in the respective assessments of tax deficiencies, for which the amount of R$ 55 million was accepted by Management and is in the collection process while for the second the Bank filed an objection supported by its legal counselors and by the independent investigation carried out, which considered the assessments not applicable and with likelihood of loss considered remote;
- Our examinations confirmed that foreign exchange transactions have ceased and no new transactions of this nature are being carried out by the Bank;
- BACEN's inspection has not yet been completed and as a result of this process, the Bank's capital reduction was suggested and requested through the transfer of its ownership interest in SOCOPA - Sociedade Corretora Paulista S.A. to the Bank's shareholders, which was ratified in July 2020, denoting that the regulatory body agrees with the adjustment process submitted to that body;
- The succession of the facts presented leads us to assess the risks related to these matters, in order to conclude that the uncertainties resulting from the ongoing investigations are no longer pervasive enough for the issue of an audit report with disclaimer of opinion.

The matters related to the disclaimer of opinion as at June 30, 2019 are as follows:

Independent investigations

Qualification regarding the same matter described above in the section "Basis for qualified opinion", "Independent investigations".

Supporting documentation of foreign exchange operations

The Bank has foreign exchange operations recorded in the accounts "Sundry debtors – domestic", "Demand deposits – Foreign currency" and "Items to be settled - Foreign Exchange", in the amounts of R$ 21,825 thousand, R$ 15,064 thousand, and R$ 3,242 thousand, respectively, for which we were not provided with the respective documentation and/or internal controls that would allow us to obtain other appropriate and sufficient audit evidence to support the balances accounted for under those captions.

Confirmation letters from financial institutions

Confirmations of operations held with other financial institutions as at June 30, 2019, were not received.

Confirmation letters on lending operations

Confirmations of lending operations as at June 30, 2019, were not received.

Recognition of results

The Bank recognized income from derivative financial instruments and service revenue in the amounts of R$ 12,244 thousand and R$ 32,130 thousand, respectively, for which we were not provided with appropriate and sufficient documentation and controls that would allow us to conclude on those amounts, and we were unable to do so by following alternative audit procedures.

Going concern

Qualification regarding the same matter described above in the section “Uncertainty as to going concern”.

Investment in controlled companies and affiliates

As mentioned in Note 12, as at June 30, 2019, the Bank has investments of R$ 70,491 thousand in SOCOPA - Sociedade Corretora Paulista S.A. (“Invested company”), representing one hundred percent (100%) of the capital of that investee. The financial statements of the “Invested company” were audited by us and our report thereon, dated May 14, 2020, had a disclaimer of opinion related to the investigation conducted by Management and on the following matters: i) Confirmation letter replies from Brazilian financial institutions not received in totality; ii) Cash and cash equivalents in foreign currencies with no audit evidence appropriate and sufficient to issue an opinion; iii) Foreign exchange operations recorded in “Foreign exchange portfolio – assets”, “Sundry debtors – domestic”, “Foreign exchange portfolio – liabilities” and “Commissions payable on foreign exchange operations”, for which we were not provided with the respective foreign exchange contracts and/or other audit evidence appropriate and sufficient to support the balances accounted for; iv) Record in the captions “Investment fund shares”, “Income receivable”, “National Treasury trustee fees” and “Sundry creditors”, with no presentation of the supporting documentation for such records; v) Recognition of income (loss) from “Marketable securities”, “Service revenues”, “Other operating revenues” and “Other operating expenses”, with no presentation of supporting documentation; vi) Insufficiency of the provision for contingencies related to the Brazilian Securities and Exchange Commission (CVM), in the amount of R$ 2,653 thousand, net of tax effects.

Consequently, we were unable to conclude, by means of alternative audit procedures, on the proper presentation of this investment as at June 30, 2019, as well as on the corresponding equity in earnings (losses) of controlled companies for the six-month period then ended totaling R$ 5,929 thousand.

Derivatives

As mentioned in Note 7, as at June 30, 2019, the Bank has derivative asset positions related to foreign currency in the amount of R$ 1,383 thousand, although the custody statements issued by the brokers where these operations were conducted indicated that the Bank had a liability position of R$ 2,041 thousand. Consequently, as at June 30, 2019, the Bank’s current assets are overstated by R$ 1,383 thousand, current liabilities are understated by R$ 672 thousand, net of tax effects, whereas equity and income for the six-month period on that date are overstated by R$ 2,055 thousand, net of tax effects.

Additionally, the audit report of the financial statements for the six-month period ended June 30, 2019 had the following emphasis paragraphs:

Restatement of the financial statements

Restatement of the financial statements due to rectification of errors. The corresponding amounts for the six-month period ended June 2018, presented for comparison purposes, were adjusted and are being restated as provided for in CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors, approved by CMN Resolution No. 4.007/11.

Material uncertainty as to going concern of Invested Fund

Qualification regarding the same matter described above in the section “Emphasis”, “Uncertainty as to going concern”.

Audit of corresponding amounts of December 31, 2018

The financial statements of the Bank for the year ended December 31, 2018, were audited by other independent auditors, whose report thereon, dated December 02, 2019, had a disclaimer of opinion on the following matters:

> ***“Ongoing investigation***
> *As mentioned in Note 2.c, in view of the administrative proceeding filed by the Central Bank of Brazil on June 15, 2018 and the investigation process from the Federal Public Prosecutor’s Office filed on May 08, 2019, in respect of the alleged involvement of the Bank, regarding the investigations conducted by federal government authorities in the operation known as “Disfarces de Mamom”, the Management of the Bank started an independent investigation in order to identify possible violation of laws and regulations from its employees and executives related to such allegations. However, as the mentioned operation is still in progress and the investigative actions being conducted by Management are not yet conclusive, we were unable to follow audit procedures to allow us to conclude on the possible impacts on the financial statements of the Bank.*
>
> *Additionally, it is not currently possible to foresee the future development of the investigations from the federal government authorities or its possible effects on the current and past financial statements of the Bank.*
>
> ***Risks related to compliance with laws and regulations***
>
> *As mentioned in Notes 2 and 28.d, there are ongoing investigations and other legal measures conducted by government authorities on certain expenses and their destination, including their deduction in the calculation of Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) for the period from 2013 to 2015. The Bank, as a result of internal investigations, identified payments to companies directly or indirectly included in the investigation “Disfarces de Mamom”, during the years from 2013 to 2018. The governance bodies of the Bank, authorized the hire of an expert company to analyze internal procedures related to those expenses and verify such allegations and, currently, we were not provided with the respective supporting documentation that would allow us to follow audit procedures and, therefore, conclude on possible adjustments, if any, to the Bank’s financial statements.”*

Responsibilities of Management for the financial statements

The Bank’s Management is responsible for the preparation and fair presentation of these financial statements in accordance with Brazilian accounting practices applicable to the institutions authorized by the Central Bank of Brazil to operate 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 objectives are to obtain reasonable assurance about whether the financial statements taken 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 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 that are taken based on these financial statements.

As part of an audit in accordance with Brazilian standards and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and 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 significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a significant 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 underlying 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.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, July 30, 2020.

BDO RCS Auditores Independentes SS
CRC 2 SP 013846/O-1

Paulo Sérgio Barbosa
Accountant CRC 1 SP 120359/O-8

Banco Paulista S.A.

Statements of financial position
As at December 31, 2019 and 2018
(In thousands of Brazilian Reais)

	Notes	2019	2018
Assets			
Current		**1,168,011**	2,259,209
Cash and cash equivalents		**26,490**	338,032
In domestic currency	**4**	**25,140**	174,490
In foreign currency	**4**	**1,350**	163,542
Short-term interbank investments		**665,206**	1,123,251
Open market investments	**4/5**	**663,398**	1,121,745
Investments in interbank deposits	**5**	**1,808**	1,506
Marketable securities and derivative financial instruments		**121,703**	32,981
Own portfolio	**6**	**71,967**	30,760
Linked to repurchase agreements	**6**	**24,813**	-
Linked to guarantees	**6/7**	**21,676**	-
Derivatives	**7**	**3,247**	2,221
Interbank accounts		**17,996**	22,635
Restricted loans		**17,996**	22,635
Lending operations		**204,415**	298,406
Lending operations – Private sector	**8**	**214,715**	305,123
(-) Allowance for loan losses	**8**	**(10,300)**	(6,717)
Other receivables		**129,541**	440,639
Foreign exchange portfolio	**9**	**24,879**	257,682
Trading account		**4,797**	22,286
Sundry	**10**	**100,563**	161,334
(-) Allowance for other loan losses	**8**	**(603)**	(604)
(-) Provision with no characteristic of credit granting		**(95)**	(59)
Other receivables and assets		**2,660**	3,265
Prepaid expenses		**135**	172
Other receivables and assets		**2,525**	3,093
Long-term assets		**797,238**	746,132
Marketable securities and derivative financial instruments		**473,385**	474,881
Own portfolio	**6**	**145,036**	192,633
Linked to repurchase agreements	**6**	**290,685**	162,234
Linked to guarantees	**6/7**	**37,664**	120,014
Lending operations		**277,977**	237,760
Lending operations – Private sector	**8**	**291,986**	243,101
(-) Allowance for loan losses	**8**	**(14,009)**	(5,341)
Other receivables		**45,876**	33,491
Sundry	**10**	**45,876**	33,491

