OFFERING MEMORANDUM

Banco BTG Pactual S.A.

a *sociedade por ações* incorporated in the Federative Republic of Brazil
(acting through its Cayman Islands Branch)

US$600,000,000
7.750% Subordinated Notes due 2029

Banco BTG Pactual S.A., a *sociedade por ações* incorporated in the Federative Republic of Brazil ("Banco BTG Pactual"), acting through its Cayman Islands Branch (the "Issuer"), is issuing US$600,000,000 aggregate principal amount of 7.750% Subordinated Notes due 2029 (the "Notes"). The Notes will bear interest from February 15, 2019, payable semiannually in arrears on February 15 and August 15 of each year, commencing on August 15, 2019 (the "Interest Payment Dates") and will mature on February 15, 2029. See "Description of the Notes—General."

The Notes will be our unsecured and subordinated obligations. Payment of principal on the Notes may be accelerated only in the case of certain events involving our dissolution, winding up or similar events, and we will only be required to make payment on acceleration after we are dissolved or wound up for purposes of Brazilian law. There will be no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal or interest in respect of the Notes.

We may redeem the Notes, in whole but not in part, subject to the prior approval of the Brazilian Central Bank (*Banco Central do Brasil*, the "Central Bank") and any other applicable Brazilian Governmental Authority if then required, at a redemption price equal to the Base Redemption Price (as defined below) on and after the date that is five years following the Issue Date (as defined below) (the "Call Date") in the event of (i) certain changes affecting taxation or (ii) certain regulatory changes. We may also at our option redeem the Notes, in whole but not in part, on the Call Date, subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), at a redemption price equal to the Base Redemption Price; provided that we are at any redemption date and, immediately following such redemption, will then be in compliance with the minimum requirements for Regulatory Capital and satisfy the Additional Principal Capital (*Adicional de Capital Principal*) requirements under CMN Resolution No. 4,193, of March 1, 2013, as amended from time to time (the "CMN Resolution 4,193"), ("Additional Principal Capital") and other operational limits. The Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes prior to the Maturity Date (as defined below).

The outstanding principal, interest and all other amounts due, or with respect to, the Notes shall be permanently written-off in an amount at least equal to the amount accounted as our Tier 2 Capital, upon certain events relating to our capital adequacy, as further described under "Description of the Notes—Write-Off by the Issuer." The write-off of any amount due under the Notes and the situations described above will not constitute an event of default and shall not allow any Noteholder to require any repayment on any then outstanding principal, interest or any other amounts due, or with respect to, the Notes. Therefore, in case of a write-off, Noteholders may lose their entire investment in the Notes. See "Risk Factors—Risks Relating to the Notes—"The Notes are subject to a write-off in certain circumstances, which are unpredictable and may be caused by factors not fully within our control. In case of a write-off, the Noteholders may lose their entire investment in the Notes."

We may, without the prior consent of Noteholders, subject to certain conditions and exceptions, amend certain terms and conditions of the Notes in order to, and only to the extent necessary to, comply with any requirement of the Central Bank to qualify, or maintain the qualification of, the Notes as Tier 2 Capital pursuant to CMN Resolution No. 4,192, of March 1, 2013, as amended from time to time, or CMN Resolution 4,192. See "Description of the Notes—Modification of the Indenture—Changes Not Requiring Noteholder Approval."

Application has been made to admit the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange (the "Euro MTF"). This Offering Memorandum constitutes a prospectus for the purposes of Part IV of the Luxembourg Act dated July 10, 2005 on prospectuses for securities, as amended. We, having made all reasonable inquiries, confirm that the information contained in this offering memorandum is true and accurate in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. We accept responsibility accordingly.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 26.

There is currently no public market for the Notes. The Notes have not been and will not be registered under the U.S. Securities Act of 1933 as amended (the "Securities Act"), or securities laws of any jurisdiction. Accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, as defined under Regulation S of the Securities Act ("Regulation S"), except to certain "qualified institutional buyers" ("QIBs") as defined under Rule 144A of the Securities Act ("Rule 144A), that are also "qualified purchasers" ("QPs"), as defined in Section 2(A)(51) of the U.S. Investment Company Act of 1940, as amended, and related rules (the "Investment Company Act"), in reliance on exemptions from registration provided under the Securities Act and to certain non–U.S. persons in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the exemption from the provisions of the Investment Company Act provided by Section 3(c)(7) ("(3)(c)(7)"). For a description of certain restrictions on transfers of the Notes, see "Transfer Restrictions" and "Certain ERISA Considerations."

Price: 100.000% of principal amount, plus accrued interest from February 15, 2019 if settlement occurs after that date.

We expect that the Notes will be ready for delivery in book-entry form through The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream") on or about February 15, 2019.

Joint Bookrunners

BTG Pactual **Bradesco BBI** **Citigroup** **Deutsche Bank Securities** **Nomura** **UBS Investment Bank**

The date of this Offering Memorandum is February 15, 2019

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In this Offering Memorandum, unless the context requires otherwise, references to:

i. "B3" are to B3 S.A. – Brasil, Bolsa, Balcão (formerly BM&FBOVESPA S.A. – *Bolsa de Valores, Mercadorias e Futuros*) on which our units are listed and trade on the Level 1 (*Nivel 1*) segment of such exchange;

ii. "Banco BTG Pactual," "we," "us," "our," or "ourselves" are to Banco BTG Pactual S.A., a corporation (*sociedade por ações*) organized under the laws of Brazil, and its consolidated subsidiaries;

iii. "BSI" are to BSI SA, a Swiss stock corporation (*Aktiengesellschaft*), together with its consolidated subsidiaries, which Banco BTG Pactual acquired in September 2015 and later sold to EFG in November 2016;

iv. "BTG Pactual Group" are to Banco BTG Pactual, PPLAI, PPLA Participations and their respective subsidiaries, collectively;

v. "BTG Pactual Holding" are to BTG Pactual Holding S.A., a corporation (*sociedade por ações*), organized under the laws of Brazil, which (A) directly and indirectly, through BTG Pactual Holding Financeira, owns a majority of Banco BTG Pactual's common shares issued and outstanding and directly and indirectly owns all of Banco BTG Pactual's capital stock that is part of its Partnership Equity, (B) is owned by the Partners and (C) is controlled by the Controlling Partners through G7 Holding;

vi. "BTG Pactual Holding Financeira" are to BTG Pactual Holding Financeira Ltda., a limited liability company (*sociedade empresarial de responsabilidade limitada*), organized under the laws of Brazil which, pursuant to our corporate reorganization on October 26, 2018 (A) directly owns the majority of Banco BTG Pactual's common shares issued and outstanding, and (B) all of Banco BTG Pactual's series B preferred shares issued and outstanding, and (C) is controlled by BTG Pactual Holding, which directly holds 99.9% of its share capital;

vii. "Cayman Islands Branch" are to Banco BTG Pactual, acting through its Cayman Islands branch, which is duly licensed and qualified to do business as a branch of a foreign bank in accordance with the laws of the Cayman Islands, having its registered office at PO Box 1353, Harbour Place, 5th Floor, 103 South Church Street, Grand Cayman KY1-1108, Cayman Islands;

