Financial Statements

Banco Paulista S.A.

June 30, 2017
with Independent Auditor's Report

Banco Paulista S.A.

Financial statements

June 30, 2017 and 2016

Contents

Building a better
working world

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

Independent auditor's report on financial statements

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

Opinion

We have audited the accompanying financial statements of Banco Paulista S.A. ("Bank") which comprise the balance sheet as of June 30, 2017, and the related statements of income, of changes in equity and cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Paulista S.A. as of June 30, 2017, its financial performance and its cash flows for the six-month period then ended, in accordance with accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil.

Basis for opinion

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

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

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of financial statements

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

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

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- We obtain an understanding of the internal controls relevant to the audit to plan audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

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

São Paulo, August 29, 2017.

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

Kátia Sayuri Teraoka Kam
Accountant CRC-1SP272354/O-1

Banco Paulista S.A.

Balance sheet
June 30, 2017 and 2016
(In thousands of reais)

	Notes	2017	2016
Assets			
Current assets		**2,486,364**	2,402,306
Cash and due from banks		**420,774**	335,193
Local currency	4	**51,894**	48,719
Foreign currency	4	**368,880**	286,474
Interbank investments		**964,432**	1,229,556
Open market investments	4/5	**940,002**	1,204,999
Investments in interbank deposits	4/5	**24,430**	24,557
Marketable securities and derivative financial instruments		**27,856**	48,812
Own portfolio	6	**27,676**	40,670
Subject to repurchase agreements	6	**180**	6,107
Derivative financial instruments	7	**-**	2,035
Interbank accounts		**21,368**	18,700
Payables and receivables to be settled		**826**	536
Restricted loans		**20,542**	18,164
Loans		**339,423**	256,501
Loans - Private sector	9	**348,230**	263,955
(-) Allowance for loan losses	9	**(8,807)**	(7,454)
Other receivables		**707,373**	507,237
Foreign exchange portfolio	10	**597,545**	381,306
Securities trading and brokerage		**24,304**	24,246
Sundry	11	**86,084**	102,470
(-) Allowance for losses on other receivables	9	**(560)**	(785)
Other assets		**5,138**	6,307
Prepaid expenses	12	**363**	503
Other assets	12	**4,775**	5,804
Noncurrent assets		**510,208**	353,189
Marketable securities and derivative financial instruments		**393,759**	229,162
Own portfolio	6	**145,164**	47,982
Subject to repurchase agreements	6	**130,553**	61,812
Subject to guarantees given	6/7	**118,042**	119,368
Loans		**64,286**	54,422
Loans - Private sector	9	**65,954**	56,004
(-) Allowance for loan losses	9	**(1,668)**	(1,582)
Other receivables		**52,163**	69,605
Sundry	11	**52,163**	69,605

	Notes	2017	2016
Assets (Continued)			
Permanent assets		**113,744**	109,277
Investments		**105,433**	101,740
Investments in local affiliates and subsidiaries	13	**103,400**	100,037
Other investments		**2,285**	1,955
(-) Valuation allowance		**(252)**	(252)
Property and equipment in use		**2,482**	2,773
Land and buildings in use		**957**	957
Other property and equipment in use		**6,997**	6,788
(-) Accumulated depreciation		**(5,472)**	(4,972)
Intangible assets		**5,829**	4,764
Intangible assets	14	**7,802**	6,402
(-) Accumulated amortization	14	**(1,973)**	(1,638)
Total assets		**3,110,316**	2,864,772

	Note	2017	2016
Liabilities and equity			
Current liabilities		**2,469,234**	2,174,685
Deposits		**575,368**	542,194
Demand deposits	15	**120,475**	148,390
Interbank deposits	15	**134,054**	67,882
Time deposits	15	**320,839**	325,922
Open market funding		**1,013,661**	1,007,879
Own portfolio	16	**130,201**	67,673
Third-party portfolio	16	**883,460**	940,206
Funds from acceptance and issue of securities		**53,689**	56,232
Real estate and mortgage notes	17	**53,689**	56,232
Interbranch and interbank accounts		**85,118**	71,654
Payables and receivables to be settled		**111**	478
Correspondent banks		**684**	742
Third-party funds in transit		**84,323**	70,434
Borrowings and onlending		**38,345**	38,018
Foreign currency obligations	17	**28,484**	26,758
Local onlending - official institutions	17	**9,861**	11,260
Other liabilities		**703,053**	458,708
Collection of taxes and other contributions		**1,268**	819
Foreign exchange portfolio	10	**622,632**	395,780
Tax and social security	18.a	**4,566**	4,510
Securities trading and brokerage		**39,842**	34,948
Derivative financial instruments	7	**4,247**	2,363
Sundry	18.c	**30,498**	20,288
Noncurrent liabilities		**429,607**	508,511
Deposits		**320,201**	400,089
Time deposits	15	**320,201**	400,089
Funds from acceptance and issue of securities		**34,883**	3,595
Real estate and mortgage notes	17	**34,883**	3,595
Other liabilities		**74,523**	104,827
Tax and social security	18.a	**5,756**	45,292
Subordinated debt	18.b	**62,470**	54,352
Sundry	18.c	**6,297**	5,183
Equity		**211,475**	181,576
Capital - Brazilian residents	19	**177,000**	162,000
Income reserves		**33,060**	20,194
Market value adjustment - marketable securities and derivatives		**1,415**	(618)
Total liabilities and equity		**3,110,316**	2,864,772

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

Banco Paulista S.A.

