

Banco Paulista S.A.

Financial statements and independent auditor's report

As of June 30, 2021



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MANAGEMENT REPORT

Dear Shareholders,

We hereby submit the financial statements of Banco Paulista for the six-month periods ended June 30, 2021 and 2020, prepared in accordance with the standards established by the Central Bank of Brazil (BACEN) and the National Monetary Council (CMN).

Loss, Equity, Assets and Money Market Funding: Banco Paulista closed the year with a loss of R\$ 1.28 million and equity of R\$ 184.9 million. Assets amounted to R\$ 1.5 billion, comprised of R\$ 579.6 million in lending operations and R\$ 457.6 million in securities and derivatives. Money market funding was R\$ 1.3 billion.

Governance, Risk Management and Human Resources: Banco Paulista has a governance framework based on decision-making committees, in the functional specialization of the different areas and segregation of duties.

BACEN Circular Letter 3.068/01: Banco Paulista hereby represents that it has financial capacity and intention to hold to maturity the securities classified in the “Held to maturity” category in the amount of R\$179.4 million, accounting for only 39.2% of the total securities and derivative financial instruments.

Banco Paulista has been adopting a set of actions to protect the institution which have already contributed to disseminate and promote measures and good management practices for the corporate environment integrity, ethics, and transparency.

Chiefly driven by the start of the new Operation “Car Wash” phase which investigates money laundering transactions related to members of Odebrecht Group’s Structured Operations Sector, whose facts were disclosed by press, Banco Paulista, after May 8, 2019, made important moves to enhance and strengthen its governance.

Among other actions, the Bank reinforces its commitment to an effective and structured Compliance program, which was subject to a revision and added new control mechanisms, with the following actions being already implemented: a) revision of the governance system; b) creation of an ethics channel; c) engagement of independent consulting firms and hiring of new professionals to reinforce the department; d) implementation of a system to monitor transactions, and e) adoption of new internal procedures to obtain and check information on clients, suppliers and partners.

In face of the facts occurred, the Bank’s management took the initiative to establish an investigation committee comprised of independent members. Such committee’s responsibilities included supervising the performance of the forensic audit conducted by law firm Felsberg Advogados, which, together with Control Risks Brazil, were in charge of investigating the existence of irregularities under legal, financial, court, informational, and technological aspects.

On March 26, 2020, law firm Felsberg Advogados issued a final report on the investigation which details all bases and data collected for the conclusion of the investigation work. No new cases were identified other than those already publicly known, which were the subject of the assessment notice mentioned in Note 17.a. That allows to conclude that the Bank has faced a specific issue restricted to the foreign exchange department which was subjected to an independent investigation and supported by its legal advisors.

In addition, and concurrently, the Bank has initiated a revision of its organizational structure and bylaws to better adjust them to the internal procedures implemented.

Banco Paulista's Management's commitment goes beyond meeting the requirements in prevailing legislation; rather, Management's objective is to position the Bank among the companies having the best transparency practices, which includes a commitment to communicate relevant, timely and fair information to the market.

Acknowledgements: We would like to thank our clients for choosing Banco Paulista and, above all, for their continued trust in us and our employees for their relentless dedication and hard work.

São Paulo, August 31, 2021

The Management

EXECUTIVE BOARD REPRESENTATION

SECURITIES

As required by BACEN Circular Letter 3.068/01, the Executive Board herein represents that BANCO PAULISTA S.A. has the intent to held to maturity the securities classified under the “held-to-maturity” category, in the amount of R\$ 179,371 thousand (R\$ 144,828 thousand in the second half of 2020), as shown in Note 6.

The Executive Board also represents herein that BANCO PAULISTA S.A. has financial capacity to hold such securities to their respective maturity dates.

FINANCIAL STATEMENTS

The Executive Board herein represents that they reviewed, discussed and agree with the opinion expressed in the independent auditor’s report and, also, reviewed, discussed and agree with the financial statements of BANCO PAULISTA S.A. for the six-month period ended June 30, 2021 and authorized them for issue on August 31, 2020.

BANK’S OMBUDSMAN

BANCO PAULISTA S.A.’s ombudsman structure is in conformity with CMN Resolution 4.433/15, as it provides its clients with channels to access the Ombudsman and discloses them through its bank correspondents, the Internet, and communication materials. The Bank’s Ombudsman acts as a prime client relations tool and it is in strict compliance with legal and regulatory consumer protection rules.

RELATIONSHIP WITH INDEPENDENT AUDITORS

In the six-month period ended June 30, 2021, BANCO PAULISTA did not engage nor was provided services by Grant Thornton Auditores Independentes that compromise or may compromise the independence necessary to the performance of the external audit of the financial statements. The adopted policy complies with principles that preserve the auditor’s independence, in accordance with internationally accepted criteria, that is, the auditor cannot audit his own work, perform management functions in his client or act as client’s advocate.

Acknowledgements

We would like to thank our clients for choosing Banco Paulista and, above all, for their trust and, also, our employees for their continued hard work and dedication.

Independent auditor's report on the financial statements

**Grant Thornton Auditores
Independentes**

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

Disclaimer of opinion

We have been engaged to perform an audit of the financial statements of Banco Paulista S.A. (“Bank”), which comprise the statement of financial position as of June 30, 2021, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of Banco Paulista S.A. Because of the relevance of the matters described in the “Basis for disclaimer of opinion” section below, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for our audit opinion on these financial statements.

Basis for disclaimer of opinion

Investigation processes underway

As mentioned in Note 2.c, on May 8, 2019, the Bank was the target of the 61st phase of Operation Car Wash, dubbed “Disguises of Mammon”, whereby the Federal Prosecution Office (“MPF”) and the Federal Police investigate money laundering practices by means of foreign exchange transactions related to members of Odebrecht Group’s Structured Operations Sector, which resulted in the execution of search and seizure warrants at the Bank’s premises to identify any illegitimate service agreements. This matter was also the subject of an administrative proceeding with the Central Bank of Brazil (BACEN) in 2018.

In view of the foregoing, the Bank’s Management conducted an independent investigation over the service providers referred to in the proceedings started by BACEN and MPF to identify any failures of its former management members and former providers of the services related to such Operation to comply with applicable laws and regulations.

The investigation counted on an independent internal committee, which, in turn, relied on the assistance of a legal advisory firm and a firm specializing in risks, the results of which are disclosed in Note 2.c. The investigation only covered those service providers under the investigation processes conducted by federal government authorities. The work indicated that certain service expenses arising from commissions on foreign exchange transactions performed by the Bank were not supported by appropriate sufficient evidence to corroborate the provision of services. In addition, the investigation identified expenses lacking formal agreements, payments of expenses whose agreements lacked the rationale for remuneration or commission percentage and lack of requests for purchases or quotes with other suppliers, which resulted in a tax assessment notice being issued by the Brazilian Federal Revenue Service ("RFB") in the amount of R\$ 55,586 thousand, whose balance adjusted for inflation through June 30, 2021 was R\$ 24,230 thousand, as shown in Note 17.a.

RFB completed its inspection on December 03, 2019 and, as a result, issued an additional tax assessment notice relating to the disallowance of deductibility for income tax, social contribution on net profit and withholding income tax.

For such tax assessment notice, the Bank has filed an appeal challenging this disallowance, which was classified by its legal advisors as remote and possible loss, as shown in Note 30.c, and in the investigation performed, which did not identify irregularities for the related expenses. As mentioned in Note 2.c, on July 10, 2020, RFB issued a new tax assessment notice that supplemented and adjusted the second assessment notice issued when the inspection was completed, on December 03, 2019, relating to the fine percentage applied. The legal counsel classified the potential loss arising from this assessment the same way they classified the potential loss on the original tax assessment notice.

On September 10, 2020, the 74th phase of Operation Car Wash was initiated having as targets the transactions the Bank carried out with Petróleo Brasileiro S.A. and Petrobras Biocombustível S.A. (collectively "Petrobras Group") in the period from September 12, 2008 to March 18, 2011. This phase of the Operation deepened the investigation on possible illegal acts committed in connection with agreements that would have been made between the parties under which markups were allegedly applied, causing assets owned by the executives involved in the related transactions to be frozen. The Banks' Management and legal counsel understand that the frozen assets are sufficient to support possible collections arising from the application of markups, if that is proven. Recognizing a provision for this contingency was not deemed necessary. However, we were not provided with any position on reimbursements that may eventually be required by the Petrobras Group companies involved and on any liabilities that should be recognized. Concluding on these matters by performing additional auditing procedures was not possible. We emphasize that the independent investigation previously performed by the Bank has not covered all the service providers and, mainly, the transactions performed by Petrobras Group companies, neither has a new investigation on these matters or amounts involved been performed. Accordingly, we were unable to conclude as to the whether a prosecution for administrative corruption will be instituted against the Bank, which might result in an indemnity being claimed and require the recognition of contingent liabilities that have not been recorded in the Bank's financial statements as of June 30, 2021.

Consequently, we were unable to measure the possible effects of the transactions identified by this phase of Operation Car Wash, including the proper disclosure of the related explanatory notes; also, performing additional investigation procedures, not yet considered, may be required as part of the whole investigation process initiated. Additionally, to date, estimating the future developments of the investigation processes being conducted by federal public authorities, and the effects thereof on the financial statements as of June 30, 2021, if any, is not possible.

Deferral of acquisition of receivables assignment

As mentioned in Note 11, on June 30, 2021, the Bank has R\$ 5,730 thousand recorded in “Others” relating to the deferral of acquisition of receivables assignment and recognized R\$ 1,920 thousand as expenses in profit or loss for the six-month period, as disclosed in Note 26. Through the date of issue of these financial statements, we were unable to obtain appropriate sufficient evidence nor could we perform additional auditing procedures that would enable us to validate these amounts, their relation with the contracts acquired by means of receivables assignment, and the recognition thereof to profit or loss. Consequently, we were unable to determine the effects of adjustments, if any, to the Bank’s financial statements.

Tax credits

As mentioned in Note 26.b, as of June 30, 2021, the Bank has tax credits in the amount of R\$ 35,357 thousand recorded in the financial statements. Based on our procedures, we identified inconsistencies in the tax credits base relating to effective lending operations as well as lending operations written off as loss, and, for lending operations written off as loss, certain amounts were inappropriately excluded due to system errors. The net effect of the differences between the bases results in unrecognized tax credits in the amount of R\$ 1,380 thousand, causing assets, profit or loss and equity to be understated by that amount.

Valuation adjustment to equity

As shown in the statement of changes in equity, as of June 30, 2021, the Bank had R\$ 496 thousand recorded as a positive adjustment to the fair value of the securities classified as “available for sale”, whose valuation or devaluation, according to BACEN Circular Letter 3.068, should be recorded in a separate account in equity, net of taxes. Through the date of issue of these financial statements, we were unable to obtain appropriate sufficient evidence nor could we perform additional auditing procedures that would enable us to validate these amounts. Consequently, we were unable to determine the effects of adjustments, if any, to the Bank’s financial statements as of June 30, 2021.

Uncertainty on the ability to continue as a going concern

Based on the matters mentioned in the “Investigation processes underway” paragraph of the “Basis for disclaimer of opinion” section and the other aspects disclosed in Note 2.c), as a consequence of the pending lawsuits and investigation processes underway and their still uncertain outcome, coupled with the relevance of the reported matters relating to accounting procedures adopted by Management that were not in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN) and which were also a matter included in the “Basis for disclaimer of opinion” section, Management needs to continue to adopt measures to safeguard the Banks’ ability to continue as a going concern; otherwise, there is the risk that the Bank will not be able to continue to operate in case measures taken are not successful.