viii. "Controlling Partners" are to the Partners who effectively control Banco BTG Pactual. As of September 30, 2018, the Controlling Partners were Marcelo Kalim, Roberto Balls Sallouti, Antonio Carlos Canto Porto Filho, Renato Monteiro dos Santos and Guilherme da Costa Paes, without giving effect to Marcelo Kalim's December 2018 announcement to transfer his shares of G7 Holding to BTG Pactual Holding pursuant to which, following receipt of the requisite regulatory approvals to effect such transfer, Marcelo Kalim will cease to be a Controlling Partner;

ix. "EFG" are to EFG International, a global private banking and asset management firm headquartered in Zurich, Switzerland, that acquired BSI from the BTG Pactual Group in November 2016 and in which Banco BTG Pactual continued to hold a 30.0% interest as of September 30, 2018;

x. "Engelhart CTP" are to Engelhart Commodities Trading Partners, a Luxembourg-based commodities platform that, since October 2016, operates separately from Banco BTG Pactual following the spin-off of Banco BTG Pactual's commodities business and in which Banco BTG Pactual retains a direct interest of 19.01% as of September 30, 2018;

xi. "G7 Holding" are to BTG Pactual G7 Holding S.A., the entity through which the Controlling Partners exercise control over Banco BTG Pactual via its ownership of the majority of the voting shares of BTG Pactual Holding;

xii. "IPO units" are to the securities offered in the BTG Pactual Group's initial public offering consisting of (i) global depositary units listed on the B3 representing (A) one common share and two preferred shares of our capital stock and (B) one voting share and two non-voting shares of PPLA Participations in the form of

Brazilian depositary receipts and (ii) global depositary units listed on NYSE Euronext Amsterdam representing (A) one voting share and two non-voting shares of PPLA Participations and (B) one common share and two preferred shares of our capital stock in the form of global depositary shares. As of August 18 2017, trading of our IPO units was suspended, and our securities and PPLA Participations' securities no longer trade together on a combined basis;

xiii. "Issuer" are to Banco BTG Pactual S.A. without its consolidated subsidiaries, acting through its Cayman Islands Branch; it being understood, however, that business related information shall include Banco BTG Pactual, including its consolidated subsidiaries unless otherwise specified in this Offering Memorandum;

xiv. "Merchant Banking Partnership" are to BTG MB Investments L.P., an exempted limited partnership established under the laws of Bermuda, which is (A) owned by the Partners, (B) directly owns Partners Alpha and (C) which held, as of September 30, 2018, 0.64% of the shares of Banco BTG Pactual, which it acquired in the open market;

xv. "Participating Partners" are to the Partners that hold Banco BTG Pactual common and preferred shares (A) through units acquired via open market purchases and (B) as a result of acquiring such shares at the same time, on the same terms and as part of the same transaction, as a consortium of international investors in 2010;

xvi. "Partners" are to the individuals who, collectively (together with their family members, trusts or other entities established for their benefit or the benefit of their family members) directly or indirectly hold our common and preferred shares, which as of September 30, 2018, collectively represented approximately 76.5% of the outstanding economic interests in the BTG Pactual Group, together with any individuals that in the future, directly or indirectly, hold equity interests in the BTG Pactual Group, and who are employees (or act in a similar capacity) of one or more entities within the BTG Pactual Group;

xvii. "Partners Alpha" are to Partners Alpha Investments LLC, a limited liability company organized under the laws of Delaware, which was a wholly-owned indirect subsidiary of PPLA until March 31, 2010;

xviii. "Partnership Equity" are to our equity awarded to, and held by, the Partners in their capacity as Partners and managers of the BTG Pactual Group and, therefore, which is subject to the restrictions on transfer applicable to our partnership structure, as distinguished from equity held by the Partners acquired at the same time and on the same terms as the consortium of international investors in December 2010 or otherwise acquired on the open market. As of September 30, 2018, our Partners owned approximately 83.2% of our equity, and approximately 74.0% of our equity was part of our partnership as Partnership Equity;

xix. "PPLA GP" are to PPLA GP Management Ltd, an exempted company incorporated under the laws of Bermuda and the holder of one Class C voting common share of the share capital of PPLA Participations, which (A) has no economic rights and (B) is currently held indirectly by the Controlling Partners, pursuant to which the Controlling Partners indirectly control PPLA Participations;

xx. "PPLA Participations" are to PPLA Pactual Participations Ltd, a limited liability exempted company incorporated under the laws of Bermuda, which (A) is the general partner of PPLAI and (B) is the indirect holding company of the partnership interests of PPLAI indirectly purchased by holders of IPO units in the initial public offering of the BTG Pactual Group in April 2012 and which was known as BTG Pactual Participations Ltd. prior to September 6, 2017;

xxi. "PPLAI" are to PPLA Investments L.P., an exempted limited partnership established under the laws of Bermuda, and its consolidated subsidiaries, which was known as BTG Investments L.P., prior to September 6, 2017;

xxii. "Senior Management Team" are to the following individuals: Roberto Balls Sallouti, John Huw Gwili Jenkins, Antonio Carlos Canto Porto Filho, Rogério Pessoa Cavalcanti de Albuquerque, Eduardo Henrique de Mello Motta Loyo, Guilherme da Costa Paes, Renato Monteiro dos Santos, André Fernandes Lopes Dias, João Marcello Dantas Leite; and

xxiii. “units” are to global depositary units listed on the B3 representing one common share and two preferred shares of Banco BTG Pactual’s capital stock.

You are authorized to use this Offering Memorandum solely for the purpose of considering the purchase of the Notes described in the Offering Memorandum. We and other sources identified herein have provided the information contained in this Offering Memorandum. The initial purchasers named herein make no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers. The initial purchasers accept no liability in relation to the information contained in this Offering Memorandum or any information included by us. You may not use any information herein for any purpose other than considering the purchase of the Notes. You agree to the foregoing by accepting delivery of this Offering Memorandum.

Neither we nor the initial purchasers have authorized any person to give any information or to represent anything not contained in this Offering Memorandum. You must not rely on any unauthorized information or representations. This Offering Memorandum is an offer to sell only the Notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Offering Memorandum is current only as of its date.

Neither this Offering Memorandum nor any other information supplied in connection with the Notes should be considered as a recommendation by us or any of the initial purchasers that any recipient of this Offering Memorandum or any other information supplied in connection with the Notes should subscribe for or purchase any Notes. Each investor contemplating subscribing for or purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of our creditworthiness. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of us, any initial purchaser or the Trustee (as defined herein) to subscribe or purchase, any of the Notes in any jurisdiction where such offer is not permitted. The distribution of this Offering Memorandum and the offering and sale of the Notes in certain jurisdictions may be restricted by law. We and the initial purchasers require persons in whose possession this Offering Memorandum comes to inform themselves about and to observe any such restrictions. This Offering Memorandum does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. Neither us nor any initial purchaser represents that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken either by us or any initial purchaser that is intended to permit a public offering of any Notes or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

We have prepared this Offering Memorandum solely for use in connection with the proposed offering of the Notes, and it may only be used for that purpose.

In making an investment decision, you must rely on your own examination of our company and the terms of this offering and the Notes, including the merits and risks involved.