Statement of income
Six-month periods ended June 30, 2017 and 2016
(In thousands of reais, except for earnings per thousand shares)

	Notes	2017	2016
Trading revenues		**205,482**	191,037
Loans	9.h	**40,274**	37,199
Income from interbank investments and marketable securities		**75,412**	99,444
Income (loss) from derivative financial instruments	7.d	**8,456**	46,389
Income (loss) from foreign exchange transactions		**81,340**	8,005
Trading expenses		**(117,067)**	(130,584)
Funding	20	**(110,212)**	(118,742)
Borrowings and onlending		**(5,757)**	(8,686)
Allowance for loan losses	9.e	**(1,098)**	(3,156)
Trading gross profit		**88,415**	60,453
Other operating income (expenses)		**(52,517)**	(47,271)
Service revenues	21	**43,649**	35,367
Personnel expenses		**(33,637)**	(29,508)
Other administrative expenses	22	**(48,117)**	(39,264)
Tax expenses		**(8,838)**	(6,401)
Equity pickup in affiliates and subsidiaries	13	**4,417**	4,456
Other operating revenues	23	**2,971**	5,995
Other operating expenses	24	**(12,962)**	(17,916)
Operating income (expenses)		**35,898**	13,182
Nonoperating income (expenses)		**(784)**	307
Income before income taxes and profit sharing		**35,114**	13,489
Income and social contribution taxes	25	**(13,447)**	(5,747)
Provision for income tax		**(66)**	(412)
Provision for social contribution tax		**(64)**	(348)
Deferred tax assets		**(13,317)**	(4,987)
Statutory profit sharing		**(2,167)**	(2,944)
Net income for the six-month period		**19,500**	4,798
Earnings per thousand shares - in R$		**72.56**	18.91

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

Banco Paulista S.A.

Statement of changes in equity
Six-month periods ended June 30, 2017 and 2016
(In thousands of reais, except for earnings per thousand shares)

			Income reserves				
	Capital	**Capital increase**	**Legal reserve**	**Statutory reserve**	**Market value adjustment**	**Retained earnings/ (accumulated losses)**	**Total**
Balances at December 31, 2015	127,000	35,000	4,877	15,164	(9,514)	-	172,527
Net income for the six-month period	-	-	-	-	-	4,798	4,798
Capital increase	35,000	(35,000)	-	-	-	-	-
Legal reserve	-	-	240	-	-	(240)	-
Statutory reserve	-	-	-	4,558	-	(4,558)	-
Market value adjustment - marketable securities and derivatives	-	-	-	(4,645)	8,896	-	4,251
Balances at June 30, 2016	162,000	-	5,117	15,077	(618)	-	181,576
Changes in the six-month period	35,000	(35,000)	240	(87)	8,896	-	9,049
Balances at December 31, 2016	177,000	-	6,686	6,874	604	-	191,164
Net income for the six-month period	**-**	**-**	**-**	**-**	**-**	**19,500**	**19,500**
Legal reserve	**-**	**-**	**975**	**-**	**-**	**(975)**	**-**
Statutory reserve	**-**	**-**	**-**	**18,525**	**-**	**(18,525)**	**-**
Market value adjustment - marketable securities and derivatives	**-**	**-**	**-**	**-**	**811**	**-**	**811**
Balances at June 30, 2017	**177,000**	**-**	**7,661**	**25,399**	**1,415**	**-**	**211,475**
Changes for the six-month period	**-**	**-**	**975**	**18,525**	**811**	**-**	**20,311**

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

Banco Paulista S.A.

Statement of cash flows - indirect method
Six-month periods ended June 30, 2017 and 2016
(In thousands of reais)

	2017	2016
Adjusted net income for the six-month period	**29,508**	15,855
Net income for the six-month period	**19,500**	4,798
Adjustments to reconcile net income to net cash	**10,008**	11,057
Allowance for loan losses	**1,098**	3,156
Provisions for deferred income and social contribution taxes	**13,317**	4,987
Depreciation and amortization	**473**	552
Equity pickup in subsidiaries	**(4,416)**	(4,456)
Restatement of judicial deposits	**(106)**	933
Provision for civil, tax, labor and other contingencies	**163**	1,817
Provision for guarantees	**(798)**	90
Other monetary restatements	**(534)**	(273)
MtM adjustment	**811**	4,251
Changes in assets and liabilities		
Decrease in interbank investments	**20,578**	-
(Increase) decrease in marketable securities	**(10,715)**	63,131
(Decrease) in interbank accounts	**(100,183)**	(22,430)
(Increase) in loans	**(36,013)**	(1,353)
(Increase) in other receivables	**(325,579)**	(198,848)
(Increase) in other assets	**(26)**	(5,471)
Decrease in derivative financial instruments	**2,990**	1,919
Increase in other liabilities	**343,952**	229,739
(Decrease) increase in deposits	**(69,342)**	27,399
Increase in liabilities for repurchase agreements	**95,764**	397,871
Net cash provided by (used in) operating activities	**(49,066)**	507,812
Cash flow from investing activities		
Acquisition of property and equipment in use	**(271)**	(279)
Investments in intangible assets	**(1,400)**	-
Disposals of property and equipment in use (residual value)	**53**	148
Investments	**(123)**	(177)
Net cash provided by (used in) investing activities	**(1,741)**	(308)
Cash flow from financing activities		
Increase (decrease) in borrowings and onlending	**(2,022)**	(10,136)
(Decrease) increase in funds from acceptance and issue of securities	**10,827**	(1,452)
Net cash provided by (used in) financing activities	**8,805**	(11,588)
(Decrease) increase in cash and cash equivalents	**(42,002)**	495,916
Cash and cash equivalents		
Cash and cash equivalents at beginning of six-month period	**1,402,778**	1,068,833
Cash and cash equivalents at end of six-month period	**1,360,776**	1,564,749
	(42,002)	495,916

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

1. Operations

Banco Paulista S.A. ("Bank") is a privately-held company established as a multipurpose bank, primarily engaged in providing loans to medium-sized to large legal entities, in foreign exchange operations (basically in regard to foreign trade and financing operations) and providing custody, fund management, and sale and distribution transaction structuring services.

Bank operations are conducted through an integrated group of institutions participating in the financial market. Certain operations have joint participation or intermediation from subsidiary Socopa - Sociedade Corretora Paulista S.A. and other companies owned by the controlling shareholders.

2. Presentation of financial statements

The financial statements were prepared in accordance with accounting practices adopted in Brazil, pursuant to the accounting guidelines stemming from the Brazilian Corporation Law No. 6404/76, and the changes introduced by Laws No. 11638/07 and 11491/09, and the Central Bank of Brazil rules, and are presented pursuant to the Accounting Chart for Institutions of the National Financial System (COSIF).