Emphasis of matters

Civil Investigation

We draw attention to Note 2, which mentions that on June 07, 2021 the Federal Prosecution Office (MPF) dismissed Civil Investigation #1.34.001.007268/2019-47, under which MPF would conduct its own investigation to determine the legality of the foreign exchange transactions conducted by the Bank abroad to sell foreign currencies in exchange for the respective amounts in reais in kind. We emphasize that a proceeding of the same nature had already been dismissed by the Central Bank of Brazil. According to CMN Resolution 23, dated September 17, 2007, a dismissed civil investigation may be restarted in up to six (6) months as of the dismiss date if new evidence arises or a new material fact requires investigation. Our opinion is not qualified regarding this matter.

Transactions with related parties

As mentioned in Note 27, in the six-month period ended June 30, 2021, the bank recognized gains on assignment of receivables in the amount of R\$ 5,632 thousand, which accounts for 3.04% of its equity. Since these transactions are conducted between related parties, results might be different had these transactions been conducted with third parties. Our opinion is not qualified regarding this matter.

Other matters

Audit of corresponding figures as of December 31, 2020

The Bank's financial statements for the six-month period and year ended December 31, 2020 were audited by other independent auditors whose report thereon, dated April 12, 2021, contained a disclaimer of opinion regarding the following matters: **(i)** Investigation processes being conducted by the Federal Prosecution Office and the Brazilian Federal Revenue Services; **(ii)** Civil Investigation; **(ii)** Confirmation letters (external parties) and reconciliation of foreign financial institutions; **(iii)** Investments in subsidiaries and affiliates; **(iv)** Confirmation letters of lending operations; **(v)** Determination of tax credits; **(vi)** Custody of assets and liabilities; **(vii)** Losses associated to credit risks; **(viii)** Valuation adjustments to equity; **(ix)** Deferral of commissions on money market funding; **(x)** Administrative proceeding; **(xi)** A paragraph on uncertainty on the Bank's ability to continue as a going concern, and emphasis of matters regarding related-party transactions and investment in equity fund units.

Information other than the financial statements and auditor's report thereon

The Bank's Management is responsible for this other information that is included in the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

Responsibility of Management and those charged with governance for the financial statements

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

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

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

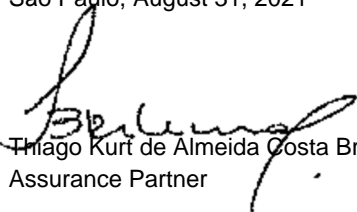
Auditor's responsibility for the audit of the financial statements

Our responsibility is to conduct an audit of the Bank's financial statements in accordance with the Brazilian and international standards on auditing and issue an audit report.

Because of the matters described in the "Basis for disclaimer of opinion" paragraph, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for our audit opinion on the financial statements.

We are independent of the Bank in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

São Paulo, August 31, 2021



Thiago Kurt de Almeida Costa Brehmer
Assurance Partner

Grant Thornton Auditores Independentes

BANCO PAULISTA S.A.
Statements of financial position
As of December 31, 2021 and 2020
(In thousands of reais)

	Notes	06/30/2021	12/31/2020
Assets			
Current assets		684,321	624,548
Cash and cash equivalents		37,923	1,512
Cash and cash equivalents	4	37,923	1,512
Financial instruments		632,655	622,677
Short-term interbank investments	4/5	199,494	123,696
Interbank deposits	5	3,013	3,017
Securities	6	148,776	157,700
Derivative financial instruments	7	100	-
Interbank accounts	10	19,918	17,991
Lending operations - private sector	8	225,171	244,866
Trade and other receivables with characteristics of loans	8	35,624	74,705
Trading account		534	677
Trade and other receivables without characteristics of loans	9	25	25
Allowance for expected credit losses		(2,917)	(4,593)
(-) Lending operations	8	(2,659)	(3,846)
(-) Trade and other receivables with characteristics of loans	8	(258)	(747)
Other assets		16,660	4,952
Prepaid expenses		39	42
Repossessed assets		3,381	3,381
Others	11	13,240	1,529
Noncurrent assets		817,648	708,959
Financial instruments		723,735	619,513
Securities	6	308,873	291,720
Lending operations - private sector	8	354,422	285,624
(-) Trade and other receivables with characteristics of loans	8	8,529	9,014
(-) Trade and other receivables without characteristics of loans	9	51,911	33,155
Allowance for expected credit losses		(4,873)	(4,908)
(-) Lending operations	8	(4,186)	(4,486)
(-) Trade and other receivables with characteristics of loans	8	(183)	(90)
(-) Trade and other receivables without characteristics of loans	9	(504)	(332)
Tax credits	27b	35,358	34,249
Other assets		53,779	50,253
Others	11	53,779	50,253
Investments	12	3,234	3,006
Other investments		3,486	3,258
(-) Allowances for losses		(252)	(252)
Property and equipment		1,242	1,387
Properties on use		957	957
Other property and equipment in use		5,285	5,838
(-) Accumulated depreciation		(5,000)	(5,408)
Intangible assets	13	5,173	5,459
Intangible assets		9,281	9,281
(-) Accumulated amortization		(4,108)	(3,822)
Total assets		1,501,969	1,333,507

	Notes	06/30/2021	12/31/2020
Liabilities			
Current liabilities		596,389	648,152
Deposits and other financial instruments		578,552	632,880
Deposits	14	354,147	377,769
Money market funding - own portfolio	15	85,349	89,131
Funds from acceptances and issuance of securities	16	99,296	124,688
Borrowings and onlending	16	6,701	6,701
Derivative financial instruments	7	-	1,961
Interbranch and interbank accounts	10	537	576
Subordinated debt	16	32,522	32,054
Provisions		6,504	4,920
Income tax and social contribution		1,552	-
Payables		3,904	3,987
Financial guarantees given	30	1,048	933
Other liabilities		11,333	10,352
Tax collection and payment and similar amounts		468	5
Fiscal and social security	17a	8,561	10,148
Others	17b	2,304	199
Noncurrent liabilities		720,717	502,095
Deposits and other financial instruments		699,207	479,630
Deposits	14	620,693	426,241
Funds from acceptances and issuance of securities	16	78,514	53,389
Provisions		3,884	2,765
Contingent liabilities	31b	3,884	2,765
Other liabilities		17,626	19,700
Fiscal and social security	17a	17,626	19,700
Equity	18	184,863	183,260
Share capital - in Brazil		184,300	184,300
Earnings reserve		67	-
Accumulated losses		-	(1,213)
Adjustment to fair value - securities and derivatives		496	173
Total liabilities		1,501,969	1,333,507

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

BANCO PAULISTA S.A.
Statements of profit or loss
Six-month periods ended June 30, 2021 and 2020
(In thousands of reais)

	Notes	06/30/2021	06/30/2020
Revenue from financial intermediation		41,579	53,293
Lending operations	8h	28,371	25,854
Gain on short-term interbank investments and securities	05/06	14,470	23,069
Gain (loss) on derivative financial instruments	7d	(1,201)	(4,085)
Gain (loss) on foreign exchange transactions		(61)	8,455
Expenses on financial intermediation		(23,643)	(31,190)
Money market funding	19	(23,691)	(25,179)
Borrowings and onlending		-	(4,327)
Allowance for expected credit losses	8e	48	(1,684)
Gross profit from financial intermediation		17,936	22,103
Other operating income (expenses)		(16,678)	(16,714)
Service revenue	20	1,798	2,544
Revenue from banking fees	20	15,488	24,061
Personnel expenses	21	(19,201)	(20,995)
Administrative expenses	22	(14,961)	(15,627)
Tax expenses	24	(4,112)	(5,102)
Expenses on provisions	23	(2,863)	(1,258)
Other operating income	25	14,551	7,657
Other operating expenses	26	(7,378)	(7,994)
Operating profit		1,258	5,389
Nonoperating income		352	(202)
Profit before taxes on income and profit sharing		1,610	5,187
Income tax and social contribution	27	(188)	(2,758)
Provision for income tax		(851)	(2,411)
Provision for social contribution		(709)	(1,889)
Deferred tax assets		1,372	1,542
Statutory profit sharing		(142)	(243)
Profit for the six-month period		1,280	2,186
Earnings per one thousand shares - R\$		3.02	7.33

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

BANCO PAULISTA S.A.
Statements of comprehensive income
As of June 30, 2021 and 2020
(In thousands of reais)

	06/30/2021	06/30/2020
Profit for the six-month period	1,280	2,186
Other comprehensive income	323	(1,118)
Available-for-sale financial instruments	587	(1,855)
Income tax and social contribution	(264)	737
Comprehensive income for the six-month period	1,603	1,068

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

BANCO PAULISTA S.A.
Statements of changes in equity
As of June 30, 2021 and 2020
(In thousands of reais)

	Capital	Capital increase	Unpaid capital	Capital reduction	Earnings reserves		Fair value adjustment	Retained earnings (accumulated losses)	Total
					Legal reserve	Statutory reserve			
Balances as of December 31, 2019	206,300	-	-	-	1,218	-	1,782	-	209,300
Capital increase	-	38,000	(19,000)	-	-	-	-	-	19,000
Capital reduction	-	-	-	(60,000)	-	-	-	-	(60,000)
Profit for the six-month period	-	-	-	-	-	-	-	2,186	2,186
Legal reserve	-	-	-	-	109	-	-	(109)	-
Statutory reserve	-	-	-	-	-	2,077	-	(2,077)	-
Mark-to-market securities and derivatives	-	-	-	-	-	-	(498)	-	(498)
Mark-to-market securities and derivatives - Subsidiary	-	-	-	-	-	-	(620)	-	(620)
Balances at June 30, 2020	206,300	38,000	(19,000)	(60,000)	1,327	2,077	664	-	169,368
Changes in the six-month period	-	38,000	(19,000)	(60,000)	109	2,077	(1,118)	-	(39,932)
Balances as at December 31, 2020	184,300	-	-	-	-	-	173	(1,213)	183,260
Profit for the six-month period	-	-	-	-	-	-	-	1,280	1,280
Legal reserve	-	-	-	-	4	-	-	(4)	-
Statutory reserve	-	-	-	-	-	63	-	(63)	-
Mark-to-market securities and derivatives	-	-	-	-	-	-	323	-	323
Balances at June 30, 2021	184,300	-	-	-	4	63	496	-	184,863
Changes in the six-month period	-	-	-	-	4	63	323	1,213	1,603

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

BANCO PAULISTA S.A.
Statement of cash flows - indirect method
As of June 2021 and 2020
(In thousands of reais)

	2021	2020
Adjusted profit for the six-month period	23,598	35,319
Profit for the six-month period	1,280	2,186
Adjustments to reconcile profit to net cash	22,318	33,133
Allowance for expected credit losses (Note 8e)	(48)	1,684
Provisions for deferred income tax and social contribution	(1,372)	(1,542)
Depreciation and amortization (Note 25)	467	435
Inflation adjustment of judicial deposits	(27)	(38)
Reversal of provision for civil, tax and labor risks	(117)	-
Reversals of judicial deposits	65	36
Provisions for risks	1,345	903
Provisions for sureties	115	59
Provisions for tax assessment notice - Federal Revenue Service (Note 16a)	1,403	-
Other inflation adjustments	-	260
Provisions for income tax and social contribution	1,560	4,397
Borrowing costs	23,691	25,179
Consignment expenses INSS	1,920	-
MtM adjustment - securities	(6,684)	1,760
Changes in assets and liabilities		
Decrease (increase) in investments in interbank deposits	4	(199)
(Increase) decrease in securities	(1,222)	176,898
(Increase) in interbranch and interbank accounts	(1,966)	(1,246)
(Increase) in lending operations	(50,542)	17,953
(Increase) in other assets	(17,193)	(5,742)
Increase (decrease) in trading account	143	(58,371)
(Increase) in derivative financial instruments	(2,061)	(7,443)
Decrease (increase) in tax credits	264	(834)
Decrease in trade and other receivables	20,586	12,632
Decrease in foreign exchange portfolio	-	11,756
Increase (decrease) in deposits	147,139	(24,500)
(Decrease) in money market funding	(3,782)	(332,778)
Increase (decrease) in other liabilities	2,568	(16,872)
(Decrease) in tax and social security obligations	(5,072)	(9,597)
(Decrease) increase in provisions	(192)	3,132
Net cash provided by (used in) operating activities	112,272	(199,892)
Cash flow from investing activities		
Acquisition of property and equipment in use	(36)	-
Investments in intangible assets	-	(1)
Fixed assets disposed of	-	250
Investments	(228)	(194)
Net cash provided by (used in) investing activities	(264)	55
Cash flow from financing activities		
Capital increase (Note 17a)	-	19,000
(Decrease) in borrowings and onlending	-	(400)
(Decrease) in funds from acceptances and issuance of securities	(267)	(6,673)
Increase in subordinated debt	468	630
Net cash provided by financing activities	201	12,557
Increase (decrease) in cash and cash equivalents	112,209	(187,280)
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the six-month period (Note 4)	125,208	689,888
Cash and cash equivalents at the end of period (Note 4)	237,417	502,608
	112,209	(187,280)

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

Banco Paulista S.A.