We and the initial purchasers are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes under any investment law or similar laws or regulations. You should not consider any information in this Offering Memorandum to be advice whether legal, business, accounting or tax. You should consult your own attorney or other professional for any legal, business, accounting or tax advice regarding an investment in the Notes.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON THE ACCURACY OR THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THIS OFFERING MEMORANDUM HAS BEEN PREPARED BY US FOR USE IN CONNECTION WITH THE OFFER AND SALE OF THE NOTES OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AS AMENDED, TO PERSONS WHO ARE "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A), THAT ARE ALSO "QUALIFIED PURCHASERS" (AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT), AND FOR LISTING OF THE NOTES ON THE OFFICIAL LIST OF THE LUXEMBOURG STOCK EXCHANGE (FOR TRADING ON THE EURO MTF MARKET OF THE LUXEMBOURG STOCK EXCHANGE). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A AND THE EXEMPTION FROM THE PROVISIONS OF THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS OFFERING MEMORANDUM, SEE "PLAN OF DISTRIBUTION" AND "TRANSFER RESTRICTIONS."

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (*COMISSÃO DE VALORES MOBILIÁRIOS*) (THE "CVM"), ANY PUBLIC OFFERING OR DISTRIBUTION, AS DEFINED UNDER BRAZILIAN LAWS AND REGULATIONS, OF THE NOTES IN BRAZIL IS NOT LEGAL WITHOUT PRIOR REGISTRATION UNDER LAW NO. 6,385/76, AS AMENDED, AND INSTRUCTION NO. 400, ISSUED BY THE CVM ON DECEMBER 29, 2003, AS AMENDED. DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL (AS THE OFFERING OF THE NOTES IS NOT A PUBLIC OFFERING OF SECURITIES IN BRAZIL), NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NOTES TO THE PUBLIC IN BRAZIL.

Pursuant to article 14, II, and 15 of CMN Resolution 4,192, any provision of this Offering Memorandum, the indenture or any related transaction documents that conflicts with any of the provisions of the terms of subordination and/or of article 20 of the CMN Resolution 4,192 shall be null and void.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "IDD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This Offering Memorandum is for distribution only to persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investment falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order") or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

This Offering Memorandum constitutes a "prospectus" for the purposes of the admission to listing on the Official List of the Luxembourg Stock Exchange and to trading of the Notes on the Euro MTF in accordance with the rules and regulations of the Luxembourg Stock Exchange (the "Rules"). The Euro MTF is not a "regulated market" pursuant to Article 44 of MiFID II. The Euro MTF falls within the scope of Regulation (EC) 596/2014 on market abuse and the related Directive 2014/57/EU on criminal sanctions for market abuse. This Offering Memorandum therefore does not comprise a base prospectus for the purposes of Article 5(4) of the Prospectus Directive. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

In connection with the issue of the Notes, the initial purchaser or initial purchasers (if any) named as Stabilizing Manager(s) (the "Stabilizing Manager(s)") (or persons acting on behalf of any Stabilizing Manager(s)) may over-allot Notes (provided that, in the case of any Notes to be admitted to trading on the Euro MTF, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes subject to the issue) or effect transactions with a view to supporting the market price of the Notes during the stabilization period at a level higher than that which might otherwise prevail. However, stabilization action may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offering is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 calendar days after the date on which the Issuer received the proceeds of the issue and 60 calendar days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or persons acting on their behalf) in accordance with all applicable laws and rules.

References herein to "US$," "U.S.$," "U.S. dollars" or "dollars" are to United States dollars, references to "Brazilian real," "Brazilian *reais*," "*real*," "*reais*" or "R$" are to Brazilian *reais*, references to "Euro" and "€" are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the EC Treaty, references to "Yen" are to the Japanese Yen, the official currency of Japan, references to "CI$" are to Cayman Islands dollars, the official currency of the Cayman Islands and references to "CHF" are to Swiss Francs, the official currency of Switzerland.

Additional Information

While any Notes remain outstanding, we will make available, upon request, to any holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4)(i), during any period in which we are not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or exempt under Rule 12g3-2(b) of the Exchange Act.

MARKET INFORMATION

The information (including statistical information) contained in this Offering Memorandum relating to Brazil and the Brazilian economy is based on information published by the Central Bank of Brazil *(Banco Central do Brasil*) (the "Central Bank"), other public entities and independent sources, including the National Association of Capital Markets Participants (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*) ("ANBIMA"), the Brazilian Federation of Banks (*Federação Brasileira de Bancos*) ("FEBRABAN"), the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*) ("IBGE"), the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*) ("FGV"), the Brazilian Association of Leasing Companies (*Associação Brasileira de Empresas de Leasing*), the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social—BNDES*) ("BNDES"), the National Monetary Council (*Conselho Monetário Nacional*) ("CMN"), the Superintendency of Private Insurance (*Superintendência de Seguros Privados*) ("SUSEP"), and the São Paulo Stock Exchange (B3 S.A. – Brasil, Bolsa, Balcão) ("B3"), among others. Other information contained in this Offering Memorandum is based on information from *Thomson Financial* ("Thomson"), *Institutional Investor*, *Dealogic Analytics* ("Dealogic"), *The Banker*, *Euromoney*, Futures Industry Association, Latin America Venture Capital Association, *World Wealth Report* and Emerging Markets Private Equity Association ("EMPEA"). Although we do not have any reason to believe any of this information is inaccurate in any material respect, we have not independently verified any such information, and neither we nor any of the initial purchasers make any representation as to the accuracy of such data.

ENFORCEABILITY OF JUDGMENTS

Brazil

We are a corporation (*sociedade por ações*) incorporated under the laws of Brazil and most of our board members and executive officers as well as most of their assets and those of such other persons, are located outside the United States. As a result, it may not be possible for you to effect service of process upon us or such other persons within the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, you may face greater difficulties in protecting your interests in the case of actions against us, our board of directors or executive officers (as the case may be) than would investors in a U.S. corporation. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Brazil.

We have been advised by Campos Mello Advogados, our Brazilian counsel, that final substantiated (i.e., if the grounds for the judgment are contained in the decision), certain (i.e., the obligation to be accomplished in Brazil as ordered by the foreign judgment is clearly defined) and conclusive judgments for the payment of money rendered by any Cayman Islands court or any New York state or federal court sitting in New York City in respect of the Notes may be, subject to the requirements described below, enforced in Brazil. A judgment against us or the persons described above obtained outside Brazil would be enforceable in Brazil without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*) ("STJ") (through a specific lawsuit named *ação de homologação de sentença estrangeira*). Such confirmation would occur if the foreign judgment:

- has been rendered by a competent court;
- was preceded by proper service of process on the parties in accordance with applicable law;
- is effective in the country where it was issued and complies with all formalities necessary for its recognition as an enforcement instrument under the laws of the jurisdiction where it was issued;
- does not violate a final and unappealable decision issued by a Brazilian Court;
- has been duly apostilled by the appropriate authority of the state rendering such foreign judgment in accordance with the Hague Convention of October 5, 1961 Abolishing the Requirement of Legalization for Foreign Public Documents (the "Apostille Convention"), or, if the rendering state is not a signatory to the Apostille Convention, is duly authenticated by a competent Brazilian consulate and is accompanied by a certified translation in Portuguese (*tradução pública juramentada*), except if such procedure was exempted by an international treaty concluded by Brazil;
- does not violate Brazilian public policy, national sovereignty or human dignity;
- is not subject to appeal if it is a decision on the merits of the case; and
- does not violate the exclusive jurisdiction of the Brazilian Judiciary Authority.