Accounting estimates are determined by management, considering factors and assumptions set based on its judgment. Significant items subject to these estimates and assumptions include: provisions for adjustment of assets to probable realizable value or recoverable amount, allowances for losses, provisions for contingencies, mark-to-market (MTM) of financial instruments, deferred taxes, among others. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in their estimation process. Management reviews these estimates and assumptions at least on a bi-annual basis. These financial statements were approved on August 29, 2017.

3. Summary of significant accounting practices

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

Revenues and expenses are recorded on an accrual basis, using the daily *pro rata* criterion for those of a financial nature.

3. Summary of significant accounting practices (Continued)

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

Finance income and costs are calculated based on the compound interest rate method, except for those related to discounted notes or to foreign transactions, which are calculated by the straight-line method. Fixed rate transactions are recorded at redemption value and future income and expenses are recognized as a reduction of the respective assets or liabilities. Floating rate transactions are restated up to the statement of financial position date based on agreed-upon rates.

b) Cash and cash equivalents

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

c) Interbank investments

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

d) Marketable securities and derivative financial instruments

As established by Circular No. 3068/01, portfolio marketable securities are classified into the following three categories in accordance with management’s intention:

- Held for trading;
- Available for sale; and
- Held to maturity.

Marketable securities classified as held for trading are presented in current assets, regardless of their maturity dates, and are intended to be actively and frequently traded. These are carried at market value and appreciation or depreciation is posted to P&L.

3. Summary of significant accounting practices (Continued)

d) Marketable securities and derivative financial instruments (Continued)

Marketable securities are classified as available for sale when not acquired for frequent trading and are used for other purposes such as providing liquidity reserve, guarantees and hedging against risks. Gains earned based on acquisition rates as well as any permanent losses thereon are recorded in P&L. These securities are carried at market value and their appreciation or devaluation is matched against a specific account in equity (net of tax effects) and posted to P&L upon realization thereof.

Marketable securities classified as held to maturity are those relating to which management has a positive intention and the financial capacity to hold until maturity. They are carried at acquisition cost plus gains earned. Any permanent losses are immediately recorded in P&L.

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

Future transactions - the market value adjustments are daily recorded under asset or liability accounts and appropriated as income or expenses;

Forward transactions - these are recorded at final contract value, less the difference between this amount and market value of the asset or right. Income and expenses are recorded over the terms of the contracts through the statement of financial position date;

Swap transactions - differential receivable or payable is recorded as assets or liabilities at market value, respectively, and appropriated to income or expenses on a *pro rata* day basis through the statement of financial position date.

Transactions involving derivative financial instruments not qualified for hedge accounting are marked to market at the statement of financial position date and appreciation or devaluation is recorded as income or expense in P&L for the period.

e) Loans and allowance for loan losses

Loans are classified according to management’s judgment as to their underlying risk level taking into consideration the economic situation, past experience and specific risks related to the operation, debtors and guarantors, in accordance with the parameters established by BACEN Resolution No. 2682/99, which requires regular analyses of the portfolio and its grading into nine rating levels, from “AA” (minimum risk) to “H” (loss).

3. Summary of significant accounting practices (Continued)

e) Loans and allowance for loan losses (Continued)

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

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

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

The Bank opted for the ‘double count of terms’ prescribed in BACEN Resolution No. 2682/99 to determine the risk level for above-36-month-term operations. The allowance for loan losses, deemed sufficient by management, meets the requirements set forth in the referred to BACEN Resolution, as described in Note 9.

f) Impairment of nonfinancial assets

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

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

g) Investments

Investments in subsidiaries are measured by the equity method.

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

3. Summary of significant accounting practices (Continued)

h) Property and equipment, deferred charges and intangible assets

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

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

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

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

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

j) Income tax and social contribution

When provisions for Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL) are applicable, they are calculated based on the book profit or loss and adjusted considering permanent and temporary additions and exclusions. Income tax is determined at the rate of 15%, plus a 10% surtax on taxable profit exceeding R$240 in the year (R$120 in a six-month period), whereas social contribution tax was computed at the rate of 15% until August 2015. For the period from September 2015 to December 2018, the rate was changed to 20%, in accordance with Law No. 13169/15 and will return to 15% from January 2019 onwards.

3. Summary of significant accounting practices (Continued)

j) Income and social contribution taxes (Continued)

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

k) Foreign exchange operations

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

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

Recognition, measurement and disclosure of contingent assets and liabilities and legal obligations are carried out pursuant to the following criteria described in Resolution No. 3823/09 and Accounting Pronouncement CPC 25, issued by Brazil's FASB (CPC):

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

Contingent liabilities - these are recognized in the financial statements when, based on the opinion of legal advisors and management, the likelihood of an unfavorable outcome of a legal or administrative proceeding is considered probable, implying a probable cash outflow for settlement, and when the amounts involved can be reliably measured. Contingent liabilities assessed as possible loss by legal advisors are only disclosed in the notes to financial statements, whereas those assessed as remote loss require neither a provision nor disclosure.

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

m) Prepaid expenses

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

(In thousands of reais)

4. Cash and cash equivalents

At June 30, 2017 and 2016, cash and cash equivalents were as follows:

	2017	2016
Cash and due from banks - local currency	**51,894**	48,719
Cash and due from banks - foreign currency	**368,880**	286,474
Open market investments (Note 5a)	**940,002**	1,204,999
Investments in interbank deposits (Note 5b)	**-**	24,557
Cash and cash equivalents	**1,360,776**	1,564,749

5. Interbank investments

a) Investments in repurchase agreements

	2017		2016
	From 1 to 30 days	Total	Total
Open market investments			
Self-funded position:	**56,542**	**56,542**	264,793
Financial Treasury Bills (LFT)	**56,179**	**56,179**	11,125
National Treasury Bills (LTN)	**363**	**363**	-
National Treasury Notes (NTN)	**-**	**-**	253,668
Financed position:	**883,460**	**883,460**	940,206
Financial Treasury Bills (LFT)	**383,823**	**383,823**	388,875
National Treasury Bills (LTN)	**499,637**	**499,637**	-
National Treasury Notes (NTN)	**-**	**-**	551,331
Total	**940,002**	**940,002**	1,204,999

In the six-month period ended June 30, 2017, income from repurchase agreements amounted to R$53,732 (R$58,774 in 2016).

b) Investments in interbank deposits

	2017	2016
Maturity within 90 days	**-**	24,557
90-360 days	**24,430**	-
Total	**24,430**	24,557

In the six-month period ended June 30, 2017, income from investments in interbank deposits amounted to R$1,292 (R$730 in 2016).