Notes to the financial statements
As of June 30, 2021 and December 31, 2020
(In thousands of reais)

1. General information

Banco Paulista (“Bank”) is a privately held corporation controlled by Mr. Álvaro Augusto Vidigal and established as a multipurpose bank, primarily engaged in granting loans to medium- and large-sized entities, providing services and structuring operations for sale and distribution.

Through 2019, the bank’s operations were conducted in the context of a group of institutions that operated in the financial market in an integrated manner. Certain operations were conducted jointly with or intermediated by its former subsidiary Singulare Corretora de Títulos e Valores Mobiliários S.A. (“Singulare”) (formerly “SOCOPA – Sociedade Corretora Paulista S.A.”) and other companies belonging to the controlling shareholders. However, since the corporate restructuring involving the Bank and Singulare was completed, Singulare is no longer part of the Group.

The Extraordinary Shareholders Meeting of February 06, 2020 resolved for the Bank’s corporate reorganization whereby share capital was reduced without cancellation of shares and all shares in Singulare Corretora de Títulos e Valores Mobiliários S.A. were returned to its shareholders, with the current shareholders’ ownership interest in the Bank’s capital remaining unchanged.

Capital was reduced to make the Bank’s and Singulare’s corporate structures independent from each other through the transfer of all shares issued by Singulare to the shareholders. By this way, Singulare is no longer a wholly-owned subsidiary of the Bank. The following chronological order was followed:

- Singulare reduced its capital by R\$ 3,783, without cancellation of shares, with return of funds at the equivalent amounts to the Bank;
- The Bank reduced its share capital by R\$ 60,000, without cancellation of shares, with return of all shares in Singulare to its shareholders. The current shareholders’ ownership interest in the Bank’s capital remained unchanged;
- A resolution was made to increase the Bank’s share capital by R\$ 38,000, fully subscribed by shareholder Álvaro Augusto Vidigal and paid in local currency, as follows: R\$ 19,000 were paid in on February 13, 2020 and the remaining R\$ 19,000, was paid in on July 03, 2020, in local currency.

These resolutions were approved by the Central Bank by means of Official Letter 12.778/2020–BCB/Deorf/GTSP1, on July 03, 2020.

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2. Basis of preparation and presentation of the financial statements

- a) The financial statements have been prepared and are presented in accordance with the accounting practices adopted in Brazil applicable to financial institutions authorized to operate by Bacen, which include the accounting standards established in the Standard Chart of Accounts of Institutions taking part in the National Financial System (Cosif), and the standards issued by the National Monetary Council (CMN), the Central Bank of Brazil and Brazilian Corporate Law.

Accounting estimates are determined by Management, based on factors and assumptions established in reliance upon judgments. Significant items subject to these estimates and assumption include the provisions for adjustment of assets to the probable realizable or recoverable amount, allowances for losses, provisions for risks, mark-to-market of financial instruments, deferred taxes, among others. The settlement of these transactions involving estimates may result in different amounts due to inaccuracies inherent in the estimation process. Estimates are revised on a periodic basis.

To gradually reduce the differences between the accounting standards established in COSIF Standard Chart of Accounts and the International Financial Reporting Standards (IFRS), the Central Bank of Brazil, under BCB Resolution 2/2020, regulated new procedures for the preparation and disclosure of financial statements. The main changes implemented by said BCB Resolution were the presentation of the statement of financial position accounts in order of liquidity for assets and in order of shortest term to longest term for liabilities; the statement of financial position balances are presented comparatively to those as of the immediately preceding fiscal year, and the other statements are compared to the same periods of the fiscal year preceding the reporting year; inclusion of information on recurring and non-recurring profits, and inclusion of a statement of comprehensive income. The changes introduced by the new standards did not impact profit or equity.

The main changes implemented were in the statement of financial position accounts which are presented in order of liquidity for assets and in order of shortest term to longest term for liabilities. This procedure is applied for the financial statements of the figures corresponding to the prior period, which are presented for purposes of comparison.

Management hereby represents that the disclosures made in the financial statements evidence all relevant information used in managing the Bank and that the accounting practices were applied consistently to all reporting periods.

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In the process of convergence to the International Financial Reporting Standards, the Bank adopts technical pronouncements, instructions and interpretations issued by the Accounting Pronouncements Committee (CPC), as ratified by CMN and BACEN as of their effective date.

The financial statements were approved on August 31, 2021.

- b) The financial statements are presented in Brazilian reais, which is the Bank's functional currency. All financial information presented in reais were converted into thousands of reais, unless otherwise stated.
- c) In completing the analyses on the financial statements for the six-month period ended June 30, 2021, mentioning the following events – most of them already considered in the 2019 and 2020 financial statements – is necessary:
- On April 13, 2018, BACEN started an administrative proceeding which was challenged by the Bank. In August 2020, the Central Bank decided the appeal and imposed a pecuniary fine (see Note 31).
 - On February 9, 2018, the Brazilian Federal Revenue Service (RFB) started an inspection process which resulted in the Bank being assessed at the end of 2018 for the IRPJ, CSLL and IRRF issues under Administrative Proceeding 16327-721.025/2018-35, relating to the disallowance of expenses that had been included in the calculation base of those taxes. The resulting debt has been paid in installments on a timely basis under an agreement made with RFB (see Notes 17.a and 31.c);
 - On May 08, 2019, the Bank was the target of the 61st phase of Operation Car Wash, dubbed "Disguises of Mammon", whereby the Federal Prosecution Office ("MPF") and the Federal Police investigate money laundering practices by means of foreign exchange transactions related to members of Odebrecht Group's Structured Operations Sector, which resulted in the execution of search and seizure warrants at the Bank's premises to identify any illegitimate service agreements. By the date of completion of these financial statements, no new position or requirements had been issued by that body;
 - In December 2019, as mentioned in Note 31.c, the RFB inspection was completed. However, in July 2020, the Bank was issued an additional tax assessment notice since, according to RFB, the fine amount applied by original tax assessment in December 2019 had been calculated incorrectly. RFB then issued a supplemental assessment which has already been challenged by the Bank;
 - In July 2020, BACEN approved a corporate reorganization process involving the Bank and Singulare, as described in Note 1.

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- In September 2020, the Bank was again the target of Operation Car Wash in its 74th phase which executed search and seizure warrants involving data on foreign exchange transactions made with Petrobras from 2008 to 2011 under the allegation that surtaxes had been applied on such transactions. The Bank promptly made itself available to provide any clarifications and information that might be required. To date, nothing concrete was identified. For this reason, the Bank did not turn to its legal counsel and did not determine the transactions and their possible effects.
- In October 2020, BACEN unanimously decided to dismiss Administrative Proceeding PE 157096 which had been started to determine the legality of the foreign exchange transactions conducted by the Bank abroad to sell foreign currencies in exchange for the respective amounts in reais in kind.
- Regarding this issue, MPF, in a civil proceeding, sent an Official Letter requesting the Bank to provide clarifications which was done in due time. The Bank informed that BACEN had unanimously decided to dismiss the abovementioned Administrative Proceeding.
- The Bank's current Management has no knowledge of the transactions being investigated and reassures that the Institution's operations have always being based on legality and all the standards and guidance established by the Central Bank of Brazil are followed.

Considering the events above, Management removed and terminated the Bank's officers and employees involved in the reports and decided to establish an investigation committee comprised of law firm Felsberg Advogados, members from the Bank, and independent members to oversee and perform an investigation process on the transactions that are the subject of the 61st phase of Operation Car Wash dubbed "Disguises of Mammon". All the information, documents and reports generated by the investigation team have been kept confidential. This investigation did not cover all the transactions performed by the foreign exchange department nor have they covered the transactions made with Petrobras.

On March 26, 2020, law firm Felsberg Advogados issued a final report on the investigation process which details all the bases and data collected for the conclusion of the investigation work.

In summary, the final report presents the following data:

- The objective of the work was to gather information on specific transactions performed between the Bank and third parties, considering the companies referred to in the proceedings started by MPF, Bacen and RFB, encompassing the period from January 2007 and May 2019;

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- An analysis was made of the relevant documents which included electronic messages, financial proposals, contracts, opinions, reports, access to the building where the Bank's premises are located, among others;
- A forensic collection was made that allowed to recover and analyze a substantial volume of information from varying sources of electronic data, including personal computers, servers, cell phones, among others, as well as an analysis of mass plea bargain;
- An accounting and financial analysis was performed by identifying the amounts paid to the main entities involved and comparing them to MPF's allegations;
- Interviews with then key employees were also made according to their potential participation in the cases under analysis; related entities and individuals were also considered for background check purposes.

The final report also mentions that, during the investigation process, they verified that a series of mitigating measures were taken by the Bank, such as, for example:

- Revision of the governance system;
- Creation of an Ethics Channel;
- Engagement of independent consulting firms and hiring of new professional to reinforce the departments;
- Transaction monitoring systems; and
- New internal procedures to obtain and check information on clients, suppliers and partners.

It is worth noting that, as the final report on the investigation covering the list of reported companies was issued, no new cases were reported other than those already publicly known, which were the subject of the assessment notice mentioned in Note 17.a and the 74th phase of Operation Car Wash. That allows to conclude that the Bank has faced a specific issue restricted to the foreign exchange department.

Management and the legal counsel understand that by the date of completion of these financial statements, there are no elements, facts or circumstances that impose the Bank, as a result of the import of currencies and the 74th phase of Operation Car Wash any contingencies that would require the recognition of a provision, since:

- The Bank was not subject to binding measures under the criminal proceedings underway;

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- When losses were identified under these proceedings, assets owned by the individuals under investigation were frozen;
- For a prosecution for administrative corruption to be instituted in connection with imports of foreign currencies or transactions involving PETROBRAS, there should be evidence of an illegal act causing loss. Considering that BACEN unanimously decided to dismiss the relevant Administrative Proceeding, the likelihood of loss arising from a prosecution for administrative corruption is considered remote.
- On June 07, 2021, the Federal Prosecution Office, under Civil Investigation #1.34.001.007268/2019-47, sent by Operation Car Wash task force in São Paulo, due to negative conflicts of jurisdiction, for investigation at the civil level of an alleged failure by BANCO PAULISTA S.A. to comply with the standards established by the Central Bank of Brazil (BACEN) dismissed the records based on all elements gathered and also on their understanding that there was no reason to proceed with the process, and emphasized that the position of BACEN itself was that there were no irregularities according to Administrative PE 157096.

The Bank reinforces its commitment to society, clients and authorities and, for this purpose, the new Management is focused on adopting strict standards, mainly measures to strengthen governance and compliance, such as management, control, audit and transparency of information.

3. Summary of significant accounting policies

a) Revenue and expenses recognition

Finance income and costs are recorded on the accrual basis, on a daily pro rata basis. Fees and commissions received are recognized during the period services are provided (accrual basis).