There can be no certainty that the confirmation will be obtained, that the process described above will be conducted in a timely manner or that Brazilian courts will enforce a monetary judgment for violation of the United States securities laws with respect to the Notes offered by this Offering Memorandum.

Brazilian counsel have further advised us that original actions predicated on the securities laws of countries other than Brazil may be brought in Brazilian courts and that, subject to applicable law, Brazilian courts may enforce civil liabilities in such actions against us, our directors, executive officers and advisors named in this Offering Memorandum.

A plaintiff (whether or not Brazilian) residing outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that could secure such payment. The bond must have a value sufficient to satisfy the payment of court fees and defendant's attorney fees, as determined by a Brazilian judge. This requirement may not apply to counterclaims enforcement, extrajudicial enforcement instrument, the enforcement of foreign judgments that have been duly confirmed by the STJ, or when the bond requirement was exempted by an international treaty concluded by Brazil.

Investors may also have difficulties enforcing original actions brought in courts in jurisdictions outside the United States for liabilities under the U.S. securities laws.

Cayman Islands

We are duly licensed and qualified to do business as a branch of a foreign bank according to the laws of the Cayman Islands. The Cayman Islands has a less-developed body of securities laws as compared to the United States and provides protection for investors to a significantly less extent.

We have been advised by Ogier, our Cayman Islands counsel, that although currently there is no statutory enforcement in the Cayman Islands of judgments obtained in the State of New York, or Brazil, a judgment obtained in such jurisdictions may be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination or re-litigation of the matters adjudicated upon, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment: (i) is given by a foreign court of competent jurisdiction; (ii) is final and conclusive; (iii) is not in respect of taxes, a fine or a penalty; (iv) was not obtained by fraud; and (v) is not of a kind the enforcement of which is contrary to natural justice or public policy of the Cayman Islands.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains estimates and forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements appear throughout this Offering Memorandum, principally in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

These estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, cash flow, liquidity, prospects and the trading price of the Notes. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many significant risks, uncertainties and assumptions and are made in light of information currently available to us.

Our estimates and forward-looking statements may be affected by the following factors, among others:

- the impact of the worldwide financial and economic environment on Brazil and on the other markets in which we operate;
- general economic, political and business conditions both in Brazil and abroad, including, in Brazil, developments and the perception of risks in connection with ongoing corruption investigations and the policies and potential changes under the new administration of President Jair Bolsonaro, who was sworn into office on January 1, 2019, any of which may negatively affect growth prospects in the Brazilian economy as a whole;
- our ability to execute our business strategies, financial plans and investment policies, particularly following initiatives to preserve capital and liquidity, including the disposal of several relevant assets, in the aftermath of allegations against our former chief executive officer and controlling shareholder in criminal proceedings relating to the *Lava Jato* investigation;
- fluctuations in inflation, interest rates and exchange rates in Brazil and the other markets in which we operate;
- our ability to sustain and improve performance;
- increases in compulsory deposits and reserve requirements;
- credit and other risks of lending, such as increases in defaults by borrowers, other loan delinquencies and increase in the possibility for loan losses;
- our ability to obtain financing on reasonable terms and conditions;
- trends and competition in the Brazilian banking and financial services industry;
- our ability to remain competitive in our industry with increasing industry consolidation;
- the impact of future legislation and regulation on our business, including with respect to the capital requirements applicable to us and certain of our subsidiaries;
- our level of capitalization;
- governmental intervention resulting in changes to the economy, applicable taxes or tariffs or the regulatory environment in Brazil and the other markets in which we operate, including with respect to the regulation of financial institutions;
- adverse legal or regulatory disputes or proceedings;
- the recruitment, compensation and retention of key personnel;

- *force majeure* events that affect Brazil and the other markets in which we operate;
- our ability to detect and prevent money laundering and other illegal activities;
- our ability to protect personal data;
- our ability to protect our reputation;
- our dependence on the proper functioning of information technology systems; or
- other risk factors discussed in this Offering Memorandum under the caption "Risk Factors."

The words "believe," "understand," "will," "can," "may," "estimate," "continue," "anticipate," "intend," "expect," "seek," "should" and "could," among other similar words, are intended to identify forward-looking statements. Forward-looking statements speak only as of the date they were made, and we do not undertake the obligation to update publicly or to revise any forward-looking statements after we distribute this Offering Memorandum as a result of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this Offering Memorandum might not occur and our future results may differ materially from those expressed in or suggested by these forward-looking statements. Forward-looking statements involve risks and uncertainties and are not a guaranty of future results. As a result you should not make any investment decision on the basis of the forward-looking statements contained herein.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Applicable Accounting Standards and Currency of Financial Statements

We maintain our books and prepare our consolidated financial statements in *reais* in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank ("Brazilian GAAP"), which are based on (i) Brazilian Law N. 6,404/76, as amended ("Brazilian Corporations Law"); and (ii) the accounting standards established by the Standard Chart of Accounts for Financial Institutions (*Plano Contábil das Instituições do Sistema Financeiro Nacional*) ("COSIF"), the Central Bank and the CMN.

While Brazilian Corporations Law generally introduced the process of converting the financial statements of Brazilian companies into International Financial Reporting Standards ("IFRS"), the Central Bank did not fully adopt this approach as it applied to financial institutions. Instead, pursuant to Central Bank Communication No. 14,259, financial institutions that meet certain criteria are required to prepare supplemental consolidated financial statements which follow certain of the IFRS standards as originally issued by the International Accounting Standards Board ("IASB") while continuing to also report in accordance with Brazilian GAAP as applicable to institutions authorized to operate by the Central Bank.

As a result of our registration as a public company with the CVM, we are also required to prepare consolidated financial statements in accordance with IFRS. However, the consolidated financial statements included in this Offering Memorandum were prepared in accordance with Brazilian GAAP as stipulated by Central Bank rules, and no financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See "Annex A: Principal Differences Between Brazilian GAAP and IFRS."

Financial Statements

Overview

The financial information contained in this Offering Memorandum has been derived from our books and records and includes the following consolidated financial statements, included elsewhere in this Offering Memorandum:

(i) our unaudited interim consolidated financial statements as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017 and the notes thereto; and

(ii) our audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015 and the notes thereto.