	Notes	2019	2018
Assets - Continued			
Permanent assets		**74,114**	113,134
Investments		**66,335**	104,970
Ownership interest in Brazilian controlled companies and affiliates	**11**	**63,783**	102,892
Other investments		**2,804**	2,330
(-) Valuation allowances		**(252)**	(252)
Fixed assets		**1,846**	2,485
Land and buildings in use		**957**	957
Other fixed assets		**7,116**	8,034
(-) Accumulated depreciation		**(6,227)**	(6,506)
Intangible assets		**5,933**	5,679
Intangible assets	**12**	**9,192**	8,252
(-) Accumulated amortization	**12**	**(3,259)**	(2,573)
Total assets		**2,039,363**	3,118,475

	N	2019	2018
Liabilities			
Current		**1,377,276**	2,429,683
Deposits		**358,891**	665,356
Demand deposits	**13**	**139,296**	159,956
Interbank deposits	**13**	**75,368**	157,874
Time deposits	**13**	**144,227**	347,526
Open market funding		**867,120**	1,195,042
Own portfolio	**14**	**314,849**	161,978
Third-party portfolio	**14**	**552,271**	1,033,064
Funds from acceptance and issue of securities		**29,602**	65,932
Real estate and mortgage notes	**15**	**29,602**	65,932
Interbranch and interbank accounts		**608**	101,557
Correspondent banks		**608**	636
Third-party funds in transit		**-**	100,921
Borrowings and onlendings		**7,218**	43,668
Foreign currency obligations	**15**	**-**	35,197
Local onlendings – official institutions	**15**	**7,218**	8,471
Other liabilities		**113,837**	358,128
Collection of taxes and other contributions		**1**	1,827
Foreign exchange portfolio	**9**	**13,123**	251,841
Tax and social security	**16a**	**11,621**	26,297
Social and established by the Company’s bylaws	**17b**	**681**	-
Trading account		**62,513**	48,228
Miscellaneous	**16c**	**25,898**	29,935
Long-term liabilities		**452,787**	470,058
Deposits		**293,344**	362,696
Time deposits	**13**	**293,344**	362,696
Funds from acceptance and issue of securities		**98,209**	31,612
Real estate and mortgage notes	**15**	**98,209**	31,612
Other liabilities		**61,234**	75,750
Tax and social security	**16a**	**26,694**	42,352
Subordinated debt	**16b**	**31,063**	29,060
Miscellaneous	**16c**	**3,477**	4,338
Equity		**209,300**	218,734
Capital stock – Brazilian residents	**17**	**206,300**	193,500
Capital increase		**-**	12,800
Income reserves		**1,218**	9,077
Market value adjustment – marketable securities and derivatives		**1,782**	3,357
Total liabilities		**2,039,363**	3,118,475

The accompanying notes are an integral part of these financial statements.

Banco Paulista S.A.

Statements of operations
For the years ended December 31, 2019 and 2018 and six-month period ended December 31, 2019
(In thousands of Brazilian Reais, except earnings per thousand shares)

	Notes	2nd half	Years	
			2019	2018
Trading revenues		**79,047**	**253,021**	387,557
Lending operations	8h	**27,531**	**62,805**	67,639
Income from interbank investments and marketable securities		**32,157**	**84,299**	126,077
Income (loss) from derivatives	7d	**(13,282)**	**(1,038)**	(5,328)
Exchange rate gains (losses)		**32,641**	**106,955**	199,169
Trading expenses		**(65,739)**	**(150,568)**	(167,322)
Fund raising operations	18	**(40,670)**	**(112,199)**	(143,577)
Borrowings and onlendings		**(15,015)**	**(24,304)**	(20,922)
Allowance for loan losses	8e	**(10,054)**	**(14,065)**	(2,823)
Trading gross profit		**13,308**	**102,453**	220,235
Other operating revenues (expenses)		**(50,204)**	**(116,119)**	(181,334)
Service revenues	19	**30,886**	**63,016**	63,975
Personnel expenses	20	**(36,040)**	**(76,795)**	(65,743)
Administrative expenses	21	**(29,519)**	**(83,733)**	(104,433)
Tax expenses		**(5,887)**	**(14,791)**	(17,479)
Equity in earnings (losses) of controlled companies	11	**(6,799)**	**(870)**	(4,275)
Other operating revenues	22	**17,189**	**31,369**	23,314
Other operating expenses	23	**(20,034)**	**(34,315)**	(76,693)
Operating income (loss)		**(36,896)**	**(13,666)**	38,901
Non-operating income (loss)		**1,362**	**1,935**	(1,372)
Income (loss) before taxes on income and profit sharing		**(35,534)**	**(11,731)**	37,529
Income and Social Contribution taxes	24	**17,842**	**12,170**	(35,971)
Provision for Income Tax		**4,185**	**(598)**	(16,854)
Provision for Social Contribution Tax		**2,383**	**(42)**	(14,167)
Deferred tax assets		**11,274**	**12,810**	(4,950)
Profit sharing		**-**	**(3,759)**	(2,031)
(Loss) for the six-month period/years		**(17,692)**	**(3,320)**	(473)
Interest on equity capital	17b	**-**	**-**	(15,107)
(Loss) per thousand shares – R$		**(59.36)**	**(11.14)**	(1.59)

The accompanying notes are an integral part of these financial statements.

Banco Paulista S.A.

Statements of changes in equity
For the years ended December 31, 2019 and 2018 and six-month period ended December 31, 2019
(In thousands of Brazilian Reais)

	Capital stock	Capital increase	Income reserves: Statutory reserve	Income reserves: Reserve established by the Bank's bylaws	Market value adjustment	Retained earnings/ accumulated losses	Total
Balances as at December 31, 2017	**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 capital	-	-	-	-	-	(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 as 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 as at December 31, 2018	**193,500**	**12,800**	**9,077**	**-**	**3,357**	**-**	**218,734**
Transfer for capital increase	12,800	(12,800)	-	-	-	-	-
Loss for the year	-	-	-	-	-	(3,320)	(3,320)
Income reserve (i)	-	-	719	13,654	-	-	14,373
Interest on equity capital	-	-	-	(4,539)	-	-	(4,539)
Market value adjustment – marketable securities and derivatives	-	-	-	-	(1,857)	-	(1,857)
Market value adjustment – marketable securities and derivatives – Controlled company	-	-	-	-	282	-	282
Realization of reserves	-	-	(8,578)	(9,115)	-	3,320	(14,373)
Balances as at December 31, 2019	**206,300**	**-**	**1,218**	**-**	**1,782**	**-**	**209,300**
Changes in the year	**12,800**	**(12,800)**	**(7,859)**	**-**	**(1,575)**	**-**	**(9,434)**
Balances as at June 30, 2019	**206,300**	**-**	**9,795**	**13,654**	**4,558**	**-**	**234,307**
Loss for the six-month period	-	-	-	-	-	(17,692)	(17,692)
Interest on equity capital	-	-	-	(4,539)	-	-	(4,539)
Market value adjustment – marketable securities and derivatives	-	-	-	-	(2,867)	-	(2,867)
Market value adjustment – marketable securities and derivatives – Controlled company	-	-	-	-	91	-	91
Realization of reserves	-	-	(8,577)	(9,115)	-	17,692	-
Balances as at December 31, 2019	**206,300**	**-**	**1,218**	**-**	**1,782**	**-**	**209,300**
Changes for the six-month period	**-**	**-**	**(8,577)**	**(13,654)**	**(2,776)**	**-**	**(25,008)**

(i) Income reserve recognition for the first half of 2019.

The accompanying notes are an integral part of these financial statements.

Banco Paulista S.A.

Statements of cash flows - indirect method
For the years ended December 31, 2019 and 2018, and six-month period ended December 31, 2019
(In thousands of Brazilian Reais)

	2nd half of 2019	Years 2019	2018
Adjusted net income (loss) for the six-month period/years	**(11,044)**	**(398)**	11,734
(Loss) for the six-month period/years	**(17,692)**	**(3,320)**	(473)
Adjustments to reconcile net income to net cash	**6,648**	**2,922**	12,207
Allowance for loan losses (Note 8e)	**10,054**	**14,065**	2,823
Provisions for deferred Income and Social Contribution taxes	**(11,274)**	**(12,810)**	4,950
Depreciation and amortization (Note 23)	**414**	**1,140**	1,164
Equity in earnings (losses) of controlled companies (Note 11)	**6,799**	**870**	4,275
Monetary adjustment of court deposits	**(58)**	**(128)**	(139)
Other monetary adjustments	**-**	**-**	264
Reversal of provision for civil, tax and labor risks	**(352)**	**(1,950)**	(3,528)
Reversals of court deposits	**(52)**	**156**	-
Provisions for civil, tax, labor and other contingencies (Note 23)	**1,153**	**1,712**	2,311
Provision for pledges	**(36)**	**(133)**	87
Changes in assets and liabilities			
(Decrease) increase in short-term interbank investments	**-**	**(302)**	30,296
(Increase) in marketable securities	**(104,139)**	**(88,057)**	(32,836)
(Increase) in interbank accounts	**(38,729)**	**(96,309)**	(52,158)
Decrease (increase) in lending operations	**(69,624)**	**39,709**	(103,661)
Decrease (increase) in other receivables	**67,194**	**311,495**	(148,081)
(Increase) in other assets	**(144)**	**605**	(212)
(Increase) in derivative financial instruments	**(2,226)**	**(1,026)**	(1,243)
Increase (decrease) in deposits	**(126,009)**	**(375,817)**	72,206
(Decrease) increase in other liabilities	**(64,242)**	**(230,105)**	77,480
(Decrease) in tax and social security obligations	**(11,447)**	**(30,334)**	-
(Decrease) increase in liabilities for repurchase agreements	**217,853**	**(327,922)**	230,636
Net cash from operating activities	**(142,557)**	**(798,461)**	84,161
Cash flows from investing activities			
Acquisitions of fixed assets	**(39)**	**(430)**	(664)
Investments in intangible assets	**(286)**	**(1,031)**	(1,454)
Disposals of fixed assets	**266**	**652**	21
Disposals of intangible assets	**53**	**53**	1,400
Additions to investments	**(96)**	**(474)**	(463)
Receipt of dividends	**-**	**38,521**	-
Net cash from investing activities	**(102)**	**37,291**	(1,160)
Cash flows from financing activities			
Increase in capital (Note 17a)	**-**	**-**	12,800
Paid interest on equity capital (Note 17b)	**(4,539)**	**(4,539)**	(15,107)
Increase (decrease) in borrowings and onlendings	**(2,872)**	**(36,450)**	5,139
Increase in funds from acceptance and issue of securities	**10,299**	**30,267**	(8,686)
Increase in subordinated debts	**968**	**2,003**	-
Net cash from financing activities	**3,856**	**(8,719)**	(5,854)
(Decrease) increase in cash and cash equivalents	**(138,803)**	**(769,889)**	77,147
Cash and cash equivalents			
Cash and cash equivalents at beginning of six-month period/years (Note 4)	**828,691**	**1,459,777**	1,382,630
Cash and cash equivalents at end of six-month period/years (Note 4)	**689,888**	**689,888**	1,459,777
	(138,803)	**(769,889)**	77,147