Finance income and finance costs are calculated under the exponential method. Fixed-rate transactions are stated at redemption value and income and expenses for the future period are stated as a reduction of related assets and liabilities. Floating rate transactions are adjusted for inflation through the statement of financial position date based on the agreed-upon indexes. Fees and commissions on transactions with third parties, such as brokerage, are recognized when the service or transaction is performed.

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b) Cash and cash equivalents

Under Resolution 3064/08, cash and cash equivalents include cash, bank deposits, highly liquid short-term investments, subject to an insignificant risk of change in value and limits, with maturity equal to or less than 90 days.

c) Financial instruments

Short-term interbank investments

Fixed rate transactions are recorded at their redeemable amount less income allocated to future periods, and floating rate transactions are recorded at cost plus income earned through the statement of financial position date, less impairment allowance, when applicable.

Investments in transactions under repurchase agreements are classified according to their maturity, regardless of the maturity terms of the papers backing the transactions.

Securities and derivative financial instruments

As established by BACEN Circular 3068/01, portfolio securities are classified into three different categories, according to Management's intention, as follows

Trading securities: stated in current assets, regardless of the related maturity dates, and comprise the securities acquired to be actively and frequently traded. They are stated at fair value and any gains or losses are recorded in profit or loss.

Available-for-sale securities: securities that were not acquired to be frequently traded and are used, among other purposes, for liquidity reserve, collaterals and hedge against risks. The income earned, at the acquisition rates, and possible impairment losses are recorded in profit or loss. These securities are stated at fair value and any gains or losses are recorded as a balancing item to a separate equity account (net of taxes) which will be transferred to profit or loss when realized.

Held-to-maturity securities: refer to acquired securities that Management has the intent and financial capacity to hold in portfolio up to their maturity. They are stated at acquisition cost, plus accrued earnings. Impairment losses, if any, are immediately charged to profit or loss.

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Derivative financial instruments consisting of futures, forward and swap transactions are accounted for under the following criteria:

- *Futures* - mark-to-market amounts are recorded on a daily basis in assets or liabilities and allocated either as income or expenses on a daily basis;
- *Forward transactions* - recorded at the final contract amount, less the difference between this amount and the fair value of the asset or right, with income and expenses recorded over the term of the contract through the statement of financial position date.
- *Swap transactions* - the difference receivable or payable is accounted for at fair value in assets or liabilities, respectively, and recognized as income or expenses on a daily pro rata basis through the statement of financial position date.

Derivative transactions, not eligible for hedge accounting, are stated at fair value at the statement of financial position date, and the related appreciation or depreciation is accounted for as income or expenses in profit or loss for the period.

Lending operations and credit risk losses

Lending operations (borrowing and financing) and other receivables (receivables without recourse) are recorded at present value calculated on a daily pro rata basis according the variation of the index and agreed-upon interest rate, adjusted through the 60th day of arrears, considering the expected collection.

Lending operations are classified according to Management's risk assessment, considering the economic conditions, past experience and specific risks related to the operation, debtors and guarantors, according to the parameters set forth by BACEN Resolution 2682/99, which requires a periodic analysis of the portfolio and its classification into nine levels, from "AA" (minimum risk) to "H" (loss).

Income from lending operations with maturity equal or above 60 days, regardless of their risk level, is only recognized as revenue when actually received.

H-rated loans remain under this rating for 180 days, when they are written off against the existing allowance and controlled for a minimum of five years in a memorandum account, no longer appearing on the statement of financial position.

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Restructured lending operations remain at least in the same rating in which they were originally classified. Renegotiated loans that had been written off against the allowance and were maintained in memorandum accounts are rated as H, and possible recoveries are only recognized as income when received.

For transactions with terms over 36 months, the Bank uses the double counting of the term as permitted by Resolution 2682/99 to determine the risk level. The allowance for expected credit losses, considered sufficient by Management, is in compliance with Resolution 2682/99, as shown in Note 8.

CMN Resolution 4.803, as amended by the abovementioned CMN Resolution 4.855, permitted financial institutions to reclassify transactions renegotiated between March 1 to December 31, 2020 to the level they were classified into on February 29, 2020 (as amended by Resolution 4.855), except those transactions that as of February 29, 2020 were past due for a term equal or above 15 days and for which there are indications of incapacity to honor the new renegotiated conditions.

CMN Resolution 4.855, of September 24, 2020, effective January 1, 2021, determined that, for purposes of recognizing an allowance for transactions conducted under the scope of the programs launched to face the effects of the COVID-19 pandemic on economy, in which resources and risks are shared between the federal government and the participating institutions, or collateral provided by the federal government, the percentages provided for in Resolution No. 2.682 will only be applied on the portion of the carrying amount of the transaction whose credit risk is held by the institution. In case of transfer to loss, the amount to be maintained in memorandum accounts must be 100% of the transaction balance.

The Bank did not apply the criteria permitted by Resolutions 4.803 and 4.855 during the first half of 2021.

d) Investments

Investments are recognized at acquisition cost, less allowance for losses, where applicable.

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e) Property and equipment and intangible assets

Represents the rights acquired in tangible and intangible assets for the maintenance of the Company's activities or exercised for such purpose.

Property and equipment items (tangible assets) are stated at acquisition cost. Depreciation of property and equipment is calculated on a straight-line basis at the following rates: 20% p.a. for vehicles and data processing system and 10% p.a. for other assets.

Intangible assets correspond to rights acquired in intangible assets for the maintenance of the Company's activities or exercised for such purpose. Recorded at acquisition cost, less accumulated amortization. Intangible assets with finite useful life are amortized based on its effective use or a method that reflects its economic benefits; intangible assets with indeterminate useful life are annually tested for impairment.

f) Impairment of nonfinancial assets

The accounting recognition of an asset should evidence events or changes in economic, operating or technological circumstances that might indicate that an asset is impaired. Whenever evidence is identified and the net carrying amount exceeds the recoverable value, an allowance for impairment losses is recognized to adjust the carrying amount to the recoverable value. These allowances are recognized in profit or loss for the period/year, as provided for in CMN Resolution 3.566/08.

Except for tax credits, whose realization is assessed semiannually, the amounts of nonfinancial assets are tested for impairment at least annually.

g) Deposits, money market funding, funds from acceptances and issuance of securities, onlendings and borrowings and subordinated debt

Stated at the original amounts, plus charges incurred through the statement of financial position date, recognized on a daily pro rata basis. Foreign currency liabilities are adjusted at the exchange rates prevailing on the statement of financial position date. Money market funding is recorded in current liabilities according to the respective maturity terms, regardless of the maturity of the papers backing the transactions.

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h) Current and deferred income tax and social contribution

Current

The provisions for income tax (IRPJ) and social contribution (CSLL), when payable, are calculated based on the book profit or loss adjusted by permanent and temporary additions and exclusions. Income tax is calculated at a 15% rate, plus a 10% surtax on taxable income exceeding R\$240 in the year (R\$120 in six months), and social contribution at a rate of 15% was calculated through February 2020. Under Constitutional Amendment 103, art. 32, the social contribution rate applicable to banks effective March 2020 became 20%.

Deferred

Deferred taxes were calculated on temporary additions and exclusions. Deferred taxes are calculated on temporary additions, exclusions and taxable income to be realized when the recognition bases are used and/or reversed based on the expected realization periods and considering technical studies and Management's analyses.

i) Contingent assets and contingent liabilities, and legal, tax and social security obligations

Contingent assets and contingent liabilities, and legal obligations are recognized, measured and disclosed in accordance with the criteria set forth in Resolution 3823/09 and CPC 25, issued by the Accounting Pronouncements Committee (CPC), based on the following criteria:

Contingent assets - are not recognized in the financial statements, except when there is evidence that they will materialize and when they are no longer subject to appeals.

Contingent liabilities - are recognized in the financial statements when, based on the opinion of the legal counsel and Management, the risk of loss in a lawsuit or administrative proceeding is assessed as probable, with a probable disbursement of resources to settle the obligations, and when the relevant amounts can be reliably measured. Contingent liabilities assessed by the legal counsel as possible loss are disclosed in the notes to the financial statements whereas those assessed as remote loss are neither accrued nor disclosed.

Legal obligations (tax and social security) - refer to lawsuits challenging the legality and constitutionality of certain taxes (or fees and contributions). The amount under litigation is quantified, recognized and adjusted on a monthly basis.

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j) Other current and noncurrent assets and liabilities

Stated at their realizable or settlement amounts and include income, charges, inflation adjustments, or exchange rate changes earned and/or incurred through the reporting date, calculated on a daily pro rata basis, and, when applicable, less allowance for losses to reflect their realizable value. Receivables and payables due within 12 months are classified in current assets and current liabilities, respectively.

k) Earnings (loss) per share

Earnings (loss) per share are calculated based on the number of shares outstanding at the statement of financial position date.

l) Recurring and nonrecurring profit or loss

Article 34 of BCB Resolution 2, of November 27, 2020, requires the disclosure of recurring and nonrecurring profit or loss separately. Nonrecurring profit or loss for the year is defined as: I – the one that is not related or is incidentally related to the institutions' core activities; and II – the one that is not expected to occur frequently in future years.

The nature and financial effect of events considered nonrecurring are disclosed in Note 34.

4. Cash and cash equivalents

As of June 30, 2021 and December 31, 2020, cash and cash equivalents were broken down as follows:

	<u>2021</u>	<u>2020</u>
Cash in local currency	37,353	937
Cash in foreign currency	570	575
Money market investments (Note 5a)	199,494	123,696
Cash and cash equivalents	<u>237,417</u>	<u>125,208</u>

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5. Short-term interbank investments

a) Money market investments

	2021		2020
	<u>1 to 30 days</u>	<u>Total</u>	<u>Total</u>
Money market investments			
Own portfolio:	199,494	199,494	123,696
Treasury Financial Bills (LFT)	69,996	69,996	123,696
National Treasury Notes (NTNs)	129,498	129,498	-
Total	<u>199,494</u>	<u>199,494</u>	<u>123,696</u>

In the six-month period ended September 30, 2021, the result on transactions under repurchase agreements was R\$ 2,418 (R\$ 9,347 in 2020).

b) Investments in interbank deposits

	<u>2021</u>	<u>2020</u>
Up to 90 days	3,013	3,017
Total	<u>3,013</u>	<u>3,017</u>

In the six-month period ended June 30, 2021, income on interbank deposits was R\$ 19 (R\$ 10 in 2020).

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6. Securities

a) Securities - Breakdown by classification

	2021		2020	
	Cost (i)	Market (ii)	Cost (i)	Market (ii)
Trading securities				
Own portfolio - trading	69,848	70,194	48,911	48,857
National Treasury Bills (LTN)	131	130	129	129
National Treasury Notes (NTNs)	41,145	41,493	489	601
Agricultural Debt Securities - TDA	3	2	4	2
Units in Investment Funds - CFI (iii)	8,307	8,307	16,681	16,681
Units in Receivables Funds - FIDC (iii)	6,697	6,697	3,511	3,511
Certificate of Agribusiness Receivables - CRA	12,707	12,707	27,023	26,777
Shares of listed companies	27	27	19	98
Certificates of Real Estate Receivables ("CRIs")	831	831	1,055	1,058
Total trading securities	69,848	70,194	48,911	48,857
Available-for-sale securities				
Own portfolio - trading	85,506	85,520	126,593	126,734
National Treasury Bills (LTN)	34,569	34,583	95,786	95,908
National Treasury Notes (NTNs)	11	13	709	730
Agricultural Debt Securities - TDA	6	4	6	4
Units in Investment Funds - CFI (iii)	48,645	48,645	30,092	30,092
Units in Receivables Funds - FIDC (iii)	2,275	2,275	-	-
Linked to repurchase agreements	85,684	85,619	89,274	89,303
National Treasury Bills (LTN)	85,684	85,619	89,274	89,303
Linked to guarantees given (iv)	37,030	36,945	39,725	39,698
National Treasury Bills (LTN)	26,837	26,752	29,702	29,675
Units in Investment Funds - CFI (iii)	10,193	10,193	10,023	10,023
Total available-for-sale securities	208,220	208,084	255,592	255,735
Held-to-maturity securities				
Own portfolio - trading	179,371	179,371	144,828	144,828
Units in Receivables Funds - FIDC (iii)	179,371	179,371	144,828	144,828
Total held-to-maturity securities	179,371	179,371	144,828	144,828
Total	457,439	457,649	449,331	449,420

(i) Amortized cost value

For fixed income securities, that refers to acquisition cost plus income earned through the statement of financial position date; for shares, the acquisition cost is considered. Units in Investment Funds and Units in Receivables Funds refer to the cost adjusted to UP which is provided by their respective fund administrators.