(In thousands of reais)

6. Marketable securities

a) Marketable securities - breakdown by type

	2017		2016	
	Cost (i)	**Market (ii)**	**Cost (i)**	**Market (ii)**
Securities held for trading				
Own portfolio - free	**20,811**	**21,241**	38,513	40,212
Financial Treasury Bills (LFT)	**401**	**401**	173	173
National Treasury Notes (NTN)	**42**	**43**	23,277	23,180
Agrarian Debt Bonds (TDA)	**1,978**	**1,652**	75	78
Investment Fund Shares (CFI)	**10,309**	**10,309**	2,659	2,659
Shares issued by publicly-held companies	**1,251**	**2,006**	4,329	6,329
Investments in marketable securities abroad	**6,830**	**6,830**	-	-
Certificates of Real Estate Receivables (CRI)	**-**	**-**	8,000	7,793
Subject to repurchase agreements	**-**	**-**	6,133	6,107
National Treasury Notes (NTN)	**-**	**-**	6,133	6,107
Total securities held for trading	**20,811**	**21,241**	44,646	46,319
Securities available for sale				
Own portfolio - free	**149,989**	**151,599**	48,412	48,440
Financial Treasury Bills (LFT)	**38,372**	**38,395**	18,114	18,109
National Treasury Bills (LTN)	**6,310**	**6,344**	1,775	1,772
National Treasury Notes (NTN)	**71,480**	**73,036**	22,712	22,771
Debentures	**-**	**-**	5,280	5,208
Agrarian Debt Bonds (TDA)	**706**	**697**	531	580
Investment Fund Shares (CFI)	**33,121**	**33,127**	-	-
Subject to repurchase agreements	**129,313**	**130,733**	62,180	61,812
Financial Treasury Bills (LFT)	**33,248**	**33,264**	15,514	15,509
National Treasury Bills (LTN)	**177**	**180**	-	-
National Treasury Notes (NTN)	**95,888**	**97,289**	46,666	46,303
Subject to guarantees given	**117,828**	**118,042**	120,139	119,368
Financial Treasury Bills (LFT)	**102,537**	**102,595**	41,451	41,423
National Treasury Notes (NTN)	**15,291**	**15,447**	78,688	77,945
Total securities available for sale	**397,130**	**400,374**	230,731	229,620
Total	**417,941**	**421,615**	275,377	275,939

(i) Cost value

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

(ii) Market value

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

(In thousands of reais)

6. Marketable securities (Continued)

b) Marketable securities - breakdown by maturity

	2017						2016
	No maturity	Within 3 months	From 3 to 12 months	From 1 to 3 years	Above 3 years	Total	Total
Securities held for trading							
Financial Treasury Bills (LFT)	-	-	53	348	-	401	173
National Treasury Notes (NTN)	-	-	-	43	-	43	29,287
Agrarian Debt Bonds (TDA)	-	-	-	1	1,651	1,652	78
Shares issued by publicly-held companies	2,006	-	-	-	-	2,006	6,329
Investments in marketable securities abroad	-	-	-	6,830	-	6,830	-
Certificates of Real Estate Receivables (CRI)	-	-	-	-	-	-	7,793
Investment Fund Shares (CFI)	-	-	-	10,309	-	10,309	2,659
Total securities held for trading	2,006	-	53	17,531	1,651	21,241	46,319
Securities available for sale							
Financial Treasury Bills (LFT)	-	-	89	375	173,790	174,254	75,041
National Treasury Bills (LTN)	-	4,532	1,992	-	-	6,524	1,772
National Treasury Notes (NTN)	-	-	-	123,968	61,804	185,772	147,019
Agrarian Debt Bonds (TDA)	-	-	-	1	696	697	580
Debentures	-	-	-	-	-	-	5,208
Investment Fund Shares (CFI)	-	-	-	-	33,127	33,127	-
Total securities available for sale	-	4,532	2,081	124,344	269,417	400,374	229,620
Total	2,006	4,532	2,134	141,875	271,068	421,615	275,939

In the six-month period ended June 30, 2017, income from marketable securities totaled R$20,388 (R$39,940 in 2016).

(In thousands of reais)

7. Derivative financial instruments

The Bank performs operations involving derivative financial instruments, which are recorded in asset, liability and memorandum accounts to manage its overall risk exposure.

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

At June 30, 2017 and 2016, the amounts recorded in statement of financial position accounts referring to derivative financial instruments, including market value adjustments are as follows:

	2017				2016			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards (NDF)	**105,365**	**-**	**(4,247)**	**(4,247)**	105,933	2,035	(2,363)	(328)
Total	**105,365**	**-**	**(4,247)**	**(4,247)**	105,933	2,035	(2,363)	(328)

a) <u>Breakdown of transactions</u>

Description	Notional value	Equity value receivable/(payable)
Forwards		
USD vs. EUR	41,053	(3,487)
USD vs. CAD	3,424	(109)
USD vs. AUD	1,336	(36)
USD vs. GBP	5,782	(256)
USD vs. JPY	2,473	21
USD vs. CHF	1,277	(65)
USD vs. NOK	73	(3)
USD vs. NZD	315	(18)
USD vs. XAU	(999)	34
USD vs. MXN	140	(6)
Real vs. USD	38,038	153
Real vs. EUR	12,453	(475)
Total	**105,365**	**(4,247)**

The Bank carries out transactions involving derivative financial instruments in B3, which are exclusively tied to future foreign currency indexes for which notional value at June 30, 2017 totals R$123,009 (R$220,329 in 2016), and an adjustment payable of R$48 (R$1,557 receivable in 2016) was computed.