The accompanying notes are an integral part of these financial statements.

(In thousands of Brazilian 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 and large legal entities, rendering services and in providing sale and distribution transaction structuring services.

The Bank's operations are conducted through an integrated group of institutions participating in the financial market. Certain operations have joint participation or intermediation of its controlled company SOCOPA - Sociedade Corretora Paulista S.A. ("SOCOPA") and of other companies belonging to the controlling shareholders. However, as from the corporate restructuring involving the Bank and Socopa, described below, Socopa will no longer be part of this integrated group of institutions.

Considering the relevance of the matters referred to above, Management continues to adopt immediate measures intended to safeguard its going-concern capacity, such as adjusting its organizational structure, due to the discontinuity of foreign exchange operations, at the risk of losing such capacity if unsuccessful in its measures.

2. Presentation of the financial statements

a) The financial statements have been prepared and are being presented in accordance with Brazilian accounting policies applicable to the financial institutions authorized to operate by the Central Bank of Brazil (BACEN), in compliance with the regulations established in the Accounting Chart for Institutions of the National Financial System (COSIF), regulations of the Brazilian Monetary Council (CMN) and BACEN and with the provisions of Brazilian Corporate Law.

   In view of the process of conversion to the international accounting standards, some pronouncements, guidelines and interpretations issued by the Committee of Accounting Pronouncements (CPC), approved by CMN and BACEN, were adopted when effective, as follows:

	Technical Pronouncement	Date of disclosure	IASB	BACEN CMN Resolution
CPC 00 (R1)	Conceptual Framework for Preparing and Presenting Financial Statements	12/15/11	Framework	4.144/12
CPC 01 (R1)	Impairment	10/07/10	IAS 36	3.566/08
CPC 02 (R2)	Effects of Changes on Exchange Rates and Translation of Financial Statements	10/07/10	IAS 21	4.524/16
CPC 03 (R2)	Statement of Cash Flows	10/07/10	IAS 7	3.604/08
CPC 04 (R1)	Intangible Assets	12/02/10	IAS 38	4.434/16
CPC 05 (R1)	Related-Party Disclosures	10/07/10	IAS 24	4.636/18
CPC 10 (R1)	Share-Based Payment	12/16/10	IFRS 2	3.989/11
CPC 23	Accounting Policies, Changes in Estimates and Correction of Errors	09/16/09	IAS 8	4.007/11
CPC 24	Subsequent Events	09/16/09	IAS 10	3.973/11
CPC 25	Provisions, Contingent Liabilities and Contingent Assets	09/16/09	IAS 37	3.823/09
CPC 27	Property, Plant and Equipment	07/31/09	IAS 16	4.535/16
CPC 33 (R1)	Employee benefits	12/13/12	IAS 19	4.424/15
CPC 46	Fair Value Measurement	12/07/12	IAS 13	4.748/19

Management makes accounting estimates considering factors and assumptions established based on its judgment. Significant items subject to these estimates and assumptions include provisions for the adjustment of assets to their realization or recoverable value, allowance for losses, provisions for contingencies, mark-to-market of financial instruments, deferred taxes and others. Transaction settlement involving those estimates may result in values different from estimates, due to the inherent inaccuracy of the process when they are determined. Management reviews these estimates and assumptions at least on a bi-annual basis. These financial statements were approved on July 27, 2020.

b) These financial statements are being presented in Brazilian Reais, which is the functional currency of the Bank. All financial information presented in Brazilian Reais was converted to thousands, unless otherwise stated.

c) For concluding the analyses of the financial statements for the year ended December 31, 2019, it is necessary to mention the following facts that were mostly object of consideration in the preparation of the financial statements as at December 31, 2019 and 2018:

- On April 13, 2018, an administrative proceeding was filed by BACEN, for which the declarations and challenges of the Bank were presented. The proceeding is still in progress and no declaration or decision from the authority is currently known. As at December 31, 2019, the Bank's legal counselors have the opinion that there is no sufficient information for the disclosure or determination on whether a provision for losses is necessary;
- On February 08, 2018, an assessment by the Brazilian Revenue Service (RFB) was started, resulting in the Bank being assessed for tax deficiency by the end of 2018, in relation to Corporate Income Tax (IRPJ), Social Contribution Tax (CSLL) and Withholding Income Tax (IRRF) referring to Administrative Proceeding No. 16327-721.025/2018-35 filed for the reason of disallowance of expenses included in the calculation basis of those taxes. The debt was agreed to be paid in installments as formalized with the RFB and it is being paid regularly (see Note 16.a and 28.d);

- On May 08, 2019, the Bank was a target of the 61st phase of "Operação Lava Jato" (Operation Car Wash), named "Disfarces de Mamom", in which the Federal Public Prosecutor's Office (MPF) and the Federal Police investigate money laundering through foreign exchange operations related to members of the "Structured Operations Sector" of Grupo Odebrecht, which resulted in a search and seizure raid at the headquarters of the Bank to identify possible irregular service contracts. Until the conclusion of these financial statements, there was no new decision or requirement from that body;

- In December 2019, as per Note 28.d, the assessment from RFB was concluded. Despite the conclusion of the inspection, in July 2020, Management became aware of a complementary assessment of tax deficiency, in which RFB, for having wrongly applied the fine in the original tax assessment of December 2019, filed this supplementary tax assessment, for which the Bank has already filed objections;

- In July 2020, BACEN approved a corporate restructuring involving the Bank and Socopa, as described in Note 31.

Considering the events described, the Bank's Management discharged and dismissed directors and employees involved in the denunciation and decided to establish an Investigation Committee, formed by the law firm Felsberg Advogados, and by independent and Bank members, to supervise and conduct an investigation, concerned with the secrecy of all information, documents and reports generated by the investigation team.

On March 26, 2020, the law firm Felsberg Advogados issued a Final Report on the investigative process presenting in detail all the bases and data gathered for the conclusion of the investigation.

In brief, the report presents the following data:

- The objective was to verify information on specific transactions conducted between Banco Paulista and third parties, considering all companies included in the proceedings filed by MPF, BACEN and RFB and occurred between January 2007 and May 2019;

- Related documents were analyzed, including electronic messages, financial proposals, contracts, opinions, reports, access through turnstiles to the building where the Bank's headquarters are located, and others;

- Forensics collection services were performed allowing the recovery and analysis of a significant volume of data from different sources of electronic data, including personal computers, servers, mobile phones, and others, as well the analysis of mass denouncements;

- Accounting and finance analyses were made with the identification of the amounts paid to the main entities involved and comparison with the allegations from the MPF;

- Interviews with key employees part of the staff at the time were also conducted, according to their possible participation in the cases under analysis, in addition to legal entities and natural persons considered for the purpose of background check.

The report also shows that during the investigative process, it was possible to verify a series of mitigation measures taken by the Bank, such as:

- Review of the governance system;
- Creation of an Ethics Channel;
- Hire of independent consulting companies and new professionals to reinforce the departments;
- System for monitoring of transactions; and
- New internal procedures for obtaining and checking information from clients, suppliers and partners.

We highlight that the issue of the Final Report of Investigation, including the group of denounced companies, brought no indication of new cases, in addition to those publicly known and object of the assessment of tax deficiency mentioned in Note 16.a, which leads to the conclusion that the Bank faced a specific issue, restricted to the foreign exchange department, being supported by the independent investigation and its legal counselors.

Even with the conclusion of the investigative process, Management remains committed and continues to systematically evaluate any new information that may require additional measures, and it elucidates that it was not part of new investigations or denouncements since nothing new has happened.

The Bank reaffirms its commitment with society, clients and authorities and, to that end, the new Management maintains its focus on the adoption of severe measures, particularly measures for the strengthening of governance and Compliance, such as management, control, audit and transparence of information.