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(ii) Market value

The market value of public securities is determined according to disclosures made in daily bulletins provided by ANBIMA - Brazilian Financial and Capital Markets Association. Shares and debentures are valued based on the closing price of the last day they were traded on stock exchange. Private securities are recorded at cost plus daily income earned and adjusted to market value. The units in investment funds are adjusted based on the unit price disclosed by the fund administrator.

(iii) Investments in investment fund units

		FUNDS	06/30/2021	12/31/2020
FIM	SINGULARE USA FUNDO DE INVESTIMENTO MULTIMERCADO INVESTIMENTO NO EXTERIOR		5,227	5,392
FIP	INDUSTRIAL PARKS BRASIL FIP MULTIESTRATÉGIA (b)		3,080	8,416
FIDC	ESMERALDA - FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS		3,183	2,873
FIDC	FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS CREDZ		3,514	3,511
Total Funds Invested for trading			15,004	20,192
FIC FIM	SUPRA MID FUNDO DE INVESTIMENTO EM COTAS DE FUNDOS DE INVESTIMENTO MULTIMERCADO - CRÉDITO PRIVADO		16,014	25,361
FIC FIM	PAULISTA CONSIGNADO FUNDO DE INVESTIMENTO EM COTAS DE FUNDOS DE INVESTIMENTO MULTIMERCADO CRÉDITO PRIVADO		26,567	-
FIC FIM	PAULISTA CONSIGNADO II FUNDO DE INVESTIMENTO EM COTAS DE FUNDOS DE INVESTIMENTO MULTIMERCADO CRÉDITO PRIVADO (a)		3,500	-
FIDC	ESMERALDA - FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS		2,275	2,049
FII	SINGULARE FUNDO DE INVESTIMENTO IMOBILIÁRIO		2,553	2,653
FIM	FUNDO DE INVESTIMENTO LIQUIDEZ CAMARA		10,193	10,023
FIP	INDUSTRIAL PARKS BRASIL FIP MULTIESTRATÉGIA		11	29
Total Funds Invested available for sale			61,113	40,115
FIDC	SILLER FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS - NÃO PADRONIZADOS		124,820	141,328
FIDC	STRUCTURE FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS		51,051	-
FIDC	FUNDO DE INVESTIMENTO EM DIREITOS CREDITÓRIOS CREDZ		3,500	3,500
Total Funds Invested held to maturity			179,371	144,828
Total			255,488	205,135

- (a) O The Bank has funds invested in units in “Paulista Consignado II – Fundo de Investimento em Cotas de Fundos de Investimento Multimercado – Crédito Privado” (FIC FIM II), which holds units in “BPD Consignado Fundo de Investimento em Direitos Creditórios” (BPD FIDC).

Fundo Consignado II was created on June 01, 2021 as a closed-end fund with indeterminate duration. The Fund is administered and managed by Singulare Corretora de Títulos e Valores Mobiliários S.A.

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As of June 30, 2021, total net assets of Fundo BPD FIDC was R\$ 36,937, mainly represented by payroll loans, with the Bank's interest in FIC FIM II being R\$ 3,500, represented by subordinated units.

As of June 30, 2021, the Bank assigned payroll loans to BPD FUNDO DE INVESTIMENTOS EM DIREITOS CREDITÓRIOS CONSIGNADOS for the amount of R\$ 24,966, whose notional value amounted to R\$ 33,363. As a result of this assignment, a profit of R\$ 4,732 was recorded in "Profit on assignment of receivable".

- (b) INDUSTRIAL PARKS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MULTIESTRATÉGIA (Fund), administered by Lions Trust Administradora de Recursos Ltda., was created on August 19, 2008 as a closed-end fund under CVM Instruction 391, dated July 16, 2003, with duration set for November 21, 2021.

The Fund is in liquidation phase and most of the assets were realized at the beginning of 2021.

- (iv) Linked to guarantees

Securities linked to guarantees refer to securities linked to transactions conducted on B3 S.A. – Brasil, Bolsa, Balcão, in the amount of R\$ 36,945 (R\$ 39,698 as of December 31, 2020). These securities may be replaced with other securities, if selling them is necessary.

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b) Securities - Breakdown by classification

	2021					2020	
	Without maturity date	Up to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total	Total
Trading securities							
National Treasury Bills (LTN)	-	-	-	65	65	130	129
National Treasury Notes (NTNs)	-	-	-	-	41,493	41,493	601
Agricultural Debt Securities - TDA	-	-	1	1	-	2	2
Units in investment fund - CFI	8,307	-	-	-	-	8,307	16,681
Units in Receivables Funds - FIDC	6,697	-	-	-	-	6,697	3,511
Certificate of Agribusiness Receivables (CRA)	-	465	229	12,013	-	12,707	26,777
Shares of listed companies	27	-	-	-	-	27	98
Certificates of Real Estate Receivables ("CRIs")	-	-	-	831	-	831	1,058
Total trading securities (i)	15,031	465	230	12,910	41,558	70,194	48,857
Available-for-sale securities							
National Treasury Bills (LTN)	-	6,101	11,367	576	128,910	146,954	214,886
National Treasury Notes (NTNs)	-	-	-	-	13	13	730
Agricultural Debt Securities - TDA	-	-	1	1	2	4	4
Units in investment fund - CFI	58,838	-	-	-	-	58,838	40,115
Units in Receivables Funds - FIDC	2,275	-	-	-	-	2,275	-
Total available-for-sale securities (i)	61,113	6,101	11,368	577	128,925	208,084	255,735
Held-to-maturity securities							
Units in Receivables Funds - FIDC	-	-	-	-	179,371	179,371	144,828
Total held-to-maturity securities	-	-	-	-	179,371	179,371	144,828
Total	76,144	6,566	11,598	13,487	349,854	457,649	449,420

(i) For the breakdown into terms, the maturity of the papers, regardless of their accounting classification, was considered.

In the six-month period ended June 30, 2021, gain on securities was R\$ 12,033 (R\$ 13,712 in 2020).

Public securities are under the custody of the Special Settlement and Custody System (SELIC) whereas private securities and units and Funds, B3.

There was no reclassification of categories in the six-month period June 30, 2021 and year ended December 31, 2020.

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7. Derivative financial instruments

The Bank conducts transactions involving derivatives, recorded in statement of financial position and memorandum accounts, which are primarily intended for the Bank to manage its overall exposure to risk.

Sales of derivatives with the underlying counterparts is preceded by an evaluation of the credit risks involved.

As of June 30, 2021 and December 31, 2020, derivatives recorded in statement of financial position accounts, including adjustments to market value, are as follows:

	06/30/2021				12/31/2020			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards (NDF)	-	100	-	100	36,788	-	(1,961)	(1,961)
Total	-	100	-	100	36,788	-	(1,961)	(1,961)

a) Breakdown of transactions

Description	06/30/2021		12/31/2020	
	Notional value (in reais)	Carrying amount receivable/(payable)	Notional value (in reais)	Carrying amount receivable/(payable)
Forwards				
Real x USD	-	100	36,788	(1,961)
Total	-	100	36,788	(1,961)

b) Derivatives mature as follows:

Descrição	06/30/2021		12/31/2020	
	Up to 3 months	Total	Up to 3 months	Total
Non-deliverable forwards (NDFs)	100	100	(1,961)	(1,961)

The determination of derivatives at market value is based on quotes disclosed by specialized stock exchanges and, in certain cases, pricing techniques are used.

The Bank has derivative transactions that are conducted in futures market - B3. Such transactions are exclusively pegged to foreign currency futures which as of June 30, 2021 have no notional value (R\$ 91,967 as of December 31, 2020), and an adjustment receivable of R\$ 12 (R\$ 134 as of December 31, 2020) was determined.

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All derivative transactions performed by the Bank are registered with B3. DI futures and foreign currency contracts are primarily used as instruments limiting funding rates, due to mismatch of terms, currencies and/or indexes with asset transactions.

c) Call margin

The following assets are pledged as collateral in conducting derivative transactions:

	<u>06/30/2021</u>	<u>12/31/2020</u>
National Treasury Bills (LTN)	6,490	9,635
	<u>6,490</u>	<u>9,635</u>

d) Gain (loss) on derivative financial instruments

Gain (loss) on derivative transactions in the six-month periods ended June 30, 2021 and 2020 are as follows:

	<u>06/30/2021</u>	<u>06/30/2020</u>
Futures	(1,291)	(19,799)
Forward transactions - NDF	90	15,714
	<u>(1,201)</u>	<u>(4,085)</u>

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8. Lending operations

As of June 30, 2021 and December 31, 2020, lending operations are broken down as follows:

a) By type of operation

	<u>06/30/2021</u>	<u>12/31/2020</u>
Lending operations:		
Loans and discounted notes	458,868	430,526
Financing - Export credit bills	109,725	99,964
Financing - rural to agricultural	11,000	-
	<u>579,593</u>	<u>530,490</u>
Other receivables:		
Receivables without recourse	44,153	83,719
	<u>44,153</u>	83,719
Total lending operations	<u><u>623,746</u></u>	<u><u>614,209</u></u>
Expected credit losses	(6,845)	(8,332)
Other expected credit losses	(441)	(837)
Total expected credit losses	<u><u>(7,286)</u></u>	<u><u>(9,169)</u></u>
	<u><u>616,460</u></u>	<u><u>605,040</u></u>

b) By sector

	<u>06/30/2021</u>	<u>12/31/2020</u>
Private sector		
Industry	76,952	79,085
Commerce	245,882	297,529
Services	221,411	215,480
Individuals	79,501	22,115
Total	<u><u>623,746</u></u>	<u><u>614,209</u></u>

c) By maturity

	<u>06/30/2021</u>	<u>12/31/2020</u>
Past due	9,166	2,279
Falling due		
up to 90 days	86,572	137,286
91 to 180 days	45,556	100,773
181 to 360 days	119,501	79,233
over 360 days	362,951	294,638
Total	<u><u>623,746</u></u>	<u><u>614,209</u></u>

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d) Portfolio breakdown by risk rating

Portfolio balances						
Rating	06/30/2021				12/31/2020	
	Regular way	Past due	Total	%	Total	%
A	36,574	-	36,574	5.87	975	0.16
B	546,366	8,715	555,081	88.99	582,017	94.76
C	27,820	210	28,030	4.49	25,328	4.12
D	3,314	14	3,328	0.53	3,232	0.53
E	505	-	505	0.08	565	0.09
F	-	-	-	-	-	-
G	-	-	-	-	-	-
H	1	227	228	0.04	2,092	0.34
	614,580	9,166	623,746	100.00	614,209	100.00

Provision							
Rating	% of allowance	06/30/2021				12/31/2020	
		Regular way	Past due	Total	%	Total	%
A	0.5	182	-	182	2.50	5	0.05
B	1.0	5,464	87	5,551	76.19	5,820	63.47
C	3.0	835	6	841	11.54	760	8.29
D	10.0	331	2	333	4.57	322	3.52
E	30.0	151	-	151	2.07	170	1.85
F	50.0	-	-	-	-	-	-
G	70.0	-	-	-	-	-	-
H	100.0	1	227	228	3.13	2,092	22.82
		6,964	322	7,286	100.00	9,169	100.00

e) Changes in the allowance for expected credit losses

	06/30/2021	12/31/2020
Balance at beginning of the six-month period/year	9,169	24,912
Allowances, net	(48)	2,474
Loans derecognized against loss	(1,835)	(18,217)
Balance at end of the six-month period/year	7,286	9,169

f) Renegotiated and recovered receivables

In the six-month period ended June 30, 2021, renegotiated receivables amount to R\$ 7,462 (R\$ 8,073, in the year ended December 31, 2020). (*)

(*) Resolution 2.682, art. 8, paragraphs 1-3; the resolutions mentioned above in Note 3.c were not applied.