(In thousands of reais)

7. Derivative financial instruments (Continued)

b) Derivative financial instruments mature as follows:

	2017				2016
Description	**Within 3 months**	**From 3 to 12 months**	**Above 12 months**	**Total**	**Total**
Forwards (NDF)	**-**	**(4,247)**	**-**	**(4,247)**	(328)

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

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

c) Guarantee margin

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

	2017	**2016**
Financial Treasury Bills (LFT)	**102,595**	41,423
National Treasury Notes (NTN)	**15,447**	77,945
	118,042	119,368

d) Income (loss) from derivative financial instruments

Income (loss) from derivative financial instrument transactions for the six-month period ended June 30, 2017 and 2016 is as follows:

	2017	**2016**
Futures	**13,218**	44,882
Forward transactions - NDF	**(4,762)**	(541)
Forward transactions - Gold	**-**	2,048
	8,456	46,389

8. Risk management

The Bank's risk management process is critical for the decision-making process and for the periodic follow-up of the transactions carried out in the various markets and segments in which it operates.

The Bank uses three components for organizing the activities relating to risk management: operational and business context, governance structure and flowchart of the areas.

- Operating and business context, in order to identify, analyze, assess, address, communicate and monitor risks;
- Governance structure comprising committees and collegiate forums, which are specialized and have periodically-scheduled meetings followed by formalization of significant decisions;
- Organizational structure based on functional roles, assuring independence and segregation of duties.

The Executive Board, comprised of statutory officers, who share the responsibility for making decisions that will have a business impact. In these forums, decisions are made based on majority of votes.

The Bank manages risks, minimum capital requirements and financial capacity in an integrated manner. Risks are broken down based on their nature: liquidity, credit, market, operational and capital management risks.

a) Liquidity risk

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

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

8. Risk management (Continued)

b) Credit risk

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

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

c) Market risk

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

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

d) Operational risk

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

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

(In thousands of reais)

8. **Risk management** (Continued)

e) Capital management

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

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

9. Loans

At June 30, 2017 and 2016, breakdown of loans is as follows:

a) By type of transaction

	2017	**2016**
Loans:		
Loans and discounted notes	**333,089**	259,557
Financing - Export credit notes	**3,350**	7,029
Financing - Export credit notes	**77,745**	53,373
	414,184	319,959
Other receivables:		
Advances on exchange contracts (Note 10)	**-**	284
Credit assignment without joint obligation (Note 11)	**41,790**	45,900
	41,790	46,184
Total	**455,974**	366,143
Allowance for loan losses	**(10,475)**	(9,036)
Allowance for losses on other receivables	**(560)**	(785)
Total allowance for loan losses	**(11,035)**	(9,821)
	444,939	356,322

(In thousands of reais)

9. **Loans** (Continued)

b) Breakdown by sector

	2017	2016
Private sector		
Manufacturing	**119,241**	111,871
Trade	**91,257**	74,649
Services	**218,516**	140,924
Individuals	**26,960**	38,699
Total	**455,974**	366,143

c) Loans by maturity

	2017	2016
Amounts overdue	**2,448**	11,775
Amounts falling due		
Within 90 days	**140,475**	139,062
From 91 to 180 days	**104,834**	70,025
From 181 to 360 days	**73,116**	89,277
Over 360 days	**135,101**	56,004
Total	**455,974**	366,143

d) Portfolio broken down by risk level

	Portfolio balances					
	2017				2016	
Level	Ordinary course	Overdue	Total	%	Total	%
A	**12,231**	**-**	**12,231**	**2.68**	-	-
B	**305,140**	**173**	**305,313**	**66.96**	245,385	67.02
C	**125,386**	**996**	**126,382**	**27.72**	108,490	29.63
D	**1,539**	**11**	**1,550**	**0.34**	1,754	0.48
E	**9,209**	**-**	**9,209**	**2.02**	8,694	2.37
F	**-**	**-**	**-**	**-**	-	-
G	**-**	**254**	**254**	**0.05**	1,638	0.45
H	**21**	**1,014**	**1,035**	**0.23**	182	0.05
	453,526	**2,448**	**455,974**	**100.00**	366,143	100.00

	Allowance						
	2017					2016	
Level	Allowance %	Ordinary course	Overdue	Total	%	Total	%
A	**0.5**	**61**	**-**	**61**	**0.55**	-	-
B	**1.0**	**3,051**	**2**	**3,053**	**27.66**	2,454	24.99
C	**3.0**	**3,761**	**30**	**3,791**	**34.35**	3,255	33.14
D	**10.0**	**154**	**1**	**155**	**1.41**	175	1.78
E	**30.0**	**2,763**	**-**	**2,763**	**25.05**	2,608	26.56
F	**50.0**	**-**	**-**	**-**	**-**	-	-
G	**70.0**	**-**	**177**	**177**	**1.60**	1,147	11.68
H	**100.0**	**21**	**1,014**	**1,035**	**9.38**	182	1.85
		9,811	**1,224**	**11,035**	**100.00**	9,821	100.00

(In thousands of reais)

9. **Loans** (Continued)

e) Changes in allowance for loan losses

	2017	2016
Balance at the beginning of the six-month period	**10,054**	11,330
Setting-up, net	**1,098**	3,156
Loans written off against losses	**(117)**	(4,665)
Balance at the end of the six-month period	**11,035**	9,821

f) Renegotiated and recovered loans

Renegotiated loans in the six-month period ended June 30, 2017 total R$10,897 (R$10,998 in 2016).