Emphasis Paragraphs Included in the Auditors' Reports

The auditor's reports for our consolidated financial statements included elsewhere in this Offering Memorandum include emphasis-of-matter paragraphs related to:

(i) *tax credits recorded in jointly-controlled subsidiary*. As of September 30, 2018 and as of December 31, 2017, 2016 and 2015, Banco Pan had deferred tax assets recorded on its balance sheet amounting to R$3.1 billion, R$3.1 billion, R$3.2 billion and R$3.3 billion, respectively, recognized based on long-term projections of future taxable income on which the deferred tax assets will be realized. These deferred tax realization projections were reviewed by Banco Pan's management based on current and future scenarios analyses and approved by its board of directors, relying on certain assumptions related to macroeconomics indices for production and funding costs. The realization of these tax credits, within the estimated realization period, depends on delivery of these projections and business plan as approved by the management bodies of Banco Pan;

(ii) *foreign subsidiary equity pick-up*. As mentioned in Note 13 to Banco BTG Pactual's unaudited interim consolidated financial statements as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017, Banco BTG Pactual holds investments in EFG, but Banco BTG Pactual usually discloses its consolidated financial statements before it has access to the financial information of EFG. This is due to the fact that EFG is a publically listed company on the SIX Swiss Exchange Ltd. and, accordingly, cannot disclose its financial information to Banco BTG Pactual or any single shareholder prior to releasing its consolidated financial statements to the market. As a result, the equity pick-up is recognized in a period longer than permitted under the rules of the Central Bank, and any adjustment recorded by EFG are only considered in a later period by Banco BTG Pactual; and

(iii) *separate financial statements.* Banco BTG Pactual prepared a separate set of individual financial statements of Banco BTG Pactual on a standalone basis for the nine months ended September 30, 2018 and for the years ended December 31, 2017, 2016 and 2015. Such individual financial statements were also prepared in accordance with accounting principles adopted in Brazil applicable to institutions authorized to operate by the Central Bank.

Functional Currency

Our consolidated financial statements are presented in *reais*, which is the currency of the primary economic environment in which we operate. The financial statements of our companies abroad, originally stated in their functional currencies, were translated into *reais* using the following exchange rates: (i) balance sheet items were translated into *reais* using the relevant closing rates at the end of the applicable reporting period and (ii) income statement items were translated into *reais* using the monthly average rate for the nine months ended September 30, 2018 and using the relevant closing rates as of the end of the period for all other reporting dates. The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature for the years ended December 31, 2016 and 2015.

Beginning on January 1, 2017, the effects of foreign exchange variations on investments abroad are recorded as fair value adjustments in our shareholders' equity.

Our Unaudited Adjusted Income Statement

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an unaudited adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015 and a discussion of such unaudited adjusted income statement. Our unaudited adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. The classification of the line items in our unaudited adjusted income statement, however, has not been audited or reviewed by our independent auditors and materially differs from the classification of the corresponding line items in our income statement, as further described below.

Below is a summary of certain material differences between our unaudited adjusted income statement and our income statement (which is derived from our consolidated financial statements):

	Unaudited Adjusted Income Statement	**Income Statement**
Revenues..................	Our revenues are denominated in *reais*, our functional currency and the reporting currency used in our financial statements. We present our revenues segregated by business unit, which is the functional view used by our management to monitor our performance. To produce our unaudited adjusted income statement, each transaction is allocated to a business unit, and the	Our revenues are denominated in *reais*, our functional currency and the reporting currency used in our financial statements. Our revenues are presented in accordance with Brazilian GAAP, which follows the standards established by COSIF. COSIF determines a segregation of revenues that generally follows the contractual nature of the transactions and is in line with the

	Unaudited Adjusted Income Statement	Income Statement
	associated revenue, net of transaction and funding costs (when applicable), is reported as generated by such business unit.	classification of the assets and liabilities, from which such revenues are derived, reported in our balance sheet. Revenues are presented without deduction of corresponding financial or transaction costs.
Expenses	Our revenues included in our unaudited adjusted income statement are presented net of certain expenses, such as trading losses, as well as transaction costs and funding costs which can be directly associated to such revenues. We also deduct from our revenues included in our unaudited adjusted income statement the cost of funding of our net equity, which is separately reported as revenue under “interest and other.” General and administrative expenses that are typically incurred to support our operations are presented separately in our unaudited adjusted income statement.	We present the break-down of our expenses in accordance with standards established by COSIF. Pursuant to COSIF, financial expenses, such as the costs incurred to fund our positions, and trading losses, such as the net losses incurred in connection with derivative transactions, are presented as separate line items and are not deducted from the financial revenues with which they are associated. Transactions costs, such as brokerage fees, are usually capitalized as part of the acquisition cost of assets and liabilities in our inventory. General and administrative expenses typically incurred to support our operations are presented separately in our income statement.
Revenues from our Sales and Trading Unit	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives, equity transactions, our insurance business and commodities transactions and from foreign exchange variations. Revenues are also deducted from transaction costs.	Revenues from sales and trading are included in numerous revenue line items of our income statement, including securities, derivative financial income, foreign exchange and mandatory investments. Losses from sales and trading, including trading losses, derivative expenses and funding and borrowings costs are presented as financial expenses in separate line items.
Revenues from our Corporate Lending Unit	Revenues are presented net of funding costs, including the cost of funding our net equity and allowance for loan losses.	Revenues from corporate lending are included in certain revenue line items of our income statement, including credit operations, securities and derivative financial income. Losses from corporate lending, including derivative expenses, are presented as financial expenses in separate line items.
Revenues from our Participations Unit...	Revenues consist of our proportional share of the profits and losses of (i) Banco Pan, (ii) Pan Seguros, (iii) Pan Corretora, (iv) Maybrooke Holdings S.A. (“Maybrooke”) (prior to its sale in February 2017), (v) EFG (since November 2016), (vi) BSI in the last quarter of 2016, prior to its sale and (v) Engelhart CTP (starting in October 2016, after the spin-off of most of our commodities business). All investments are	The results from our participations in the same companies are recorded as equity in the earnings of associates and jointly controlled entities.

	Unaudited Adjusted Income Statement	Income Statement
	accounted for using the equity pick-up method and the results are gross of the funding costs applied.	
Revenues from our Principal Investments Unit	Revenues are presented net of funding costs, including the cost of funding our net equity, and of trading losses, including losses from derivatives and from foreign exchange variations. Revenues are also reduced by associated transaction costs, and by management and performance fees paid to asset managers and other fund service providers, including our own asset management unit.	Revenues from principal investments are included in different revenue line items of our income statement, including securities, derivative financial income and equity in the earnings of associates and jointly controlled entities. Losses from principal investments, including trading losses and derivative expenses, are presented as financial expenses in separate line items.
Salaries and benefits	Salaries and benefits include mainly compensation expenses and corresponding social security contributions.	Generally recorded as personnel expenses.
Bonus	Bonus expenses include our cash profit-sharing plan expenses, calculated as a percentage of our net revenues.	Generally recorded as employees' statutory profit-sharing.
Retention expenses ...	Retention expenses include the pro rata accrual of employee retention program expense.	Generally recorded as personnel expenses.
Administrative and others	Administrative and Others are expenses such as consulting fees, offices, IT, travel, and expenses for presentations and conferences as well as other general expenses.	Generally recorded as other administrative expenses, tax charges and other operating expenses.
Goodwill amortization	Goodwill amortization of investments in operating subsidiaries other than private equity investments.	Generally recorded as other operating expenses.
Tax charges, other than income tax	Tax charges are mostly comprised of taxes applicable to our revenues which, by their nature, are not considered by us as transaction costs, including PIS, COFINS and ISS. We also reclassify overhedge impacts from revenues to taxes.	Generally recorded as tax charges other than income taxes.
Income tax and social contribution ..	Income tax and other taxes applicable to net profits. We also reclassify overhedge impacts from revenues to taxes.	Generally recorded as income tax and social contribution.