3. Summary of significant accounting practices

a) Results of operations

Revenues and expenses are recognized on the accrual basis, considering the pro rata basis for financial revenues and expenses. Fees and commissions received are recognized over the period in which services are rendered (on an accrual basis).

Financial revenues and expenses are calculated based on the compound interest rate method. Operations with fixed rates are recorded at the redemption value and the corresponding future revenues and expenses are recognized as a reduction of the respective assets and liabilities. Operations bearing interest at floating rates are restated up to reporting 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

Cash and cash equivalents, as per Resolution No. 3.604/08, include money in cash, bank deposits and highly liquid short-term investments, with an immaterial risk of change in value and limits, and maturing within 90 days from the investment date.

c) Short-term 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 reporting 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 letter No. 3.068/01, marketable securities part of a portfolio are classified into three different categories, according to Management’s intention, as follows:

Trading securities: These are presented in current assets, regardless of the respective maturity dates, comprising securities intended to be actively and frequently traded. They are stated at market value and valuation gains or losses recorded in income (loss).

Available-for-sale securities: These are securities not acquired for frequent trading and used for other purposes such as providing liquidity reserve, guarantees and hedging against risks. Income earned based on acquisition rates as well as any permanent losses thereon are recorded in income (loss). 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 transferred to income (loss) upon realization thereof.

Held-to-maturity securities: These are securities for which Management has the intention and financial capacity to hold until maturity. They are stated at acquisition cost, plus income earned. Any permanent losses are immediately recorded in income (loss).

Derivative financial instruments comprising future, forward and swap operations are recorded in accordance with the following criteria:

- *Futures contract* – the amounts from market adjustments are daily accounted for in asset and liability accounts and daily recognized as revenue or expense;
- *Forward contract* – at the final value of the contract deducted from the difference between this value and the market value of the asset or right, recognizing revenues or expenses resulting from the flow of these contracts up to reporting date;
- *Swap contracts* – the difference receivable or payable is accounted for at market value in an asset or liability account, respectively, and recognized as revenue or expense, on a pro rata basis, up to reporting date.

Derivative transactions, not considered for hedge accounting, are stated at market value, at reporting date, recording the appreciation or devaluation in a specific revenue or expense account in income (loss) for the period.

e) Lending operations 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. 2.682/99, which requires regular analyses of the portfolio and its grading into 9 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 5 years, no longer appearing in the statement of financial position.

Renegotiated transactions are kept at least at the same level in which they had been rated before renegotiation. Loan renegotiation that had already been written 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. 2.682/99 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 Resolution No. 2.682/99, as described in Note 9.

f) Impairment of nonfinancial assets

The accounting recognition of an asset shall demonstrate events or changes in economic, operational or technological circumstances that may indicate deterioration or loss of its recoverable value. When such evidence is identified and the net book value exceeds recoverable value, an impairment charge is recognized by adjusting the net book value. These provisions are recognized in income (loss) for the period/year, as provided for by Resolution No. 3566/08.

The amounts of nonfinancial assets are annually reviewed, except for tax credits, whose realization is evaluated every six months.

g) Investments

Investments in controlled companies are valued by the equity method.

Due to the corporate restructuring involving the Bank and its wholly-owned controlled company SOCOPA as described in Note 31, the Financial Statements are being presented individually.

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

h) Fixed and intangible assets

These refer to rights to both tangible and intangible assets intended for the maintenance of the Company's activities or exercised for such purpose.

Fixed asset items (tangible assets) are stated at acquisition cost. Depreciation of fixed assets 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 represent acquired rights whose subject matters are items that lack physical substance and are used for the Company's maintenance or exercised to that end. 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 onlendings

These are stated at the amounts payable, considering interest payable through the reporting date and recognized on a daily pro rata basis. Foreign currency liabilities are restated at the official exchange rates prevailing on the reporting date. Open market funding is classified in current liabilities considering their maturities, regardless of the term of the securities backing such transactions.

j) Current and deferred Income and Social Contribution taxes

Current

When provisions for Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) are applicable, they are calculated based on the book income or loss and adjusted considering permanent and temporary add-backs and deductions. Income tax is determined at the rate of 15%, plus a 10% surtax on taxable income exceeding R$ 240 in the year (R$ 120 in a six-month period), whereas Social Contribution Tax was calculated at the rate of 15% until August 2015. For the period from September 2015 to December 2018, CSLL rate was changed to 20%, in accordance with Law No. 13.169/15 and will return to 15% from January 2019 onwards. With the enactment of Constitutional Amendment No. 103, Art. 32, as from March 2020, the effective CSLL rate for Banks will be 20%.

Deferred

Deferred taxes were calculated on temporary add-backs and deductions. Deferred taxes are calculated on add-backs, deductions or temporary income (losses) to be realized upon the use and/or reversal of the bases for recognition, according to current expected realization and considering Management’s analysis and technical studies.

k) Foreign exchange operations

These are stated at their realization value, including earnings (on a pro rata basis), exchange rate gains (losses), and the recognition of estimated losses, when applicable, as per Resolution No. 2.682/99. These operations were discontinued during the second half of 2019 as described in Note 1.

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

The recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are made according to criteria established in Resolution No. 3.823/09 and Technical Pronouncement CPC 25, issued by the Committee of Accounting Pronouncements (CPC), as follows:

Contingent assets - these are not recognized in the financial statements, except when there is evidence that guarantees their realization, with no further chance of appeal.

Contingent liabilities - these are recognized in the financial statements when, according to the opinion of legal counselors and Management, the risk of loss for a court or administrative proceeding is considered probable, a probable outflow of resources will be required to settle the obligation, and the amounts of the obligation can be reliably measured. Contingent liabilities classified as possible losses by legal counselors are only disclosed in the notes, and those classified as remote losses do not require provision or disclosure.

Legal obligations - tax and social security – these refer to proceedings questioning the legality and constitutionality of certain taxes (or taxes and contributions). The amount discussed is quantified, recorded and monthly adjusted.

(In thousands of Brazilian Reais)

m) Other current and noncurrent assets and liabilities

These are stated at realizable or payable values, including earnings, charges, monetary variations or exchange rate gains (losses) incurred up to reporting date, calculated on a pro rata basis, less estimated losses to reflect realization value, when applicable. Realizable and payable balances within 12 months are classified in current assets and liabilities, respectively.

n) Earnings or losses per share

Earnings or losses per share are calculated according to the number of shares at reporting date.

4. Cash and cash equivalents

As at December 31, 2019 and 2018, cash and cash equivalents were as follows:

	2019	2018
Cash and cash equivalents in domestic currency	**25,140**	174,490
Cash and cash equivalents in foreign currency	**1,350**	163,542
Open market investments (Note 5a)	**663,398**	1,121,745
Cash and cash equivalents	**689,888**	1,459,777

5. Short-term interbank investments

a) Open market investments

	2019		2018
	1 to 30 days	Total	Total
Open market investments			
Own resources:	**111,127**	**111,127**	88,681
Zero coupon floating rate bills (LFT)	**-**	**-**	3,560
Zero coupon fixed rate bills (LTN)	**13,400**	**13,400**	70,000
National Treasury Notes (NTN)	**97,727**	**97,727**	15,121
Financed position:	**552,271**	**552,271**	1,033,064
Zero coupon floating rate bills (LFT)	**-**	**-**	998,186
National Treasury Notes (NTN)	**552,271**	**552,271**	34,878
Total	**663,398**	**663,398**	1,121,745

In the year ended December 31, 2019, income from repurchase agreements amounted to R$ 50,919 (R$ 75,992 in 2018).

b) Investments in interbank deposits

	2019	2018
Maturity within 90 days	**1,808**	1,506
Total	**1,808**	1,506

(In thousands of Brazilian Reais)

In the year ended December 31, 2019, income from investments in interbank deposits amounted to R$ 21 (R$ 734 in 2018).

6. Marketable securities

a) Marketable securities - breakdown by type

	2019		2018	
	Cost (i)	**Market (ii)**	Cost (i)	Market (ii)
Trading securities				
Own portfolio - free	**26,351**	**28,020**	29,268	30,760
Zero coupon floating rate bills (LFT)	**272**	**272**	967	967
Zero coupon fixed rate bills (LTN)	**400**	**400**	372	375
National Treasury Notes (NTN)	**469**	**581**	597	615
Agrarian Debt Bonds (TDA)	**133**	**109**	4	3
Investment fund shares	**9,917**	**9,917**	12,558	12,558
Agribusiness Receivables Certificate (CRA)	**9,580**	**9,580**	4,492	4,492
Shares issued by publicly-held companies	**635**	**2,216**	1,251	2,723
Investments in marketable securities abroad	**1,720**	**1,720**	9,027	9,027
Real Estate Receivables Certificates (CRI)	**3,225**	**3,225**	-	-
Linked to repurchase agreements	**5,192**	**5,192**	-	-
Zero coupon floating rate bills (LFT)	**5,192**	**5,192**	-	-
Total trading securities	**31,543**	**33,212**	29,268	30,760
Available-for-sale securities				
Own portfolio - free	**187,312**	**188,983**	192,576	192,633
Zero coupon floating rate bills (LFT)	**155,194**	**155,210**	169,235	169,263
Zero coupon fixed rate bills (LTN)	**258**	**260**	241	242
National Treasury Notes (NTN)	**23,778**	**25,448**	671	698
Agrarian Debt Bonds (TDA)	**99**	**82**	24	19
Investment fund shares	**7,983**	**7,983**	22,405	22,411
Linked to repurchase agreements	**310,201**	**310,306**	162,211	162,234
Zero coupon floating rate bills (LFT)	**310,201**	**310,306**	162,211	162,234
Linked to guarantees	**59,344**	**59,340**	119,992	120,014
Zero coupon floating rate bills (LFT)	**44,671**	**44,667**	106,020	106,042
Investment fund shares	**14,673**	**14,673**	13,972	13,972
Total available-for-sale securities	**556,857**	**558,629**	474,779	474,881
Total	**588,400**	**591,841**	504,047	505,641