Renegotiated loans in the six-month period ended June 30, 2017 total R$1,441 (R$481 in 2016).

g) Credit assignments

In the six-month period ended June 30, 2017 and 2016, the Bank did not engage in assignment of loans with or without joint obligation.

h) Income from loans

	2017	2016
Loans and discounted notes	**31,794**	32,086
Financing	**6,924**	4,530
Recovery of loans written off as losses	**1,441**	481
Advances to deposit holders	**115**	102
Total loans	**40,274**	37,199

(In thousands of reais)

10. Foreign exchange portfolio

	2017	2016
Assets		
Current		
Foreign exchange purchase pending settlement	**245,816**	207,693
Rights on foreign exchange sales	**373,621**	191,958
Advances received in local and foreign currency	**(21,892)**	(18,346)
Income receivable from advances (Note 9.a)	**-**	1
	597,545	381,306
Liabilities		
Current		
Foreign exchange sale pending settlement	**378,293**	185,503
Foreign exchange purchase obligations	**244,339**	210,560
Advances on foreign exchange contracts (Note 9.a)	**-**	(283)
	622,632	395,780

11. Other receivables - sundry

	2017	2016
Current		
Taxes recoverable	**16,474**	16,329
Tax credits (Note 25.b)	**-**	24,462
Sundry debtors - domestic (ii)	**20,034**	13,827
Debtors for guarantee deposits (Note 28.b)	**5,790**	-
Securities and receivables (i)	**42,633**	46,750
Other	**1,153**	1,102
	86,084	102,470
Noncurrent		
Tax credits (Note 25.b)	**40,046**	49,664
Debtors for guarantee deposits (Note 28.b)	**5,352**	13,140
Securities and receivables (i)	**6,739**	6,801
Other	**26**	-
	52,163	69,605

(i) This includes the amount of R$41,790 (R$45,900 in 2016) referring to Credit assignment without joint obligation (Note 9.a);

(ii) Prepaid exchange funds.

12. Other assets

	2017	2016
Current		
Non-use goods - vehicles/properties/machinery	**4,775**	5,804
Prepaid expenses	**363**	503
	5,138	6,307

(In thousands of reais)

13. Investments in subsidiaries and affiliates

This refers substantially to interest held in subsidiary SOCOPA - Sociedade Corretora Paulista S.A.

Detailed information on this subsidiary is as follows:

	2017	2016
Number of shares held	**3,200**	3,200
Capital	**66,000**	66,000
Equity	**98,983**	94,613
Net income for the six-month period	**4,417**	4,471
Interest percentage	**100%**	100%
Investment balance	**103,400**	99,084
Equity pickup	**4,417**	4,471

14. Intangible assets

	Amortization rate	Cost	Amortization	06/30/2017	06/30/2016
Software	**20%**	**2,402**	**(1,973)**	**429**	764
Other intangible assets (*)	**-**	**5,400**	**-**	**5,400**	4,000
	-	**7,802**	**(1,973)**	**5,829**	4,764

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

15. Deposits

	2017					2016
	No maturity	1 to 90 days	91 to 360 days	Above 360 days	Total	Total
Demand - Local currency	**68,600**	**-**	**-**	**-**	**68,600**	93,089
Demand - Foreign currency	**51,875**	**-**	**-**	**-**	**51,875**	55,301
Interbank	**-**	**128,374**	**5,680**	**-**	**134,054**	67,882
Time	**-**	**130,906**	**189,933**	**320,201**	**641,040**	726,011
	120,475	**259,280**	**195,613**	**320,201**	**895,569**	942,283

In the six-month period ended June 30, 2017, expenses with “Deposits” totaled R$46,575 (R$55,129 in 2016) - see Note 20.

(In thousands of reais)

16. Open market funding

	2017	2016
Own portfolio		
Financial Treasury Bills (LFT)	**33,199**	15,471
National Treasury Bills (LTN)	**179**	-
National Treasury Notes (NTN)	**96,823**	52,202
	130,201	67,673
Third-party portfolio		
Financial Treasury Bills (LFT)	**383,823**	388,875
National Treasury Bills (LTN)	**499,637**	-
National Treasury Notes (NTN)	**-**	551,331
	883,460	940,206
Total	**1,013,661**	1,007,879

In the six-month period ended June 30, 2017, expenses with "Open market funding" totaled R$54,511 (R$52,239 in 2016) - see Note 20.

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

	2017						2016
	No maturity	From 1 to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 onwards	Total	Total
Borrowings							
Foreign borrowings (i)	**-**	**19,373**	**4,256**	**4,855**	**-**	**28,484**	26,758
Onlending							
Local onlending - official institutions (ii)	**9,861**	**-**	**-**	**-**	**-**	**9,861**	11,260
Funds from acceptance and issue of securities							
Obligations due to issue of Agribusiness Credit Bills (LCA) (iii)	**-**	**7,386**	**8,406**	**5,544**	**21,182**	**42,518**	36,069
Obligations due to issue of Real Estate Equity Securities (LCI)	**-**	**7,400**	**-**	**24,953**	**13,701**	**46,054**	23,758
	9,861	**34,159**	**12,662**	**35,352**	**34,883**	**126,917**	97,845

(i) Fixed interest-bearing foreign loans are taken out and earmarked for foreign exchange operations. The rate adopted was 4.5% p.a., depending on volumes, terms and market conditions;

(ii) Local borrowings refer to funds from the Ministry of the Cities and Associated Agencies (i.e. State, Local and the Federal District Government Agencies and Housing Cooperatives) related to Brazil's Social Interest Housing (PSH) Subsidy Program.

(iii) (iii) These refer to Agribusiness Credit Bills (LCA). The rate used varied from 86% to 100% of the CDI.

(iv) These refer to Real Estate Equity Securities (LCI) with the Bank's controlling shareholder.

(In thousands of reais)

18. Other liabilities

a) Tax and social security

	2017	2016
Current		
Taxes and contributions payable	**4,435**	3,750
Income taxes and contributions	**131**	760
	4,566	4,510
Noncurrent liabilities		
Taxes and contributions payable (Note 28.b)	**-**	32,736
Provision for deferred taxes and contributions (Note 25.b)	**5,756**	5,744
Provision for tax contingencies (Note 28.b)	**-**	6,812
	5,756	45,292

b) Subordinated debts

	2017	2016
Noncurrent liabilities		
Capital-eligible subordinated debts (i)	**62,470**	54,352
	62,470	54,352

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

c) Sundry

	2017	2016
Current		
Accrued payments	**16,931**	10,762
Provisions for guarantees given (Note 27)	**613**	560
Items to be settled - foreign exchange	**5,813**	4,179
Brokerage to credit - Foreign exchange	**4,250**	1,256
Charges on funds received - PSH	**1,490**	2,833
Payables to related parties (Note 26)	**48**	-
Other amounts payable	**1,353**	698
	30,498	20,288
Noncurrent liabilities		
Accrued payments	**1,348**	1,360
Provision for contingent liabilities (Note 28.b)	**4,949**	3,823
	6,297	5,183