The differences discussed above are not exhaustive and should not be construed as a reconciliation of our unaudited adjusted income statement to our income statement as derived from our financial statements. The business units presented in our unaudited adjusted income statement should not be presumed to be separate stand-alone operating segments under IFRS because our management does not rely on such information for decision-making purposes. Accordingly, our unaudited adjusted income statement contains data about our business, operating and financial results that are not directly comparable to our income statement or our financial statements and should not be considered in isolation or as an alternative to such income statement or financial statements. In addition, although our management believes that our unaudited adjusted income statement is useful for evaluating our performance, our unaudited adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles and should not be construed as segment information under IFRS 8 because our management does not rely on this information for decision-making purposes. Furthermore, our unaudited adjusted income statement has not been audited or reviewed by our independent auditors.

Assets Under Management

Assets under management ("AUM") consists of clients' assets (including our private wealth clients) that we manage across a variety of asset classes, including fixed income, money market, multi-asset funds and private equity funds, and that are not recorded in our balance sheet.

Assets Under Administration

Assets under administration ("AUA") represents all the financial properties and assets to which we provide administration services, including proprietary, third parties and wealth management funds and/or collective investment vehicles. These assets are not necessarily managed by our asset management unit.

Wealth Under Management

Wealth under management ("WUM") consists of private wealth clients' assets that we manage across a variety of asset classes, including fixed income, money market, multi-asset funds and private equity funds, including through our asset management products, and that are not recorded in our balance sheet. Accordingly, a portion of our WUM is also allocated to our AUM to the extent that our wealth management clients invest in our asset management products.

Average Balances

Unless the context requires otherwise, average balances of (i) our Brazilian government bonds portfolio, credit portfolio, repurchase agreements, reverse repurchase agreements, bank certificates of deposit (*Certificado de Depósito Bancário*) ("CDB"), and interbank certificates of deposit, C*ertificado de Depósito Interbancário* ("CDI"), funding portfolio were calculated for (a) any full-year, by adding the initial balances of the year with the final balances of each quarter in the year in respect of which average balance is being reported and dividing the sum of such balances by the sum of the relevant quarter plus one and (ii) our broader credit portfolio which is presented exclusively in the unaudited adjusted income statement, and includes loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), were calculated for any full-year, by adding the initial balances of the year with the final balances of each quarter in the year in respect of which the average balance is being reported and dividing the sum of such balances by the sum of the relevant quarter plus one.

Merchant Banking and Private Equity Activities

Our private equity activities are part of our asset management business unit and refer to our management of private equity funds whose capital is sourced from third party qualified investors (including other members of the BTG Pactual Group) as well as our own capital. When we or other members of the BTG Pactual Group make investments in funds and investment vehicles managed by us, we refer to such activities as merchant banking activities. Merchant banking activities are part of the principal investments business unit.

Rounding

Certain percentages and other amounts included in this Offering Memorandum (including our consolidated financial statements) have been rounded off to facilitate their presentation. Accordingly, figures shown as totals in certain tables may not be an arithmetical aggregation of the figures that precede them.

Convenience Translation

Solely for the convenience of the reader, we have converted certain amounts contained in the sections entitled "Summary," "Capitalization," "Selected Financial and Operating Information," and elsewhere in this Offering Memorandum from *reais* into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$4.0039 to US$1.00, which was the exchange rate in effect as of September 30, 2018, as published by the Central Bank on its electronic information system, SISBACEN. The U.S. dollar equivalent information presented in this Offering Memorandum are provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real/*U.S. dollar exchange rate may fluctuate widely, and the exchange rate as of September 30, 2018 may not be indicative of future exchange rates. We have not updated the translation rates used above for a most recent date as the translation have been performed solely for convenience and therefore should not be considered in making an investment decision. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

SUMMARY

This summary contains selected information about us. It does not contain all of the information that an investor should consider before making a decision to invest in the Notes. For further information on our business and this offering, you should read this entire Offering Memorandum carefully, including our consolidated financial statements, the related notes and the sections "Presentation of Financial and Other Information," "Summary Financial and Operating Information," "Risk Factors," "Selected Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We are a Latin American multi-service investment bank, asset manager and wealth manager. In addition, we have established a successful global asset management platform, along with strong international investment and distribution capabilities. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have local coverage offices across Latin America, including in Brazil, Chile, Colombia, Mexico and Argentina, and have an international presence focused on distribution of a wide variety of banking products in Latin America and managing global clients' funds in New York and London. Through this platform, we provide a comprehensive range of financial services to a Latin American and global client base that includes corporations, institutional investors, governments and high net worth individuals ("HNWI").

Our Business Units

Our operational strategy is focused on five main business units consisting of:

- **Investment Banking**, which provides financial advisory and capital markets services to companies;
- **Corporate Lending**, which offers financing and loan guarantees to companies;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and equities, derivatives, interest rate and foreign exchange transactions, as well as energy, insurance and reinsurance products and services;
- **Asset Management**, which offers asset management services with a broad range of products across several international asset classes, especially in Latin America, to local and international clients; and
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI and institutions. We also offer investment products through BTG Pactual Digital, our recently launched online retail platform.

We continue to also hold ownership interests in companies as part of our Principal Investments business unit and, separately, hold strategic investments in certain other companies both in Brazil and abroad as part of our Participations business unit, each as described below:

- **Principal Investments**, consisting of, as of September 30, 2018: (i) seed capital in certain of our investment products as a minority investor, with the objective that any such investments usually represent less than 10% of our total investments, (ii) a 17.4% stake in our infrastructure fund; (iii) small investments in real estate funds; and (iv) certain other legacy assets.
- **Participations**, consisting of, as of September 30, 2018: (i) a co-controlling interest (with 50.6% ownership) in Banco Pan, a commercial and consumer bank, focused on loans, consumer credit, payment-deducted loans and middle market loans; (ii) a 30.00% ownership interest in EFG, following our sale of BSI to EFG; (iii) a 50.99% ownership interest in Pan Seguros, a Brazilian insurance company providing personal property insurance to individuals; (iv) a 51.00% ownership interest in Pan Corretora, a Brazilian insurance broker with activities in diverse insurance segments; and (v) an approximately 19.01% ownership interest in Engelhart CTP, a global commodities trading platform, which we spun-off but in which we continue to hold a minority interest.

We are committed to expanding our platform to further strengthen our presence and product offering across Latin America. Following our successful completion of the acquisitions of Celfin, a leading broker dealer in Chile (with operations in Peru and Colombia), and Bolsa y Renta, a leading broker dealer in Colombia in 2012, we have consolidated and expanded our Latin American franchise, including the opening of a bank in Chile in December of 2014 and the opening of our local offices in Bogota and Medellin, Colombia, Mexico City, Mexico and Buenos Aires, Argentina, each focusing on advisory, asset management and wealth management services, as well as providing a broad range of sales and trade offerings through local broker-dealers. Beyond our initiatives in Latin America, we are focused on continuing to strengthen our broad global asset management capabilities, where we have reestablished our teams and capabilities, grown our AUM, and presented benchmark performance.