(In thousands of Brazilian Reais)

(i) Cost value

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

(ii) Market value

The market value of government bonds is calculated according to disclosures in the daily bulletins informed by the Brazilian Financial and Capital Markets Association (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 and adjusted to market value. The fund shares are restated by the share value provided by the Administrator.

b) Marketable securities - breakdown by maturity

	2019						2018
	With no maturity	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total	Total
Trading securities							
Zero coupon floating rate bills (LFT)	-	-	-	5,339	125	5,464	967
Zero coupon fixed rate bills (LTN)	-	400	-	-	-	400	375
National Treasury Notes (NTN)	-	-	-	-	581	581	615
Agrarian Debt Bonds (TDA)	-	-	-	1	108	109	3
Investment fund shares	9,917	-	-	-	-	9,917	12,558
Agribusiness Receivables Certificate (CRA)	-	-	-	3,699	5,881	9,580	4,492
Shares issued by publicly-held companies	2,216	-	-	-	-	2,216	2,723
Investments in marketable securities abroad	-	1,720	-	-	-	1,720	9,027
Real Estate Receivables Certificates (CRI)	-	-	-	-	3,225	3,225	-
Total trading securities (i)	12,133	2,120	-	9,039	9,920	33,212	30,760
Available-for-sale securities							
Zero coupon floating rate bills (LFT)	-	1,874	60,453	188,228	259,628	510,183	437,539
Zero coupon fixed rate bills (LTN)	-	-	260	-	-	260	242
National Treasury Notes (NTN)	-	-	-	718	24,730	25,448	698
Agrarian Debt Bonds (TDA)	-	-	1	1	80	82	19
Investment fund shares	22,656	-	-	-	-	22,656	36,383
Total available-for-sale securities (i)	22,656	1,874	60,714	188,947	284,438	558,629	474,881
Total	34,789	3,994	60,714	197,986	294,358	591,841	505,641

(i) The maturity of the notes, regardless of their accounting classification, was considered in their distribution through time.

In the year ended December 31, 2019, income from marketable securities amounted to R$ 33,359 (R$ 49,351 in 2018).

Government securities are kept under custody at the Special Clearing and Custody System (SELIC), while corporate bonds and fund shares are held in custody under B3.

There was no reclassification in the securities category for the years ended December 31, 2019 and 2018.

(In thousands of Brazilian Reais)

7. Derivatives

The Bank conducts 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.

As at December 31, 2019 and 2018, the amounts recorded in statement of financial position accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2019				2018			
	Reference value	**Assets**	**Liabilities**	**Net**	Reference value	Assets	Liabilities	Net
Forwards (NDF)	**71,494**	**3,247**	**-**	**3,247**	321,366	2,221	-	2,221
Total	**71,494**	**3,247**	**-**	**3,247**	321,366	2,221	-	2,221

a) Breakdown of transactions

Description	**Reference value (In Brazilian Reais)**	**Net value receivable/ (payable)**
Forwards		
USD x XAU	23,529	22
Brazilian Real x USD	47,965	3,215
Total	**71,494**	**3,237**

b) The derivatives have the following maturities:

	2019				2018
Description	**Up to 3 months**	**From 3 to 12 months**	**Over 12 months**	**Total**	Total
Forward contracts - NDF	**-**	**3,247**	**-**	**3,247**	2,221

The market value of these derivative financial instruments is calculated based on specialized exchange quotations and, in certain cases, through the use of pricing techniques.

(In thousands of Brazilian Reais)

The Bank carries out transactions involving derivative financial instruments in future market - B3, which are exclusively tied to future foreign currency indexes for which reference value as at December 31, 2019 totals R$ 94,577 (R$ 300,176 in 2018), and an adjustment receivable of R$ 348 (R$ 779 receivable in 2018) 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.

c) Guarantee margin

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

	2019	2018
Zero coupon floating rate bills (LFT)	**15,693**	37,581
Fund shares	**1,360**	25,979
	17,053	63,560

d) Income (loss) from derivatives

Income (loss) from transactions with derivative financial instruments for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Futures	**(1,185)**	(15,719)
Forward transactions (NDF)	**147**	10,391
	(1,038)	(5,328)

(In thousands of Brazilian Reais)

8. Lending operations

As at December 31, 2019 and 2018, lending operations breakdown as follows:

a) By type of transaction

	2019	2018
Lending operations:		
Loans and discounted notes	**292,411**	412,260
Financing - Export credit notes	**214,290**	135,964
	506,701	548,224
Other receivables:		
Credit assignment without joint obligation (Note 10)	**60,325**	72,175
	60,325	72,175
Total lending operations	**567,026**	620,399
Allowance for loan losses	**(24,309)**	(12,058)
Allowance for other loan losses	**(603)**	(604)
Total allowance for loan losses	**(24,912)**	(12,662)
	542,114	607,737

b) By sector

	2019	2018
Private sector		
Manufacturing	**133,076**	172,998
Trade	**236,663**	184,371
Services	**188,396**	244,532
Natural persons	**8,891**	18,498
Total	**567,026**	620,399

c) By maturity

	2019	2018
Amounts overdue	**26,077**	4,709
Amounts falling due		
Within 90 days	**75,741**	92,000
From 91 to 180 days	**78,864**	138,688
From 181 to 360 days	**94,358**	141,901
Over 360 days	**291,986**	243,101
Total	**567,026**	620,399

(In thousands of Brazilian Reais)

d) Breakdown of portfolio by risk level

	Portfolio balances					
	2019				2018	
Level	**Ordinary course**	**Overdue**	**Total**	**%**	Total	%
A	**52,121**	**-**	**52,121**	**9.19**	35,739	5.76
B	**443,556**	**-**	**443,556**	**78.23**	479,686	77.32
C	**38,043**	**-**	**38,043**	**6.71**	91,628	14.77
D	**3,106**	**1,420**	**4,526**	**0.80**	2,724	0.44
E	**4,122**	**-**	**4,122**	**0.73**	7,497	1.21
F	**-**	**14,531**	**14,531**	**2.56**	1,078	0.17
G	**-**	**21**	**21**	**-**	563	0.09
H	**1**	**10,105**	**10,106**	**1.78**	1,484	0.24
	540,949	**26,077**	**567,026**	**100.00**	620,399	100.00

	Allowance						
	2019					2018	
Level	**Allowance %**	**Ordinary course**	**Overdue**	**Total**	**%**	Total	%
A	**0.5**	**261**	**-**	**261**	**1.05**	178	1.41
B	**1.0**	**4,435**	**-**	**4,435**	**17.80**	4,797	37.89
C	**3.0**	**1,141**	**-**	**1,141**	**4.58**	2,749	21.70
D	**10.0**	**311**	**142**	**453**	**1.82**	272	2.16
E	**30.0**	**1,236**	**-**	**1,236**	**4.96**	2,249	17.76
F	**50.0**	**-**	**7,265**	**7,265**	**29.16**	539	4.26
G	**70.0**	**-**	**15**	**15**	**0.06**	394	3.10
H	**100.0**	**1**	**10,105**	**10,106**	**40.57**	1,484	11.72
		7,385	**17,527**	**24,912**	**100.00**	12,662	100.00

e) Changes in allowance for loans losses

	2019	2018
Balance at beginning of year	**12,662**	10,248
Net recognitions	**14,065**	2,823
Loans written off against losses	**(1,815)**	(409)
Balance at end of year	**24,912**	12,662

f) Renegotiated and recovered loans

Renegotiated loans in the year ended December 31, 2019, total R$ 7,562 (R$ 8,271 in 2018).

Recovered loans in the year ended December 31, 2019, total R$ 1,229 (R$ 2,097 in 2018).

g) Credit assignments

In the years ended December 31, 2019 and 2018, no credit assignment operations with joint obligation were conducted.

(In thousands of Brazilian Reais)

h) Income from lending operations

	2019	2018
Loans and discounted notes	**45,284**	49,036
Financing	**16,180**	16,337
Recovery of loans written off as loss	**1,229**	2,097
Advances to deposit holders	**112**	169
Total income from lending operations	**62,805**	67,639

9. Foreign exchange portfolio

Assets	2019	2018
Current		
Foreign exchange purchase pending settlement	**18,909**	144,804
Rights on foreign exchange sales	**5,970**	113,101
Advances received in domestic and foreign currency	**-**	(223)
	24,879	257,682

Liabilities	2019	2018
Current		
Foreign exchange sale pending settlement	**13,123**	107,827
Foreign exchange purchase obligations	**-**	144,014
	13,123	251,841

10. Other receivables - sundry

	2019	2018
Current		
Taxes to offset (i)	**35,355**	22,980
Tax credits (Note 24b)	**2,250**	3,230
Sundry debtors – domestic (ii)	**725**	61,706
Receivables from court deposits (Note 28b)	**1,641**	902
Notes and credits receivable (iii)	**60,325**	72,175
Others	**267**	341
	100,563	161,334
Long-term assets		
Tax credits (Note 24b)	**31,729**	22,759
Receivables from court deposits (Note 28b)	**4,352**	4,286
Notes and credits receivable	**9,770**	6,421
Others	**25**	25
	45,876	33,491

(i) Prepayments of IRPJ and CSLL from previous years not offset;
(ii) Prepaid exchange funds;
(iii) This includes the amount of R$ 60,325 (R$ 72,175 in 2018) referring to Credit Assignment without joint obligation (Note 8a).