(In thousands of reais)

19. Equity

a) Capital

At June 30, 2017 and 2016, the Company's fully subscribed and paid-up capital of R$177,000 is represented by 268,731,760 registered shares with no par value, of which 134,365,880 are common shares and 134,365,880 are preferred shares.

b) Dividend and interest on equity

The Bank's Charter provides for mandatory minimum dividends of 25% on net income for the year, calculated under the terms of the Brazilian Corporation Law. For the six-month period ended June 30, 2017, no dividends were paid out based on management's decision.

c) Retained earnings

As per Resolution No. 3605/08, net income calculated and not distributed in the six-month period shall be allocated to income reserve. At June 30, 2017, income earned in the six-month period amounted to R$19,500 (R$4,798 in 2016).

d) Legal reserve

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

20. Funding expenses

	2017	**2016**
Time deposits	**39,624**	49,531
Open market funding	**54,511**	52,239
Contributions Deposit Insurance Fund (DIF)	**664**	801
Interbank deposits	**6,951**	5,598
Financial bills	**3,820**	6,664
Agribusiness Credit Bills (LCA)	**2,485**	1,812
Real Estate Equity Securities (LCI)	**2,157**	2,097
	110,212	118,742

(In thousands of reais)

21. Service revenues

	2017	2016
Foreign exchange operation charges	**2,133**	2,228
Bank charges	**19,829**	14,965
Custody services	**21,225**	17,715
Investment fund administration fee	**119**	20
Other services	**343**	439
	43,649	35,367

22. Other administrative expenses

	2017	2016
Transport of currency - Exchange	**26,557**	11,627
Transport of currency - Other	**1,085**	1,142
Specialized technical services	**5,389**	9,916
Data processing	**7,365**	8,454
Rent	**1,840**	1,856
Financial system	**1,625**	1,308
Communications	**832**	1,027
Third-party services	**645**	592
Notarial fees	**493**	382
Surveillance and security services	**153**	304
Materials	**153**	151
Advertising and promotion	**20**	90
Other	**1,960**	2,415
	48,117	39,264

23. Other operating revenues

	2017	2016
Income from guarantees given	**175**	189
Monetary gains	**569**	606
Interest on National Treasury securities issued to cover court-ordered debts	**-**	348
Monetary gains on judicial deposits	**121**	341
Recovery of charges and expenses	**726**	835
Reversal of provisions for expenses	**222**	3,291
Reversal of provisions for tax risks	**639**	-
Other	**519**	385
	2,971	5,995

(In thousands of reais)

24. Other operating expenses

	2017	2016
Loan consulting	**4,592**	2,664
Gold transactions	**1,767**	3,507
Loan loss provision	**15**	1,631
Expenses with Direct Consumer Credit (CDC) contract recovery	**1,421**	1,181
Prepaid card	**442**	1,364
Amortization and depreciation	**473**	552
Interbank fees	**979**	748
Financial expenses - PSH	**140**	242
Monetarily restated taxes and contributions	**467**	4,837
Commissions on financing agreements	**103**	88
Financial advisory - *Câmbio Fácil*	**997**	-
Provision for guarantees given	**60**	93
Other expenses - fund controlling services	**1,229**	-
Other	**277**	1,009
	12,962	17,916

25. Income and social contribution taxes

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

	2017	2016
Income before income taxes and profit sharing	**37,281**	16,433
(-) Profit sharing	**(2,167)**	(2,944)
Income before taxes and after profit sharing	**35,114**	13,489
Temporary additions and exclusions	**(30,444)**	(10,445)
Marketable securities marked to market	**3,624**	(2,483)
Allowance for loan losses	**1,097**	(202)
Reversal of allowance for loan losses	**(34,750)**	(8,500)
Provision for tax contingencies	**76**	55
Other temporary additions and exclusions	**(491)**	685
Permanent additions and exclusions	**(4,349)**	(4,058)
Equity pickup of subsidiary	**(4,417)**	(3,615)
Other permanent additions and exclusions	**68**	(443)
Tax base	**321**	(1,014)
Income and social contribution taxes	**132**	770
Deductions - tax incentives	**(2)**	(10)
Income and social contribution taxes (*)	**130**	760
Deferred tax assets	**13,317**	4,987
Total income and social contribution taxes	**13,447**	5,747

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

(In thousands of reais)

25. Income and social contribution taxes (Continued)

b) Tax credits

Changes in tax credits for the six-month period were as follows:

	12/31/2016	Set-up	Realization/ reversal	06/30/2017
Allowance for losses on other receivables	48,151	**-**	**(15,638)**	**32,513**
Provision for tax risks and contingencies	1,763	**2,924**	**(603)**	**4,084**
Market value adjustment - Marketable securities - held for trading/available for sale	(795)	**578**	**(2,090)**	**(2,307)**
Total tax credits	49,119	**3,502**	**(18,331)**	**34,290**

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

Present value of the tax credits at June 30, 2017 is R$ 31,542, as determined by reference to the CDI/B3 rates prevailing in the related periods. Tax credits are assessed periodically based on the generation of taxable profit for income and social contribution tax purposes at an amount that renders it justifiable to record such amounts as assets.

Based on projected results, which include developments in the business plan, management understands that the Broker will realize taxable profits within the term not yet barred by statute to absorb the tax credits recorded in its financial statements. This estimate is periodically reviewed so that any changes in the expected recovery of such credits are considered in a timely fashion in the financial statements.

Tax credits are expected to be realized as follows:

	2017 (*)	2018	Total
Allowance for loan losses	15,637	16,876	32,513
Provision for tax risks and contingencies	-	4,084	4,084
Market value adjustment - Marketable securities - held for trading/available for sale	-	(2,307)	(2,307)
Total	**15,637**	**18,653**	**34,290**
Present value	**14,382**	**17,160**	**31,542**

(*) Second half of 2017.