We are focused on offering innovative products and services to meet our clients' evolving demands, including through expanding our presence and product offerings in Latin America; and capturing banking disintermediation opportunities arising from technological developments in Brazil and the increasing maturity of Brazilian investors. With these objectives in mind, we recently developed an on-line business platform, BTG Pactual Digital, which is focused primarily on offering several products similar to those products offered to our wealth management clients, including access to our or third party's investment funds, fixed income products and private pension plans.

Our Results and Financial Condition

For the nine months ended September 30, 2018 and the year ended December 31, 2017, our revenues, as derived from our unaudited adjusted income statement, were R$3,803.2 million and R$5,527.5 million, respectively, and our net income was R$1,808.3 million and R$2,383.9 million, respectively. As of September 30, 2018 and December 31, 2017, our shareholders' equity was R$19,180.2 million and R$18,523.7 million, respectively, and we managed a total of R$184.2 billion and R$144.9 billion, respectively, in our asset management unit and R$115.5 billion and R$86.9 billion, respectively, in our wealth management unit. Our different business units produce a combination of fee and trading revenues that have allowed us to generate positive earnings growth and returns on equity through varying and at times difficult economic and market conditions. For the five years ended December 31, 2017, our average return on equity was 22.6%, with no year being lower than 13%.

The following table shows key performance data for Banco BTG Pactual for the periods indicated:

	As of and for the year ended December 31,			**As of and for the nine months ended September 30,**	**CAGR[6]**
	2015	**2016**	**2017**	**2018**	**2015-2017**
	(R$ millions, except percentages)				
Total Revenue[1][4]	11,080.9	8,797.1	5,527.5	3,803.2	(29.4%)
Net Income	5,623.5	3,408.6	2,383.9	1,808.3	(34.9%)
Shareholders' Equity	19,713.3	17,727.2	18,523.7	19,180.2	(3.1%)
Return on Average Equity ("ROAE")[2][3][4] (%)	32.7%	18.2%	13.2%	14.4%	n.a.
AUM and AUA (in R$ billions)[4]	192.5	115.7	144.9	184.2	(13.2%)
WUM (in R$ billions)[4]	83.9	73.7	86.9	115.5	1.8%
BIS Capital Ratio[4][5] (%)	15.5%	21.5%	18.0%	17.8%	n.a.

(1) Derived from our unaudited adjusted income statement.

(2) We determine our average shareholders' equity based on the initial and final net equity for the period.

(3) Figures are presented on an annualized basis.

(4) Unaudited.

(5) Bank of International Settlements.

(6) Compound annual growth rate.

Our Partnership

We operate as a partnership, with 234 Partners as of September 30, 2018, who, in almost all cases, are also executives of Banco BTG Pactual. As of September 30, 2018 the Partners owned approximately 83.2% of our equity, and approximately 72.8% of our equity was part of our partnership, and we refer to such equity as "Partnership Equity." Our 36 most senior Partners, who we consider to be key contributors to our success, owned approximately 79.0% of our partnership holding company and 65.7% indirectly of our equity as of September 30, 2018.

We believe the key to our success is our partnership model. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) substantially enhances the integration of our seven complementary business units and maximizes cross-selling of our products, (iii) allows us to maintain an intense commitment to our clients, and identify and capitalize on opportunities in the Latin American and global financial markets, (iv) substantially enhances our ability to attract the best available talent and (v) greatly facilitates our ability to consistently maintain a lean and cost efficient organizational structure. As a result of this model, and the integration of our businesses, we have a diversified revenue mix and low cost-to-income ratio and have consistently achieved financial results that we believe exceed those of our competitors.

A key feature of our partnership model is that our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives). Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the BTG Pactual Group in its entirety. We believe that the substantial ownership position of our Partners and the maintenance of our partnership in which Partnership Equity is bought and sold at book value on a meritocratic basis will (i) ensure the continued commitment of our most important executives to our success following our initial public offering, (ii) permit us to maintain our unique culture and the competitive advantage it grants us and (iii) permit us to attract and retain future generations of talent, all of which create an unprecedented alignment of the interests of our senior management with the interests of public shareholders. See "Our Partnership."

Our Core Values

Our organization is built and operates on the following set of 12 core values:

Strategic Focus: How we set our strategic direction

- Client focused
- Alpha-based
- Global thinking
- Long-term ambition

People: How we work

- Partnership
- Teamwork
- Hard-working and hands-on
- Grow our own talent

Performance Management: How we achieve superior results

- Meritocracy

- Entrepreneurship
- Excellence
- Bottom line driven and cost conscious

We believe that the culture that results from these core values differentiates us in the market, leads to an integrated organization and allows for superior results.

Our Competitive Strengths

We believe that our competitive strengths include:

Substantial Presence in Latin America, Where We are a Dominant Investment Bank, Asset Manager and Wealth Manager, with a Leading Franchise in the Businesses We Operate

We are one of the leading players in Latin America's financial services industry, which we believe to be one of the most attractive financial services markets globally. Given our substantial presence in all of the major financial markets of the region, we believe that we are positioned to benefit from the growth and further development of Latin America.

We are one of the premier brands for investment banking, asset management and wealth management in Latin America and we are one of the largest investment banks based in the emerging markets. Among other things, we:

- were book-runners in approximately 51.6% of all public equity offerings completed in Brazil from 2004 through September 30, 2018, and the leading equity underwriter in terms of number of book-managed transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on B3 in 2004, 2005, 2007, 2009, 2012 and 2014, the second largest equity underwriter in 2006, 2011 and 2016 and the third largest underwriter in 2013, according to ANBIMA. In 2010, we were the leading equity underwriter in terms of total deals completed according to ANBIMA. We continue to build market share in Latin America beyond Brazil and were the largest equity underwriter in Latin America in 2013 in both number of transactions and volume and the second largest in number of transactions in 2014, according to Dealogic;

- were one of the leading Brazilian M&A advisory investment banks according to Thomson and provided advisory services in 419 announced M&A transactions from January 1, 2010 through September 30, 2018. We are rapidly expanding our M&A advisory services in Latin America outside of Brazil, both in local and cross-border transactions, and in 2013, we were ranked first in M&A both in number of transactions and volume and the second largest in number of transactions in 2014, according to Dealogic;

- have an equity research team named among the best research teams in Brazil from 2006 to 2017 and the best research team in Brazil in 2017 and 2018 and among the best research teams in Latin America from 2012 to 2018, according to *Institutional Investor*;

- are one of the largest equity brokerage houses in Brazil in terms of total volume of securities traded, according to B3;

- are one of the largest asset managers in Brazil, according to ANBIMA (December 2017), with combined AUM and AUA in the amount of R$184.2 billion as of September 30, 2018;

- had approximately R$115.5 billion of WUM as of September 30, 2018 and were named by *Euromoney* as one of the top three Brazilian providers of Best Overall Private Banking Services from 2011 to 2014; and

- received a number of awards recognizing the excellence of our investment banking, asset management and wealth managements platforms, including: being named Best Equity Sales team in Brazil in 2017 by *Institutional Investor* in 2017; Best Investment Bank in Brazil, Chile and Colombia and Best Wealth

Management Provider by *World Finance* in 2017; Best Investment Manager in Brazil, Chile and across Latin America in 2017 by *Euromoney* magazine; Best Family Office Services in Brazil, Best Investment Banking Capabilities, Best Asset Management Capabilities and Best Research and Asset Allocation Advice, each in 2016 by *Euromoney* magazine; Wealth Management Company of the Year and Investment Bank of the Year in Colombia in 2017 by *The European*; Best Variable Income Fund Manager in Brazil by Standard & Poor's and *Valor Econômico*; Best Global Macro Hedge Fund in 2017 by *Eurohedge;* Best Variable Income Manager in 2017 by Standard & Poor's and *Valor Econômico*; Best Bank to Invest (in digital banks category) in 2017 by FGV.