In the six-month period ended June 30, 2021, recovered receivables amounted to R\$ 1,217 (R\$ 2,339, in 2020).

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g) Assignment of receivables

In December 2020, the Bank entered into an agreement establishing general conditions for the assignment and acquisition of receivables with a financial institution duly authorized to operate by the Central Bank of Brazil (“Bacen”), relating to payroll loans arising from borrowings and credit card transactions to retired persons and insureds enjoying INSS benefits.

During the six-month period ended June 30, 2020, the Bank acquired receivables under the “Agreement” for R\$ 73,487, whose notional values amounted to R\$ 108,972, resulting in a gain of R\$ 3,324 during the first six-month period, recorded in “Income from financial intermediation – Lending operations”.

The average acquisition rate was 1.0475% for each one of the assigned receivables, recorded in Other assets – Sundry (Nota 11) for the amount of R\$ 5,730, which has been deferred over long term of the contracts acquired and recorded in “Other operating expenses – Deferral payroll loans INSS “ (Note 26).

As of June 30, 2020, the Bank assigned to BPD FUNDO DE INVESTIMENTOS EM DIREITOS CREDITÓRIOS CONSIGNADOS, a payroll loan formerly acquired as established in the “Agreement” in the amount of R\$ 24,966, whose notional values amounted to R\$ 33,363. Profit arising from such assignment was R\$ 4,732, recorded in “Profit from assignment of receivables”.

Under the conditions provided for in CMN Resolution 2.686/00, as of June 30, 2021, the Bank assigned past-due receivables without recourse arising from its lending operations for the amount of R\$ 900 (R\$ 5,000 in December 2020) to Paulista Companhia Securitizadora de Créditos Financeiros, a related entity, whose notional values adjusted for the carrying amount was R\$ 11,535 (R\$ 34,277 in December 2020).

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h) Income from lending operations

	<u>06/30/2021</u>	<u>06/30/2020</u>
Loans and discounted notes	23,712	16,719
Financing	3,375	6,673
Recovery of receivables written off as losses	1,217	2,339
Advances on deposits	59	123
Income from rural financing	8	-
Total profit from lending operations	<u>28,371</u>	<u>25,854</u>

9. Trade and other receivables with characteristics of loans

	<u>06/30/2021</u>	<u>12/31/2020</u>
Current		
Other	25	25
Total current	<u>25</u>	<u>25</u>
Noncurrent		
Municipal court-ordered notes ("precatórios")	263	226
State court-ordered notes ("precatórios")	25,352	17,662
Federal court-ordered notes ("precatórios")	26,296	15,267
Total noncurrent	<u>51,911</u>	<u>33,155</u>
	<u>51,936</u>	<u>33,180</u>
(-) Allowance for losses	<u>(504)</u>	<u>(332)</u>
Total (*)	<u>51,432</u>	<u>32,848</u>

(*) Balance comprised of court-ordered notes ("precatórios") already issued by the federal government, a state or a municipal government arising from lawsuits for which a final unappealable decision has been issued, maturing between 2021 and 2030.

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10. Interbranch and interbank accounts

	<u>06/30/2021</u>	<u>12/31/2020</u>
Assets - Current		
Clearing services – cheques deposited and other papers	2,061	-
State-owned banks – deposits linked to special agreements (“convênios”) (i)	17,857	17,991
	<u>19,918</u>	<u>17,991</u>
Liabilities - Current		
Clearing services – cheques deposited and other papers	9	-
Bank correspondents	528	532
Third-party funds in transit	-	44
	<u>537</u>	<u>576</u>

- (i) Refers to cheques deposited in Caixa Econômica Federal, arising from the Ministry of Cities and Agencies under Special Agreements (state and municipal agencies and the Federal District and Housing Cooperatives) under the National Program for Support to Social Interest Housing - PSH.

11. Other sundry assets

	<u>06/30/2021</u>	<u>12/31/2020</u>
Current		
Recoverable taxes (i)	-	959
Sundry debtors – Brazil	207	282
Funding commissions deferred	1,014	-
Receivables - redemption of fund units	10,004	-
Premium or discount due to transfer of assets (ii)	1,385	-
Other	630	288
	<u>13,240</u>	<u>1,529</u>
Noncurrent		
Recoverable taxes (i)	34,410	36,264
Advances on foreign exchange contracts	880	881
Funding commissions deferred	3,371	3,700
Sundry debtors – Brazil	1,743	914
Premium or discount due to transfer of assets (ii)	4,345	-
Debtors for security deposits (Note 31b)	9,030	8,494
	<u>53,779</u>	<u>50,253</u>

- (i) Prepayment of prior year income tax and social contribution which were not offset.
(ii) Amounts relating to deferral of prices of receivables acquired as described in Note 8g.

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12. Investments

	<u>06/30/2021</u>	<u>12/31/2020</u>
CERTA - Central de Registro de Títulos e Ativos S.A.	1,132	904
CIP - Interbank Payment Chamber	1,819	1,819
Other investments	535	535
(-) Allowance for losses	(252)	(252)
	<u>3,234</u>	<u>3,006</u>

13. Intangible assets

	Amortization rate	Cost	Amortization	06/30/2021	12/31/2020
Software	20%	5,281	(4,108)	<u>1,173</u>	1,459
Other intangible assets (*)	-	4,000	-	<u>4,000</u>	4,000
	-	<u>9,281</u>	<u>(4,108)</u>	<u>5,173</u>	<u>5,459</u>

(*) Refers to purchase of brands, domain and electronic addresses, manual and procedures, including all royalties to explore a new product.

14. Deposits

a) By maturity:

	<u>06/30/2021</u>					<u>12/31/2020</u>
	Without maturity date	1 to 90 days	91 to 360 days	Over 360 days	Total	Total
Demand deposits - local currency	167,412	-	-	-	<u>167,412</u>	161,883
Demand deposits - foreign currency	3	-	-	-	<u>3</u>	3
Interbank deposits	-	-	-	-	-	30,000
Time deposits	-	77,464	109,268	620,693	<u>807,425</u>	612,124
	<u>167,415</u>	<u>77,464</u>	<u>109,268</u>	<u>620,693</u>	<u>974,840</u>	<u>804,010</u>

In the six-month period ended June 30, 2021, expenses on "Deposits" were R\$ 18,611 (R\$ 9,862 in 2020) and expenses on "Credit Guarantee Fund" amounted to R\$ 707 (R\$ 423 in 2020). (Note 19).

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b) Average rate applied:

	06/30/2021		12/31/2020	
	Fixed	Floating	Fixed	Floating
Interbank deposits	n/a	99.00	n/a	99.01
Time deposits	5.76	130.95	5.65	120.33

The rates used to raise floating CDP were 100% of IPCA (100% of IPCA in 2020) and from 100% to 170% of CDI (96% to 150% of CDI in 2020).

For DI, a rate of 99% of CDI was used (99.01% of CDI in 2020).

15. Money market funding

	06/30/2021		12/31/2020
	1-30 days	Total	Total
Own portfolio	85,349	85,349	89,131
National Treasury Bills (LTN)	85,349	85,349	89,131
Total	85,349	85,349	89,131

In the six-month period ended June 30, 2021, expenses on money market funding were R\$ 807 (R\$ 12,274 in 2020). (Note 19).

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16. Borrowings and onlending; funds from acceptances and issuance of securities and subordinated debts

	06/30/2021					Total	12/31/2020
	Without maturity date	1 to 90 days	91-180 days	181-360 days	Over 360 days		Total
Obligations on onlendings	6,701	-	-	-	-	6,701	6,701
Domestic onlendings - official institutions (i)	6,701	-	-	-	-	6,701	6,701
Funds from acceptances and issuance of securities	-	35,298	42,924	21,074	78,514	177,810	178,077
Obligations on issuance of Agricultural Receivables Notes - LCA (ii)	-	35,298	41,794	14,659	57,080	148,831	149,473
Obligations on Real Estate Receivables Bills - LCI (iii)	-	-	-	6,415	21,434	27,849	27,491
Obligations on issuance of Treasury Bills (iv)	-	-	1,130	-	-	1,130	1,113
Subordinated debts	-	32,522	-	-	-	32,522	32,054
Subordinated debts eligible to capital (v) (nota 28)	-	32,522	-	-	-	32,522	32,054
	6,701	67,820	42,924	21,074	78,514	217,033	216,832

Refers to cheques deposited arising from the Ministry of Cities and Agencies under Special Agreements (state and municipal agencies and the Federal District and Housing Cooperatives) under the National Program for Support to Social Interest Housing – PSH;

- (ii) Refer to Agricultural Receivables Notes (LCA). A rate from 100% to 122% of CDI was used (95% to 122% of CDI in 2020);
- (iii) Refer to Real Estate Receivables Bills with the Bank's controlling shareholder (Note 28);
- (iv) Refers to Treasury Bills (LF). A rate of 122% of CDI, maturing on November 08, 2021 was used (nota 28);
- (v) Refers to Treasury Bills containing subordination clauses corresponding to instruments eligible to Tier-II capital authorized according to Resolution 4.192/13, with a total term of six years. The remuneration rate on this transaction is 115.00% of the CDI.

In the six-month period as of June 30, 2021, expenses on funds from acceptances and issuance of securities were R\$ 3,566 (R\$ 2,620 as of June 30, 2020). (Notes 19 and 28); and subordinated debts were R\$ 485 (R\$ 653 as of June 30, 2020). (Note 19).

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17. Other liabilities

a) Taxes and social security

	<u>06/30/2021</u>	<u>12/31/2020</u>
Current		
Taxes payable (i)	8,561	10,148
	<u>8,561</u>	<u>10,148</u>
Noncurrent		
Taxes payable (i)	17,626	19,700
	<u>17,626</u>	<u>19,700</u>
	<u>26,187</u>	<u>29,848</u>

- (i) Refers mainly to IRPJ, CSLL and IRRF tax assessment notices in the amount of R\$ 24,230 (R\$ 27,599 in 2020), in connection with Administrative Proceeding #16327-721.025/2018-35, which disallowed the expenses that had been included in the calculation bases of those taxes. The resulting debt has been paid in 60 monthly installments on a timely basis under an agreement made with the Brazilian Federal Revenue Service (RFB);

b) Sundry

	<u>06/30/2021</u>	<u>12/31/2020</u>
Current		
Collection notes in transit	2,206	-
Charges on funds received - PSH	9	9
Other payables	89	190
	<u>2,304</u>	<u>199</u>

18. Equity

a) Share capital

As of June 30, 2021, subscribed paid-in capital is R\$184,300 (R\$184,300 as of December 31, 2020), represented by 424,458,216 registered shares (424,458,216 as of December 31, 2020), without par value, of which 212,229,108 are common shares (212,229,108 as of December 31, 2020) and 212,229,108 are preferred shares (212,229,108 as of December 31, 2020).

b) Dividends and interest on capital

Bylaws establish the payment of minimum mandatory dividends equivalent to 25% of profit for the year, calculated under Brazilian Corporate Law. In the six-month period ended June 30, 2021, there was no allocation of dividends and interest on capital.

c) Legal reserve

The Bank is required to allocate 5% of its semiannual profit to legal reserve, which may not exceed 20% of paid-in capital.