(In thousands of reais)

26. Transactions with related parties

Transactions with related parties were carried out under usual market conditions, with regard to interest rates and terms, and are broken down as follows:

	Assets/(Liabilities)		Revenues/(expenses)	
	2017	**2016**	**2017**	**2016**
Demand deposits	**(4,350)**	(3,015)	**-**	-
Cash and due from banks - foreign currency	**(4,267)**	(1,050)	**-**	-
Time deposits	**(106,052)**	(159,687)	**(7,504)**	(7,107)
Interbank deposits	**(121,396)**	(60,600)	**(6,513)**	(5,139)
Open market funding	**(26,548)**	(39,200)	**(980)**	(782)
Payables to related parties (Note 18.c)	**(48)**	-	**-**	-
Debtors - account “Pending settlement”	**394**	1,630	**-**	-
Financial bill - subordinated debt	**(25,841)**	(22,483)	**(1,580)**	(1,620)
Real Estate Equity Securities - LCI (Note 17)	**(46,054)**	(23,758)	**(2,157)**	(2,097)
Agribusiness Credit Bills - LCA (Note 17)	**(33,294)**	(25,421)	**(1,906)**	(1,122)

a) Key management personnel compensation

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

	2017	**2016**
Fixed compensation	**5,634**	3,226
Social charges	**1,268**	726
Total	**6,902**	3,952

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

27. Collateral securities, pledges and guarantees to third parties

At June 30, 2017, liability for collateral securities, pledges and guarantees provided to third parties, including those on assigned credits totaled R$ 28,679 (R$ 21,363 in 2016), with provision for possible losses, amounting to R$613 (R$560 in 2016).

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

a) Contingent assets

At June 30, 2017 and 2016, the Bank did not record contingent assets.

b) Contingent liabilities assessed as probable loss and legal obligations

b.1) *Provisions for labor claims*

These basically refer to claims filed by former employees seeking overtime payment and by former employees of outsourced labor firms seeking recognition of employment relationship and the respective severance pay amounts. Contingent amounts are accrued based on analyses of the potential for loss on claims, on a case-by-case basis, considering claim current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors. A provision is recorded for proceedings whose likelihood of loss is assessed as probable in an amount that may be reliably estimated, including applicable charges.

b.2) *Provisions for civil contingencies*

These mostly refer to proceedings of a civil nature relating to Direct Consumer Credit (CDC) operations, seeking damages for pain and suffering, damages and other proceedings claiming indemnification. Provisions for CDC-related claims, the amounts of which are not individually significant, are set up based on the historical average of losses on dismissed cases. The historical average of losses is reviewed semiannually. For other civil proceedings, contingent amounts are accrued based on analyses of the potential for loss on claims, on a case-by-case basis, considering claim current status, decisions on the matter under dispute formerly handed down by courts and the opinion of external legal advisors.

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

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

(In thousands of reais)

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

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

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

The Bank decided not to challenge the lawfulness of the PIS and COFINS levy in court, and elected the installment payment provided for by Law No. 11941/09. In 2012, the amount of R$43,383 was reallocated to "Other taxes payable", whose balance in 2016 of R$640 was reversed in the first half of 2017 (R$32,736 in 2016) - (Note 18.a).

Changes in provisions for contingencies and legal obligations for the six-month period are as follows:

	Provision for contingencies				
	Labor	**Civil**	**Tax**	**2017**	**2016**
Balance at the beginning of the six-month period	**808**	**1,751**	**2,628**	**5,187**	12,452
Setting-up	**-**	**227**	**76**	**303**	1,025
Realizations/restatements	**-**	**(428)**	**-**	**(428)**	(608)
Reversals	**(113)**	**-**	**-**	**(113)**	(2,234)
Balance at the end of the six-month period	**695**	**1,550**	**2,704**	**4,949**	10,635

	Judicial deposits					
	Labor	**Civil**	**Tax**	**Other**	**2017**	**2016**
Balance at the beginning of the six-month period	**213**	**568**	**5,019**	**4,670**	**10,470**	12,739
Restatement	**-**	**-**	**121**	**536**	**657**	933
Setting-up	**-**	**53**	**-**	**-**	**53**	-
Reversals	**-**	**(15)**	**-**	**-**	**(15)**	(275)
Withdrawals	**-**	**(21)**	**-**	**(2)**	**(23)**	(257)
Balance at the end of the six-month period	**213**	**585**	**5,140**	**5,204**	**11,142**	13,140

c) Contingent liabilities assessed as possible losses

At June 30, 2017, contingent liabilities assessed as possible losses refer to 42 proceedings (16 proceedings in 2016) of a civil nature totaling R$6,275 (R$2,302 in 2016), and 5 proceedings (no proceeding in 2016) of a labor nature totaling R$359, based on the amounts attributed to respective proceedings filed by claimants (and not necessarily representing possible loss), which are mostly represented by the following:

(In thousands of reais)

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

c) Contingent liabilities classified as possible losses (Continued)

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

d) Regulatory agencies

There are no administrative proceedings in progress on the part of the National Financial System that could significantly impact net income and operations of Banco Paulista.

29. Operating limits

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

	06/30/2017	06/30/2016
Risk Weighted Assets (RWA) and Basel index		
Base Capital (BC)	**215,046**	186,280
BC - tier I	**196,608**	164,154
Principal capital	**196,608**	164,154
BC - tier II	**18,438**	22,126
RWA calculated using the standardized approach (Cpad) - Credit	**743,254**	877,670
RWA using Credit Approval Memorandums (Cam) - Foreign exchange	**8,780**	13,636
RWA Trading - Interest, Commodities, Shares	**-**	4,248
RWA for operational risks (Opad) - Operational	**335,089**	253,429
RWA - Total	**1,087,123**	1,148,983
MRC	**100,559**	113,462
Basel index (BC/RWA Total)	**19.78%**	16.21%
Tier I index (BC tier I / RWA Total)	**18.09%**	14.29%
Principal Capital ratio (PC/RWA Total)	**18.09%**	14.29%

The Basel index for the Financial Conglomerate at June 30, 2017, determined in accordance with the provisions set forth in Resolution No. 2099/94, as amended by Resolutions Nos. 4192/13 and 4193/13, is 19.80%.

30. Subsequent events

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