(In thousands of Brazilian Reais)

11. Investment in controlled companies and affiliates

This mainly refers to interest held in the controlled company SOCOPA - Sociedade Corretora Paulista S.A.

Main information on this controlled company is as follows:

	2019	2018
Number of shares held	**3,200**	3,200
Capital stock	**66,000**	66,000
Initial equity	**102,892**	106,749
Market value adjustment – marketable securities and derivatives	**282**	418
Dividends	**(38,521)**	-
Loss for the year	**(870)**	(4,275)
Percentage of participation	**100%**	100%
Final equity	**63,783**	102,892
Equity in earnings of controlled companies	**(870)**	(4,275)

12. Intangible assets

	Amortization rate	**Cost**	**Amortization**	**12/31/2019**	12/31/2018
Software	**20%**	**5,192**	**(3,259)**	**1,933**	1,679
Other intangible assets (*)	**-**	**4,000**	**-**	**4,000**	4,000
	-	**9,192**	**(3,259)**	**5,933**	5,679

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

13. Deposits

a) By maturity:

	2019					2018
	With no maturity	**1 to 90 days**	**91 to 360 days**	**Over 360 days**	**Total**	Total
Demand – domestic currency	**139,260**	**-**	**-**	**-**	**139,260**	122,173
Demand – foreign currency	**36**	**-**	**-**	**-**	**36**	37,783
Interbank	**-**	**75,368**	**-**	**-**	**75,368**	157,874
Time	**-**	**30,178**	**114,049**	**293,344**	**437,571**	710,222
	139,296	**105,546**	**114,049**	**293,344**	**652,235**	1,028,052

In the year ended December 31, 2019, expenses on "Deposits" totaled R$ 48,126 (R$ 54,000 in 2018) and expenses on "Credit Guarantee Fund (FGC)" totaled R$ 971 (R$ 1,055 in 2018) (Note 18).

(In thousands of Brazilian Reais)

b) Average rate used:

	2019		2018	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
Interbank	**N/A**	**99.02**	N/A	99.05
Time	**9.77**	**109.10**	6.88	110.12

14. Open market funding

	2019		2018
	From 1 to 30 days	**Total**	Total
Own portfolio			
Zero coupon floating rate bills (LFT) (Note 25)	**314,849**	**314,849**	161,978
	314,849	**314,849**	161,978
Third-party portfolio			
Zero coupon floating rate bills (LFT)	**-**		998,186
National Treasury Notes (NTN)	**552,271**	**552,271**	34,878
	552,271	**552,271**	1,033,064
Total	**867,120**	**867,120**	1,195,042

In the year ended December 31, 2019, expenses on “Open market funding” totaled R$ 54,576 (R$ 79,340 in 2018) (Note 18).

(In thousands of Brazilian Reais)

15. Borrowings and onlendings and funds from acceptance and issue of securities

	2019						2018
	With no maturity	**1 to 90 days**	**From 91 to 180 days**	**From 181 to 360 days**	**Over 360 days**	**Total**	Total
Borrowings							
Foreign borrowings (i)	-	-	-	-	-	-	35,197
Onlendings							
Local onlendings – official institutions (ii)	**7,218**	-	-	-	-	**7,218**	8,471
Funds from acceptance and issue of securities							
Obligations due to issue of Agribusiness Credit Bills (LCA) (iii)	-	**9,695**	**6,056**	**13,851**	**64,204**	**93,806**	75,845
Obligations due to issue of Real Estate Equity Securities (LCI) (iv)	-	-	-	-	**32,928**	**32,928**	20,691
Obligations due to issue of Financial Bills (v)	-	-	-	-	**1,077**	**1,077**	1,008
	7,218	**9,695**	**6,056**	**13,851**	**98,209**	**135,029**	141,212

(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 onlendings 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 Credit Bills (LCA). The rate used ranged from 95% to 100% of the Interbank Deposit Rate (CDI).
(iv) These refer to Real Estate Equity Securities with the Bank's controlling shareholder (Note 25);
(v) These refer to Financial Bills (LF). The rate used was 115.50% of CDI maturing on 11/08/2021 (Note 25).

In the year ended December 31, 2019, expenses on "Funds from acceptance and issue of securities" totaled R$ 6,453 (R$ 5,762 in 2018) (Notes 18 and 25).

16. Other liabilities

a) Tax and social security

	2019	2018
Current		
Taxes and contributions payable (i)	**11,621**	14,835
Income taxes and contributions	**-**	11,462
	11,621	26,297
Long-term liabilities		
Taxes and contributions payable (i)	**26,694**	36,293
Provision for deferred taxes and contributions (Note 24b)	**-**	6,059
	26,694	42,352

(In thousands of Brazilian Reais)

(i) It refers to the assessment of tax deficiencies of IRPJ, CSLL and IRRF, in the amount of R$ 43,528 related to Administrative Proceeding No. 16327-721.025/2018-35 filed for the reason of disallowance of expenses included in the calculation basis of those taxes. The debt was agreed to be paid in 60 months as formalized with the RFB and it is being paid regularly.

b) Subordinated debts

	2019	2018
Long-term liabilities		
Capital-eligible subordinated debts (i) (Note 25)	**31,063**	29,060
	31,063	29,060

(i) This refers to 6-year-term Financial Bills providing for subordination clauses, corresponding to Tier II eligible instruments authorized pursuant to Resolution No. 4.192/13. This operation bears interest at 115.00% of CDI.

In the year ended December 31, 2019, expenses on "Subordinated debts" totaled R$ 2,073 (R$ 3,420 in 2018) (Note 18).

c) Miscellaneous

	2019	2018
Current		
Provisions for unsettled payments (i) (Note 22)	**5,983**	11,522
Provisions for pledges given (Note 27)	**814**	681
Items to be settled - foreign exchange	**18,719**	15,406
Brokerage to credit - Foreign exchange	**-**	2,100
Charges on funds received - PSH	**9**	9
Other amounts payable	**373**	217
	25,898	29,935
Long-term liabilities		
Accrued payments	**60**	106
Provisions for contingent liabilities (Note 28b)	**3,417**	4,232
	3,477	4,338

(i) It substantially refers to the reversal of provisions for CVM fines in the amount of R$ 4,002. The Bank acted as custodian for several Receivables Investment Funds (FIDCs), managed by SOCOPA, until 2017, when this activity started to be performed by SOCOPA. As custodian of these investment funds, the Bank was responsible for preparing its financial statements and submitting them to CVM. Management decided to recognize these fines only when notified by CVM, thus reversing the provision.

17. Equity

a) Capital stock

The Extraordinary 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 BACEN on January 10, 2019.

As at December 31, 2019, the Company's fully subscribed and paid-in capital of R$ 206,300 (R$ 193,500 in 2018) is represented by 298,031,760 (298,031,760 in 2018) registered shares with no par value, of which 149,015,880 (149,015,880 in 2018) are common shares and 149,015,880 (149,015,880 in 2018) are preferred shares.

b) Dividends and interest on equity capital

The Bank's bylaws provide for mandatory minimum dividends of 25% on net income, calculated under the terms of Brazilian Corporate Law. In 2019, based on the interim income (loss) calculated in the trial balance of November 2019, interest on capital was paid in the amount of R$ 4,539 (R$ 15,107 in 2018).

c) Income reserve and accumulated losses

According to Resolution No. 3.605/08, the profit earned and not distributed in the year shall be allocated to the income reserve account. As at December 31, 2019, loss reported for the year was R$ 3,320 (loss of R$ 473 in 2018).

d) Statutory reserve

The Bank shall allocate 5% of net income each year to the statutory reserve, which shall not exceed 20% of paid-in capital. In December 2019, R$ 8,578 was used to absorb loss for the year, remaining the balance of R$ 1,218.

e) Reserve established by the Bank's bylaws

The remaining profit, after allocation to the Statutory Reserve and the payment of Interest on Equity Capital, was used in its totality to absorb loss for the year, in the amount of R$ 9,115.