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d) Statutory reserve

The Bank is required to allocate 10% of profit to the statutory reserve which is intended to ensure an appropriate operating margin for the Bank up to a maximum of 100% of capital.

The profit balance after the allocations required by Bylaws will be allocated as resolved by the Executive Officers and ratified by the General Shareholders Meeting; 100% of the amount may be allocated to the earnings reserves.

e) Mark-to-market of available-for-sale securities

The balance of valuation adjustments to equity is R\$ 496 (R\$ 173 in 2020) and corresponds to federal securities available for sale and fund units which are marked to the market (Note 6).

f) Retained earnings

Under Resolution 3.605/08, the unallocated profit for year, after the recognition of a legal reserve, was allocated to the statutory earnings reserve. As of June 30, 2021, profit for the six-month period was R\$ 1,280 (R\$ 2,186 in 2020).

19. Expenses on money market funding

	<u>06/30/2021</u>	<u>06/30/2020</u>
Time deposits (Note 14)	18,604	8,526
Money market funding (Note 15)	807	12,274
Contributions to the Credit Guarantee Fund (FGC) (Note 14)	707	423
Interbank deposits (Note 14)	7	1,333
Treasury bills (Notes 16 and 28)	485	653
Agricultural Receivables Bills - LCA (Notes 16 and 28)	2,724	1,436
Real Estate Receivables Bills - LCI (Notes 16 and 28)	357	531
Exchange rate changes on foreign currency deposits (Note 14)	-	3
	<u>23,691</u>	<u>25,179</u>

20. Revenue from services and banking fees

a) Service revenue

	<u>06/30/2021</u>	<u>06/30/2020</u>
Custody services	898	324
Transaction structuring fees	299	2,050
Other services	601	170
	<u>1,798</u>	<u>2,544</u>

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b) Revenues from banking fees

	<u>06/30/2021</u>	<u>06/30/2020</u>
Fees on transfers of funds	557	2,026
Income from banking fees	14,906	21,964
Other fees	25	71
	<u>15,488</u>	<u>24,061</u>

21. Personnel expenses

	<u>06/30/2021</u>	<u>06/30/2020</u>
Salaries and wages	9,459	10,276
Payroll taxes	4,292	5,161
Benefits	2,550	2,590
Fees	2,869	2,909
Training	23	37
Interns' compensation	8	22
	<u>19,201</u>	<u>20,995</u>

22. Administrative expenses

	<u>06/30/2021</u>	<u>06/30/2020</u>
Cash transportation	46	76
Specialized technical services	4,852	5,354
Data processing	5,579	4,818
Rentals	1,304	1,257
Financial system	653	1,334
Communications	332	425
Outside services	424	354
Notary fees	560	423
Surveillance and security services	83	85
Materials	21	29
Advertising and publicity	12	69
Other	1,095	1,403
	<u>14,961</u>	<u>15,627</u>

23. Expenses on provisions

	<u>06/30/2021</u>	<u>06/30/2020</u>
Adjustment for inflation of taxes and contributions (Note 31)	7	10
Contingencies - Judicial and legal (Note 31)	248	6
Provisions for labor claims (Note 31)	1,079	887
Reversals of judicial deposits	-	36
Expenses on RFB tax assessment notices (Note 17a)	1,403	260
Contingency-related fees	11	-
Provision on guarantees given	115	59
	<u>2,863</u>	<u>1,258</u>

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24. Tax expenses

	<u>06/30/2021</u>	<u>06/30/2020</u>
Service tax (ISSQN)	876	1,371
Cofins (tax on revenue)	1,531	2,144
PIS (tax on revenue)	249	348
Other	1,456	1,239
	<u>4,112</u>	<u>5,102</u>

25. Other operating income

	<u>06/30/2021</u>	<u>06/30/2020</u>
Income from guarantees provided	244	821
Profit on assignment of payroll loans	4,732	-
Exchange gains	623	793
Interest on National Treasury court-ordered notes ("precatórios")	7,178	1,007
Assignment of court-ordered notes ("precatórios")	-	2,963
Adjustment for inflation of judicial deposits	27	38
Recovery of charges and expenses	325	299
Reversal of provision for risks	-	67
Reversal of accrued commissions	148	-
Reversal of legal fees	117	87
Reversal of provisions for proceedings with RFB - Interest	1,154	1,052
Reversal of nondeductible provision	-	313
Exchange rate changes on foreign currency deposits	-	16
Other	3	201
	<u>14,551</u>	<u>7,657</u>

26. Other operating expenses

	<u>06/30/2021</u>	<u>06/30/2020</u>
Consulting on lending operations	2,618	1,509
Expenses on gold transactions	-	21
Expenses on recovery of CDC	638	632
Prepaid card	-	49
Amortization and depreciation	467	436
Interbank fees	32	48
Finance costs - PSH	232	226
Nondeductible - others	579	820
Deferral of payroll loans INSS	1,920	-
Expenses on discounts granted on trading operations	-	2,969
Losses on fees	295	822
Other	597	462
	<u>7,378</u>	<u>7,994</u>

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27. Income tax and social contribution

a) Reconciliation of provisions for income tax and social contribution

	<u>06/30/2021</u>	<u>06/30/2020</u>
Profit before taxes on income and profit sharing	1,610	5,187
(-) Interest on capital	-	-
(-) Profit sharing	(142)	(243)
Profit before taxes and after profit sharing	<u>1,468</u>	4,944
	17,521	3,426
Additions and exclusions		
Adjustments to market value of securities	4,613	1,760
Expected credit losses	1,861	1,684
Provision for tax risks (Note 31.b3)	2,710	(876)
Provisions for RFB proceedings - Interest (notes 23 and 24)	2,557	-
Other temporary additions and exclusions	5,780	858
Permanent additions and exclusions:	878	1,559
Other permanent additions (exclusions)	878	1,559
Tax base	<u>19,867</u>	9,929
Income tax and social contribution	1,560	4,360
Deductions - tax incentives	-	(60)
Income tax and social contribution	<u>1,560</u>	4,300
Deferred tax assets	(1,372)	(1,542)
Total income tax and social contribution	<u>188</u>	<u>2,758</u>

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b) Tax credits

Tax credits were recognized on the following:

	06/30/2021	12/31/2020
Losses associated with credit risk and receivables written off as loss	33,818	33,866
Provision for risks (Note 13 b3)	3,884	2,764
Provisions for RFB proceedings - Interest	6,142	5,893
Mark-to-market adjustment of securities - Trading	1,803	3,054
Tax loss carryforwards	31,909	29,898
Other contingent liabilities	1,017	634
Total tax credits	78,573	76,109
Mark-to-market adjustment of securities - Available for sale (i)	902	317
Total tax credits after mark-to-market adjustment of securities - Available for sale	79,475	76,426

(i) The addition refers to the market value adjustment of securities classified under the available-for-sale category for which appreciation or depreciation is recorded in a separate account in equity, according to BACEN Circular Letter 3.068, of November 08, 2001.

Changes in tax credits during the year are as follows:

	12/31/2019	Recognition	Realization / reversal	12/31/2020
Expected credit losses (i)	26,544	-	(11,303)	15,241
Provision for tax risks and contingencies	4,854	1,309	(1,983)	4,180
Mark-to-market adjustment of securities - Trading	(809)	3,044	(861)	1,374
Tax loss carryforwards	3,390	10,064	-	13,454
Total tax credits	33,979	14,417	(14,147)	34,249

(i) Out of the balance of the allowance for expected losses, the amount of R\$ 11,113 is represented by tax credits on transactions written off as losses.

	12/31/2020	Recognition	Realization / reversal	06/30/2021
Expected credit losses (i)	15,241	-	(22)	15,219
Provision for tax risks and contingencies	4,180	1,410	(621)	4,969
Mark-to-market adjustment of securities - Trading	1,374	625	(1,188)	811
Tax loss carryforwards	13,454	905	-	14,359
Total tax credits	34,249	2,940	(1,831)	35,358

(ii) Out of the balance of the allowance for expected losses, the amount of R\$ 22 is represented by tax credits on transactions written off as losses.

Tax credits will be offset within the statutory term permitted by Resolution 4.842/2020. Offsetting is contingent on the nature of the credit generated. Income tax and social contribution tax credits were only recognized on temporarily nondeductible differences.

There are no other tax credits to be recognized.

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The present value of tax credits as of June 30, 2021 is R\$ 25,529. The CDI/B3 rates determined for the respective periods were used. Tax credits are periodically assessed based on the generation of future taxable income for income tax and social contribution purposes, in an amount that justifies the realization of the related amounts.

Based on their projections, which include business plan developments, Management expects that the Bank will generate future taxable income within the statutory term and will be able to use the tax credits recognized in the financial statements. Such estimate is revised on a periodic basis so that probable changes in the projected recovery of these credits can be considered in the financial statements on a timely basis.

The estimated realization of tax credits is as follows:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Expected credit losses	760	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522	2,283	15,219
Provision for tax risks and contingencies	-	-	1,657	1,656	1,656	-	-	-	-	-	4,969
Mark-to-market adjustment of securities - Trading	203	406	202	-	-	-	-	-	-	-	811
Tax loss carryforwards	1,199	3,534	3,710	3,896	2,020	-	-	-	-	-	14,359
Total	2,162	5,462	7,091	7,074	5,198	1,522	1,522	1,522	1,522	2,283	35,358
Present value	2,049	4,774	5,700	5,211	3,515	941	859	785	716	979	25,529

28. Related-party transactions

Related-party transactions were carried out under usual market conditions as regards charges and maturities and consist basically of:

	Assets/ (liabilities)		Revenue (expenses)	
	06/30/2021	12/31/2020	06/30/2021	12/31/2020
Time deposits	(54,267)	(54,538)	-	(1,361)
Interbank deposits	-	-	-	(1,189)
Money market funding (Note 15)	-	-	-	(1,082)
Treasury bills - Subordinated debt (Note 16)	(32,522)	(32,054)	(468)	(631)
Real Estate Receivables Bills - LCI (Notes 16 and 19)	(27,849)	(27,492)	(357)	(531)
Agricultural Receivables Bills – LCA (Notes 16 and 19)	(26,824)	(26,209)	(968)	(1,357)
Receivables without recourse (*)	5,703	-	5,632	-

(*) Assignment of receivables with Paulista - Companhia Securitizadora de Créditos Financeiros S.A. in the amount of R\$ 900 and BPD Fundo De Investimentos Em Direitos Creditórios Consignados in the amount of R\$ 4,732 (Note 8 g).

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a) Key management personnel compensation

The annual General Shareholders' Meeting resolves on the overall compensation of the key management personnel, as established in the Bank's Bylaws. The Bank incurred on the following short-term benefits to Management:

	<u>06/30/2021</u>	<u>12/31/2020</u>
Fixed compensation	2,869	2,909
Payroll taxes	646	655
Total	<u>3,515</u>	<u>3,564</u>

The Bank does not grant long-term, post-employment, layoff or share-based compensation benefits to its management key personnel.

29. Risk management

Risk appetite

The Executive Board is responsible for approving the risk appetite limits and guidelines and, in accomplishing their responsibilities, counts on the support of the Risk and Control Committee and the Chief Risk Officer (CRO).

The risk appetite limits are monitored on a periodic basis and reported to the Risk and Control Committee and the Executive Board that governed preventive decision-making process to ensure that exposure is aligned with the Bank's strategy.

There is a centralized risk control and management framework and independent from business units which establish risk limits and mitigation mechanisms, besides establishing processes and instruments to measure, monitor and control risks.

The Bank uses three components to organize its risk management activities: Business and operational scenario; governance framework; and the organizational chart of the departments.

- Business and operational scenario: the objective of this component is to identify, analyze, evaluate, address, communicate, and monitor risks;
- The governance framework is comprised of committees and collegiate forums, specialized and with a periodic agenda, with formalization of relevant decisions; and
- The organizational chart of the departments defines specific responsibilities and ensure segregation of duties and independent roles.