(In thousands of Brazilian Reais)

18. Expenses on market funding

	2019	2018
Time deposits (Note 13)	**38,115**	43,450
Open market funding (Note 14)	**54,576**	79,340
Contributions to Credit Guarantee Fund (FGC) (Note 13)	**971**	1,055
Interbank deposits (Note 13)	**7,206**	10,307
Financial bills (Notes 16b and 25)	**2,073**	3,420
Agribusiness Credit Bills (LCA) (Notes 15 and 25)	**4,401**	4,044
Real Estate Equity Securities (LCI) (Notes 15 and 25)	**2,052**	1,718
Exchange rate gains (losses) on foreign currency deposits	**2,805**	243
	112,199	143,577

19. Service revenues

	2019	2018
Foreign exchange operation charges	**2,310**	6,638
Bank service charges	**59,292**	55,830
Custody services	**1,073**	810
Investment fund administration fee	**-**	215
Other services	**341**	482
	63,016	63,975

20. Personnel expenses

	2019	2018
Proceeds	**36,167**	27,893
Social charges	**17,200**	15,165
Benefits	**7,400**	7,410
Fees	**14,936**	13,976
Trainings	**1,011**	1,215
Interns compensation	**81**	84
	76,795	65,743

21. Administrative expenses

	2019	2018
Transport of currency - Exchange	**27,812**	57,730
Transport of currency - Other	**1,580**	2,051
Specialized technical services	**20,797**	14,373
Data processing	**13,977**	10,633
Rents	**3,331**	3,571
Financial system	**7,539**	6,030
Communications	**1,424**	1,181
Third-party services	**970**	1,218
Notarial fees	**1,129**	1,340
Surveillance and security services	**236**	227
Materials	**221**	263
Advertising and publicity	**49**	93
Others	**4,668**	5,723
	83,733	104,433

(In thousands of Brazilian Reais)

22. Other operating revenues

	2019	2018
Income from pledges given	**400**	308
Monetary variation gains	**1,947**	4,696
Interest on National Treasury court-ordered debt securities	**2,347**	1,680
Assignment of court-ordered debt securities (i)	**5,243**	-
Monetary gains on court deposits	**128**	139
Monetary gains on guarantees	**-**	107
Mark-to-market adjustment (ii)	**2,983**	-
Recovery of charges and expenses	**1,447**	1,385
Reversal of provisions for labor risks	**362**	1,343
Reversal of provisions for civil risks	**112**	3,225
Reversal of provisions for tax risks	**1,476**	-
Reversal of provisions for RFB proceeding - Interest	**1,771**	-
Reversal of nondeductible provision (iii)	**4,002**	1,243
Reversal of provisions for pledges	**2**	48
Interest on equity - Shares	**39**	71
Income from social-security related severance pay	**2**	1,031
Exchange rate gains (losses) on foreign currency deposits	**6,789**	7,030
Exchange rate gains (losses) on foreign loans	**2,078**	68
Others	**241**	940
	31,369	23,314

(i) These refer to income (loss) from operations for the acquisition of public court-ordered debt securities (Federal, State and Local) - see Note 10;

(ii) Recognition of revenue at fair value of available-for-sale securities that were accounted for in equity under the account Asset and liability valuation adjustments, and such securities had already been traded;

(iii) Reversal of CVM fines, as per Note 16c.

23. Other operating expenses

	2019	2018
Loan consulting	**8,664**	13,336
Expenses on gold transactions	**1,333**	2,318
Loan loss provision	**33**	1,057
Expenses on Direct Consumer Credit (CDC) contract recovery	**2,073**	2,475
Exchange rate gains and losses	**735**	-
Prepaid card	**704**	780
Amortization and depreciation	**1,140**	1,164
Interbank fees	**242**	694
Financial expenses - PSH	**536**	550
Monetary adjustment of court deposits	**56**	89
Contingencies - judicial and legal obligations	**1,656**	2,223
Provision for lawyer fees	**21**	161
Expenses on assessment of tax deficiency by RFB (i) (Note 16a)	**975**	43,528
Commissions on financing agreements	**26**	22
Financial advisory – “Câmbio Fácil”	**-**	92
Provision for pledges given	**137**	135
Other expenses – Fund controllership	**502**	-
Legal expenses (i)	**3,937**	-
Loss on closing of operating activities	**10,293**	-
Reversal of taxes to offset	**-**	713
Expenses on discounts granted in renegotiations	**-**	4,606
Expenses on restatement of court-ordered debt securities	**54**	1,964
Others	**1,198**	786
	34,315	76,693

(In thousands of Brazilian Reais)

(i) It refers to the assessment of tax deficiencies of IRPJ, CSLL and IRRF in 2018, related to Administrative Proceeding No. 16327-721.025/2018-35 filed for the reason of disallowance of expenses included in the calculation basis of those taxes. The debt was agreed to be paid in installments as formalized with the RFB and it is being paid regularly;

(ii) Recognition of loss resulting from the outstanding balances of foreign exchange transactions recorded under the caption of other operating expenses, which Management judged to have been settled.

24. Income and Social Contribution taxes

a) Reconciliation of Income and Social Contribution tax expenses

	2019	2018
Income before taxes on income and profit sharing	**(11,731)**	37,529
(-) Interest on equity capital (Note 17b)	**-**	(15,107)
(-) Profit sharing	**(3,759)**	(2,031)
Income before taxes and after profit sharing	**(15,490)**	20,391
Temporary add-backs and deductions	**16,409**	9,349
Marketable securities marked to market	**3,821**	573
Allowance for loan losses (Note 8e)	**14,065**	2,823
Provision for tax risks (Note 28b.3)	**(2,216)**	5,580
Other temporary add-backs and deductions (Note 23)	**739**	373
Permanent add-backs and deductions	**4,346**	41,093
Equity in earnings (losses) of controlled company (Note 11)	**870**	4,275
Other permanent add-backs and deductions	**3,476**	36,818
Calculation basis	**5,265**	70,833
Income Tax/Social Contribution Tax	**2,083**	31,851
Deductions - tax incentives	**(1,443)**	(830)
Income and Social Contribution taxes	**640**	31,021
Deferred tax assets (i)	**(12,810)**	4,950
Total Income and Social Contribution taxes	**(12,170)**	35,971

(i) In 2019, the increase in CSLL of 5% and tax credits from previous periods in the amount of R$ 3,467 were recognized in income (loss).

b) Tax credits

The bases for recognition of tax credit were as follows:

	2019	2018
Provision for expected losses	**58,985**	32,214
Provision for contingencies and tax risks	**10,788**	12,265
Market value adjustment – Trading/ Available-for-sale marketable securities	**(1,798)**	(8,715)
Income tax loss/ Social contribution tax loss	**7,532**	7,533
Others	**-**	6,528
	75,507	49,825

(In thousands of Brazilian Reais)

The changes in tax credits for the year were as follows:

	12/31/2017	Recognition	Realization / Reversal	12/31/2018
Allowance for loan losses (ii)	18,357	1,129	(2,023)	17,463
Provision for contingencies and tax risks	6,030	-	(4,064)	1,966
Market value adjustment – Trading/ Available-for-sale marketable securities	923	-	(422)	501
Total tax credits (*)	**25,310**	**1,129**	**(6,509)**	**19,930**

	12/31/2018	Recognition	Realization / Reversal	Reclassification (i)	12/31/2019
Allowance for loan losses (ii)	17,463	12,288	(532)	(2,675)	26,544
Provision for contingencies and tax risks	1,966	1,006	(1,826)	3,708	4,854
Market value adjustment – Trading/ Available-for-sale marketable securities	501	3,992	(879)	(4,423)	(809)
Income tax loss/ Social contribution tax loss	-	-	-	3,390	3,390
Total tax credits (*)	**19,930**	**17,286**	**(3,237)**	**-**	**33,979**

(i) In 2019, there were reclassifications between line items, with no impact on income (loss), for better adherence to the information.
(ii) From the balance of the provision for expected losses, R$ 14,332 is represented by tax credits on operations written-off to loss.

(*) Tax credits comprise the following amounts:

	2019	2018
Other sundry credits - Tax credits (Note 10)	33,979	25,989
Other Obligations - Provision for deferred taxes and contributions (Note 16a)	-	(6,059)
Total tax credits	**33,979**	**19,930**

Tax credits are expected to be offset within the term allowed by Resolution No. 3.355/06, according to their nature. The credits from taxes and contributions were recorded solely on temporarily nondeductible differences.

There are no other tax credits to be recognized.

The present value of tax credits as at December 31, 2019, amounts to R$ 25,294, 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 income 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 timely considered in the financial statements.

Tax credits are expected to be realized as follows:

(In thousands of Brazilian Reais)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Allowance for loan losses	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,654	26,540
Provision for contingencies and tax risks	-	-	1,618	1,618	1,618	-	-	-	-	-	4,854
Market value adjustment – Trading/ Available-for-sale marketable securities	(405)	(405)	-	-	-	-	-	-	-	-	(810)
Others	629	1,469	1,297	-	-	-	-	-	-	-	3,395
Total	**2,878**	**3,718**	**5,569**	**4,272**	**4,272**	**2,654**	**2,654**	**2,654**	**2,654**	**2,654**	**33,979**
Present value	**2,756**	**3,365**	**4,717**	**3,380**	**3,149**	**1,821**	**1,695**	**1,579**	**1,466**	**1,366**	**25,294**

25. Related-party transactions

Transactions involving related parties were carried out on an arm's length basis as for charges and terms, as follows:

	Assets (Liabilities)		Revenues (Expenses)	
	2019	2018	**2019**	2018
Demand deposits	**(15,054)**	(11,025)	**-**	-
Cash and cash equivalents in foreign currency	**-**	(273)	**-**	-
Time deposits	**(84,836)**	(133,257)	**(7,442)**	(26,021)
Interbank deposits	**(60,136)**	(151,422)	**(6,548)**	(8,440)
Open market funding (Note 14)	**(54,001)**	(18,942)	**(1,987)**	(1,688)
Debtors – account "Pending settlements"	**(1,066)**	779	**-**	-
Financial bill - Subordinated debt (Note 16b)	**(31,063)**	(29,060)	**(2,003)**	(3,420)
Real Estate Equity Securities (LCI) (Notes 15 and 18)	**(32,928)**	(20,691)	**(2,052)**	(1,718)
Agribusiness Credit Bills (LCA) (Notes 15 and 18)	**(91,509)**	(72,449)	**(4,240)**	(3,846)

a) Compensation of key Management personnel

As per the Bank's Articles of Incorporation and bylaws, 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:

	2019	2018
Fixed compensation	**14,936**	13,975
Social charges	**3,361**	3,144
Total	**18,297**	17,119

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

26. Risk management

Risk Appetite

The Board of Directors is responsible for the approval of the guidelines and limits of risk appetite, carrying out its responsibilities with the support of the Risk and Control Committee and Chief Risk Officer (CRO).

Risk appetite limits are frequently monitored and reported to the Risk and Control Committee and Board of Directors, responsible for guiding preventive measures to be taken in order to guarantee that Banco Paulista and Socopa exposure be in line with their strategies.

There is a centralized structure for management and control of risks, independent of business units, which determines the limits and mechanisms established to reduce risk, besides establishing processes and instruments to measures, monitor and control risks.

The Bank uses three components for the organization of activities related to risk management: operational and business scenario; governance structure; and functional organization chart of the areas.

- Operational and business context, in order to identify, analyze, assess, address, communicate and monitor risks;
- Governance structure comprising committees and executive 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 results from the possibility of the Bank not being able to efficiently honor its expected and unexpected, current and future obligations, with no damage to its daily operations and not incurring in significant losses. In order to mitigate this 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. 4.557/17.

b) Credit risk

Credit risk derives from noncompliance by the issuer, borrower or counterparty of their respective agreed financial obligations. In order to mitigate this risk, the Bank periodically assesses its exposure, as well as the credit rating of clients and counterparties, thus setting limits and guarantees to cover possible losses by the Bank.

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. 4.557/17.

c) Market risk

Market risk occurs when the value of the positions held by the Bank change due to market price fluctuations. These losses may be subject to parity of exchange rates, interest rates, share prices, price indexes and merchandise prices (commodities).

The management of such risks aims to balance the Bank's business objectives in Banking and Trading portfolios considering, among others: political, economic and market outlook, portfolio profile and the Bank's capacity to operate in specific markets. The practices adopted comply with the criteria set forth by CMN Resolution No. 4.557/17.

d) Operational risk

Operational risk arises from internal and external frauds, labor claims and weak security of the work place, inadequate processes and practices adopted for clients or in relation to products and services, damage to own physical assets or to assets used by the Bank, situations that lead to undue interruption of Bank activities, and failures to systems, processes or infrastructure of information technology. 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. 4.557/17.

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 comply with CMN Resolution No. 4.557/17.

27. Sureties, pledges and guarantees to third parties

The responsibility for sureties, pledges and guarantees granted to third parties, including joint obligation on credits assigned, as at December 31, 2019, corresponded to R$ 25,222 (R$ 23,027 in 2018), with a recognized provision for possible losses in the amount of R$ 814 (R$ 681 in 2018).

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

a) Contingent assets

As at December 31, 2019 and 2018, no contingent assets were accounted for.

b) Contingent liabilities assessed as probable loss and legal obligations

b.1) Labor provisions

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, 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 (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. 9.249/95.

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

(In thousands of Brazilian Reais)

	Labor	Civil	Tax	2019	2018
Balance at beginning of year	**571**	**995**	**2,666**	**4,232**	5,719
Recognitions	**726**	**931**	**-**	**1,657**	2,311
Realizations	**(130)**	**(469)**	**-**	**(599)**	(431)
Adjustments	**-**	**-**	**56**	**56**	-
Reversals	**(362)**	**(112)**	**(1,476)**	**(1,950)**	(3,528)
Fees	**-**	**21**	**-**	**21**	161
Balance at end of year	**805**	**1,366**	**1,246**	**3,417**	4,232

	Court deposits					
	Labor	Civil	Tax	Others	2019	2018
Balance at beginning of year	**80**	**895**	**4,206**	**7**	**5,188**	11,395
Adjustments	**-**	**-**	**128**	**-**	**128**	(125)
Recognitions	**29**	**548**	**-**	**546**	**1,123**	411
Reversals	**(17)**	**(95)**	**(44)**	**-**	**(156)**	(181)
Withdrawals	**(29)**	**(256)**	**-**	**(5)**	**(290)**	(6,312)
Balance at end of year	**63**	**1,092**	**4,290**	**548**	**5,993**	5,188

c) Contingent liabilities assessed as possible losses

At December 31, 2019, contingent liabilities classified as possible losses refer to 17 proceedings (20 proceedings in 2018) of civil nature totaling R$ 8,052 (R$ 8,225 in 2018), 19 proceedings (7 proceedings in 2018) of labor nature totaling R$ 2,690 (R$ 795 in 2018) and 14 proceedings (14 proceedings in 2018) of tax nature totaling R$ 4,633 (R$ 2,527 in 2018), all based on the amounts attributed to respective proceedings filed by claimants (and not necessarily representing the possible loss value) and which are mostly represented by the following:

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

In addition to the proceedings referred to above, in December 2019, RFB filed an assessment of tax deficiency related to disallowance of administrative expenses in the calculation of IRPJ, CSLL and IRRF in the amount of R$ 32,761, which were considered possible loss by the Bank's legal counselors. In the same assessment, the tax authority also disallowed expenses in the amount of R$ 62,413, for which the likelihood of loss is considered remote, as supported by two different opinions from legal counselors, as well as by the result of the independent investigation described in Note 2.d, which has not identified irregularities on such expenses. For both cases, the Bank filed objections.

(In thousands of Brazilian Reais)

d) Regulatory agencies

There is an administrative proceeding filed by BACEN on April 13, 2018, in which the declarations and challenges of the Bank were presented and which, as per Note 2.d, is still in progress not being possible to determine its stage and need of recognition of possible provisions.

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	**12/31/2019**	12/31/2018
Base Capital (BC)	**198,571**	218,965
BC - tier I	**192,358**	201,529
Main Capital	**192,358**	201,529
BC - tier II	**6,213**	17,436
RWA calculated using the standardized approach (Cpad) - Credit	**811,427**	944,295
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	**40,053**	35,184
RWA Trading - Interest, Commodities, Shares	**-**	1,517
RWA for operational risks (Opad) - Operational	**660,085**	500,363
RWA - Total	**1,511,565**	1,481,359
Minimum BC	**120,925**	127,767
Basel index (BC/RWA Total)	**13.14%**	14.78%
Tier I index (BC tier I / RWA Total)	**12.73%**	13.60%
Principal Capital ratio (PC/RWA Total)	**12.73%**	13.60%

The Basel index for the Financial Conglomerate as at December 31, 2019, determined in accordance with the provisions set forth in Resolution No. 2.099/94, as amended by Resolutions Nos. 4.192/13 and 4.193/13, is 13.14%.

30. Rendering of other services and auditor’s independence policy

In compliance with CMN Resolution No. 3.198, the Bank has not hired services from BDO RCS Auditores Inpendentes related to the Bank, other than external audit services. The adopted policy sticks to the principles that safeguard auditor’s independence, in accordance with effective standards that mainly determine that the auditor shall not audit its own work, exercise managerial functions for its client, or promote its client’s interests.

31. Subsequent events

Corporate restructuring

On February 06, 2020, on the Extraordinary General Meeting then held, the shareholders of Banco Paulista decided on the corporate restructuring of the Bank, reducing its capital stock, with no cancellation of shares and refund of the totality of shares of SOCOPA – Sociedade Corretora Paulista S.A. ("Socopa") to its shareholders, maintaining the percentage of ownership interest of the current shareholders in the capital stock of the Bank.

The purpose of the capital stock reduction is to make the corporate structures of the Bank and Socopa independent by the transfer of the totality of shares issued by Socopa to the shareholders, resulting in the Company no longer being a wholly-owned controlled company of the Bank, and considering the following sequence of events:

- Socopa reduced its capital by R$ 3,783, with no cancellation of shares and refund to Banco Paulista of corresponding value funds;

- Banco Paulista reduced its capital stock by R$ 60,000, with no cancellation of shares, refund of the totality of shares of Socopa to its shareholders, and maintaining the percentage of ownership interest of the current shareholders in the capital stock of Banco Paulista;

- The Bank's capital increase was decided upon, in the amount of R$ 38,000, fully subscribed by the shareholder Álvaro Augusto Vidigal, and paid in national currency, with R$ 19,000 paid in on February 13, 2020 and the remainder, equivalent to R$ 19,000, to be paid on the business day following the approval of the capital increase by BACEN, in domestic currency.

These decisions were approved by BACEN through Official Letter No. 12.778/2020 - BCB/Deorf/GTSP1 on July 03, 2020.

Effect of the Coronavirus on the financial statements

The Bank, in observation to the instructions from governments and mainly from health agencies, has been adopting the required measures to support the prevention to COVID-19.

To that end, it has intensified its communications for the awareness of all employees and adopted administrative measures, such as flexibility of working hours, working from home regime, and online meetings.

Management has not identified any significant change in its operational processes, with the Company continuing to operate normally.

It recognizes that despite the current limitations to quantify the financial impacts of the situation, considering the unpredictability of the consequences that should affect the market, it is prepared for the challenges for having a comfortable and solid position, represented by its economic indexes, in addition to the fact that there was no significant default in its credit portfolio and for raising funding rates compatible with those of the market, which was possible to be verified until the publication of these financial statements.