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The Bank adopts an integrated management for risks, minimum capital requirements and financial capacity. Risks are classified according to their nature: liquidity, credit; market; operational; and capital management.

Types of risks:

a) Liquidity risk

The liquidity risk arises from the risk that the Bank will not be able to efficiently discharge its expected and unexpected obligation, current and future, without affecting its day-to-day operations and without incurring material losses. To protect itself against this risk, the Bank periodically assesses its exposures and defines the volume of security 'cushion', or minimum liquidity, that should be recognized and held by the Institution.

The objective of liquidity risk management is to provide funding and manage investments and funding in the short and long terms. For the short-term horizon, the diversification of funding sources is prioritized. For the long-term horizon, matching the time between funding and investments is the priority. The practices adopted by the Bank are in conformity with the criteria provided for in CMN Resolution 4.557/17.

b) Credit risk

The credit risk arises from loss due to failure of the taker, issuer or counterpart to fulfill their respective financial obligations within the agreed-upon terms. To face this risk, the Bank periodically revises its exposures and the credit rating of its clients and counterparts by setting limits and requiring guarantees that are sufficient to cover potential losses incurred by the institution.

The objective of the credit risk management is to anticipate the degree of risk, monitor the diversification and recognize sufficient guarantee that make it possible to minimize the Institution's risk of incurring financial loss. The practices adopted by the Bank are in conformity with the criteria provided for in CMN Resolution 4.557/17.

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c) Market risk

The market risk arises from the risks that the Bank will incur significant losses due to fluctuations in the market value of the positions held by the Bank. Such losses may be subject to currency parity as well as parity in interest rates, share price, price index and prices of commodities.

The risk management function seeks to balance the business objectives in the banking and trading portfolios, considering, among others: political, economic and market scenarios, portfolio profile and capacity to operate in specific markets. The practices adopted by the Bank are in conformity with the criteria provided for in CMN Resolution 4.557/17.

d) Operational risk

The operational risks arises from fraud, internal or external, labor claims and deficient occupational safety, inappropriate practices relating to clients, products and services, damages to own physical assets or in use by the Bank, situations that may cause disruption to the Bank's activities and failures in systems, processes or information technology infrastructure. To address this risk, the Bank periodically compiles and categorizes these events by monitoring the effectiveness of the improvement plans adopted to minimize the occurrence of such events.

The objective of the operational management risk is the organized capture of information on weaknesses in business processes and the evaluation of the corresponding improvement plans. The practices adopted by the Bank are in conformity with the criteria provided for in CMN Resolution 4.557/17.

e) Capital management

Capital management counts on a prospective process to monitor and control the Bank's capital including the capital requirement planning and projection consistently with the budgetary plans and business goals and strategies to cover the resulting risks.

Capital can be defined as the long-term funds, own and third parties, and may be segmented into Tier I (Principal Capital and Supplementary Capital and Tier II (Hybrid Instruments), which were classified and authorized by BACEN for this specific purpose and that enable the institution to absorb the risks and determine and meet the required ratios and leverage thresholds. The practices adopted by the Bank are in conformity with the criteria provided for in CMN Resolution 4.557/17.

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f) Sensitivity analysis

Banco Paulista performed a sensitivity analysis by market risk factors considered relevant, by monitoring the results obtained in determining the risks associated with the Bank's portfolio.

Since the calculation is made by following a methodology standardized by the Central Bank by means of the Financial Risk Management System, it does not consider the dynamic response capacity of management (Treasury and control areas) which triggers risk mitigating measures to minimize significant losses at least partially. The specific purpose of this study is risk management; therefore, it has no relation with accounting practices.

30. Indorsement, sureties and guarantees provided to third parties

The responsibility for indorsement, sureties and guarantees provided to third parties, including receivables assigned without recourse, as of June 30, 2021, amounted to R\$ 34,471 (R\$ 31,891 as of December 31, 2020). An allowance for losses of R\$ 1,048 (R\$ 933 as of December 31, 2020) was recognized to cover potential losses on the related transactions.

31. Contingent assets and contingent liabilities, and legal, tax and social security obligations

a) Contingent assets

As of June 30, 2021 and December 31, 2020, there are no contingent assets recorded.

b) Contingent liabilities assessed as probable losses and legal obligations

b.1) Labor claims

Comprised mainly of lawsuits filed by former employees claiming overtime and former independent contractors claiming recognition of employee-employer relationship and payment of the related labor rights. Provisions for risks are recognized based on an individual analysis of the potential loss amount for each lawsuit, considering the current stage of the lawsuit, the case law in relation to the matter and the opinion of outside legal counsel. The probable loss amount reliably estimated is fully recognized, including charges.

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b.2) Civil risks

Comprised mainly of civil lawsuits related to CDC operations, for pain and suffering and property damages, and other lawsuits with indemnity claims. For lawsuits related to CDC operations whose amounts are not individually material, the provision is recognized based on the average history of losses on lawsuits of the same nature. The average history of loss is revised every six months. For other civil lawsuits, the likelihood of loss is individually analyzed considering the current stage of the lawsuit, the case law in relation to the matter and the opinion of outside legal counsel.

b.3) Tax and social security risks

The provisions for tax and social security risks are represented by lawsuits and administrative proceedings, substantially represented by Constitutional Amendment 10/09 which ensures (i) the right to pay social contribution on net profit (CSLL) at the same rate applicable to entities not operating in the financial services segment; and (ii) suspend the requirement to pay CSLL on profits calculated at a rate of 30% in the period from 01/01/1996 to 06/07/1996, during which the company calculated and paid CSLL at a rate of 18% based on Law 9.249/95.

Changes in provisions for risks and contingencies in the six-month period and year are as follows:

Provision for risks

	Labor	Civil	Tax	06/30/2021	12/31/2020
Balance at beginning of the six-month period/year	315	1,233	1,217	2,765	3,417
Recognitions	1,079	183	7	1,269	1,074
Realizations	(65)	(44)	-	(109)	(254)
Inflation adjustments (Note 23)	65	-	-	65	15
Reversals	-	(117)	-	(117)	(1,643)
Fees	-	11	-	11	156
Balance at end of the six-month period/year	1,394	1,266	1,224	3,884	2,765

Judicial deposits

	Labor	Civil	Tax	Other	06/30/2021	12/31/2020
Balance at beginning of the six-month period/year	1,078	2,469	4,349	598	8,494	5,993
Inflation adjustments	-	-	27	-	27	70
Recognitions	566	1	-	16	583	2,518
Reversals	-	(65)	-	-	(65)	(56)
Withdrawals	-	(2)	-	(7)	(9)	(31)
Balance at end of the six-month period/year	1,644	2,403	4,376	607	9,030	8,494

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c) Contingent liabilities assessed as possible losses

As of June 30, 2021, contingent liabilities classified as possible loss are represented by 113 civil lawsuits (22 lawsuits in 2020) involving R\$ 5,868 (R\$ 4,161 in 2020), 32 labor claims (30 claims in 2020) involving R\$ 6,539 (R\$ 6,357 in 2020) and 4 tax lawsuits (3 lawsuits in 2020) involving R\$ 479 (R\$ 479 in 2020). The involved amounts were calculated based on the respective claims (which does not necessarily represent the amount of a possible loss) and are substantially represented by the following lawsuits:

- Lawsuits claiming revision of clauses under loan and financing agreements;
- Indemnity claims, arising from the performance of financial transactions;
- Labor claims:

In addition to the lawsuits above, in December 2019, the Federal Revenue Service issued a tax assessment notice disallowing the use of administrative expenses in determining IRPJ, CSLL and IRRF in the amount of R\$ 32,761, which were assessed by the Bank's legal counsel as possible.

The same tax assessment notice disallowed the use of expenses in the amount of R\$ 62,413, assessed as remote loss, as supported by two legal opinions and the findings of the independent investigation described in Note 2.c, which did not identify irregularities for these expenses. For both cases, the Bank filed an appeal challenging the decisions.

d) Regulatory agencies

The administrative proceeding started on April 13, 2018 was ruled on August 03, 2020. After this proceeding was dismissed, the Central Bank decided to impose a fine in the total amount of R\$ 9,753, which was challenged by the Bank. For this case, loss was assessed by the legal counsel as possible. Determining whether the recognition of a provision will be required is not yet possible.

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32. Operating limits

As of June 30, 2021, the Conglomerate's Basel ratio determined under Resolution 2.099/94, as amended by Resolutions 4.192/13 and 4.193/13, is 11%.

According to Resolution 4.193/13, article 4, the minimum regulatory capital required is 8% beginning 2019.

0 regulatory capital required determined under the prevailing regulations is as follows:

	06/30/2021	12/31/2020
RWA and Basel ratio		
Regulatory capital	159,809	158,444
Tier-I regulatory capital	159,809	158,444
Principal Capital	159,809	158,444
Tier-II regulatory capital		-
RWA Cpad - Credit	952,747	848,080
RWA Cam – Foreign exchange	16,635	17,235
RWA Trading – Interest, commodities, shares	269	12,063
RWA Opad – Operational	483,538	592,465
RWA – Total	1,453,189	1,469,843
Minimum regulatory capital	116,255	117,587
Basel ratio (regulatory capital / Total RWA)	11.00%	10.78%
Tier-I ratio (Tier-I regulatory capital/ Total RWA)	11.00%	10.78%
Principal Capital ratio (Principal Capital / Total RWA)	11.00%	10.78%

The Bank is compliant with the requirements.

33. Provision of non-audit services and auditor's independence policy

In compliance with CMN Resolution 3.198, the Bank did not engage Grant Thornton Auditores Independentes to provide services related to the Bank other than the external audit services. The policy adopted complies with the principles that preserve the auditor's independence, according to prevailing standards, that mainly determine that the auditor should neither audit its own work nor exercise management functions in the client or pursue its interests.

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34. Other information

a) Nonrecurring profit or loss

	<u>06/30/2021</u>	<u>06/30/2020</u>
<u>Profit for the six-month period</u>	1,280	2,186
<u>(-) Nonrecurring profit or loss</u>		
Severance costs (Bank's restructuring)	(716)	(2,050)
Investigation process	(104)	(1,072)
Legal fees	(2,570)	(635)
Adjustment to gold-related transaction	-	4,276
Tax effects	1,091	233
Total nonrecurring profit or loss	(2,299)	752
<u>Recurring profit or loss</u>	<u>3,579</u>	<u>1,434</u>

b) Impact of Covid-19 on the financial statements

Following the recommendations provided by government and, mainly, by health authorities, the Bank has been adopting measures to help stop the Covid-19 spread.

The institution has intensified the communication to raise employees' awareness and has adopted administrative actions, such as, for example, adopt flextime, work-from-home model and virtual meetings.

Management did not identify significant changes in its business process, since it continues to operate normally.

To date, the Bank has not recorded peak default levels on its lending portfolio, and fundraising continues to grow, with provides an excellent liquidity level, which could be seen through the date these financial statements were issued.

Management continues to monitor any new developments arising from the pandemic and take actions on a timely basis to mitigate its effects.

c) Amendments to the bylaws

There were no amendments to bylaws during the six-month period ended June 30, 2021.

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d) Events after the reporting period

As of June 30, 2021, the Bank had 250,000 units in the Interbank Payment Chamber (CIP), and on June 21, 2021 CIP communicated to the other associates the Bank's intent to sell 249,900 units.

Under COP regulations, associates were given 30 days to express their interest in acquiring the units.

After this term, thirteen (13) associates expressed their interest in the acquisition. This process under CIP regulation will be completed on August 23, 2021, when the Bank will remain with 100 units in CIP's capital.

The total sale amount was R\$8,029 thousand.

Marcelo de Toledo Guimarães
Chief Executive Officer

Marcelo Chacon Ruiz
Director

Ana Cristina Alves Afonso
Chief Accountant