We believe we have a vast knowledge of the Latin American financial markets, can identify business opportunities and trends more quickly and accurately than our competitors in Latin America and, due to our flat management structure and strong capital base, can act more effectively on such business opportunities.

We also have an extensive network of long-standing business contacts and corporate relationships, and we believe we have a strong brand and a reputation for excellence among our target corporate and individual client base.

Distinctive Culture Stressing Intellectual Capital, Meritocracy, Entrepreneurship and an Unprecedented Alignment of Interests

We operate under a partnership model and a flat management structure that emphasizes the value of intellectual capital, entrepreneurship and meritocracy in all regions and markets in which we operate. We believe this model is the key to our success. We are managed by our Senior Management Team covering our Brazilian and international operations. As of September 30, 2018, we had 234 Partners that, owned, directly or indirectly, approximately 83.2% of our equity.

We consider our personnel to be our most valuable asset and believe that our culture and partnership structure allows us to attract, retain and motivate highly talented professionals. Our recruiting strategy and training are aimed at producing future Partners. The commitment of our personnel to our culture and success is reinforced through the recognition of individual merit and a variable compensation system that rewards teamwork, entrepreneurship and initiative, and eventually results in our most valuable professionals becoming vested in the success of our business as Partners. We believe that our partnership model, recruitment strategy and management structure result in our achieving substantially less turnover at the middle and senior management levels than our Latin American and international competitors.

Our culture also stresses an alignment of interests between our shareholders, including our public shareholders, and our professionals. Virtually all of our key professionals are Partners and their respective equity ownership in Banco BTG Pactual represents significant portions of their personal wealth (and in most cases, the vast majority of such wealth). We believe that this creates an unprecedented alignment of interests that encourages (i) a rigorous analysis of the risks that we take in our trading activities, (ii) our pursuit of strategies that emphasize long-term, consistent and profitable growth, (iii) a long-term commitment to our clients and our reputation, (iv) the maintenance of a lean organizational structure and decision-making process and (v) a strong focus on cost controls.

Consistent with our long standing strategies, we have taken concrete steps aimed at ensuring that our partnership model remains in effect for the foreseeable future so that both our Partners and our public shareholders continue to enjoy the financial and strategic benefits which we derive from this model. See "Our Partnership."

Our Track Record of Strong Growth with Consistent Profitability through Various Economic Cycles while Maintaining Strong Capital Ratios and Rigorous Risk Controls

Our Senior Management Team is based in all major markets in which we operate and has many years of experience leading us through various economic cycles, including the Asian crisis (1997), the Russian crisis and Long Term Capital Management crisis (1998), the crisis following Brazil's currency devaluation (1999), the end of the so-called "Internet bubble" (2000-2001), the Argentine debt default (2002), the market volatility related to the Brazilian presidential elections (2002-2003), the international financial crisis (2008) and, more recently, the economic and political instability and economic recession in Brazil due in part to ongoing money laundering and corruption investigations in connection with corruption allegations (the so-called Lava Jato investigations) consisting, among other things, of illegal payments made by Brazilian companies to officers, directors and other employees of Petróleo Brasileiro S.A. (“Petrobras”), a Brazilian state-controlled energy company, in order to influence commercial decisions.

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last three years ended December 31, 2017. For the five years ended December 31, 2017, our average return on equity was 22.6%, with no year being lower than 13%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. We believe that our track record of consistently maintaining a higher capital ratio than that required by the Central Bank, while consistently generating attractive returns on equity, highlights our ability to deploy capital efficiently.

Similarly, we seek to maintain a rigorous discipline of risk management and internal controls. We monitor our risks on a daily basis; looking at all dimensions that we believe are relevant to our operations, including market risk, credit risk, liquidity risk, counterparty risk and operational risk. In our risk control framework, we adopt risk models that allow us to measure risks based on the past behavior of markets (“VaR”) and on our stress test scenarios and simulations. Our senior Partners, who are responsible for the management of our risks, are closely involved in the execution of the daily operations, and have a deep understanding of the markets in which we conduct our operations. We also have a separate risk management team led by a member of our Senior Management Team. As a consequence, risk management is an integral part of our decision-making process, which we believe has allowed us to maintain consistent returns, and to optimize the use of our capital.

We believe that our risk management policy applies the best practices, which have been tested in extremely adverse conditions, including during the 2008 international financial crisis, and the more recent political and economic crisis in Brazil that started in 2015. As a result of the political and economic crisis in Brazil and our involvement therein, we have (i) adjusted our corporate governance structure, including our senior management team and control group; (ii) reduced significantly our portfolios in order to generate excess liquidity; and (iii) reduced linearly across our business units our leverage and VaR, while strengthening our capital ratios. As of September 30, 2018, we benefit from R$45.3 billion in cash and cash equivalents, a Basel ratio of 17.8%, and a balance sheet leverage ratio of 8.5 times our equity at, which has significantly improved our compliance structure and positioned us to provide greater stability to our clients, support the growth of our franchise, and fully reignite our corporate lending business once unsecured funding stabilizes. In addition, given that the vast majority of our Partners’ personal wealth consists of their respective equity interests in the BTG Pactual Group, we believe that the interests of the persons taking and monitoring our risks are more fully aligned with our non-executive shareholders than is the case at our competitors, reinforcing our rigorous risk control and long-term profit strategies.

Experienced Management Team and Motivated Work Force

We have a group of highly talented professionals with a strong reputation in the Latin American and international financial markets. This group was responsible for establishing and implementing the strategies that permitted us to become one of Latin America’s leading financial institutions. Our team includes numerous executives with substantial experience in Brazilian and international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking, and asset management business units. These team members have been selected based on both their previous histories of success and our belief that they shared our distinctive business culture and would serve as the cornerstones for implementing this culture in our international offices and in our businesses generally going forward.

Additionally, our strong and broad network of contacts, together with our positive reputation in the financial markets, primarily in Latin America, allow us to obtain additional business contacts in Asia, the Middle East, Europe and North and South America. We continue to attempt to leverage these contacts to strengthen many of our principal businesses and realize additional revenues.

Our Diversified Portfolio of Businesses

We believe that we have successfully diversified our business operations and sources of revenue to maximize opportunities for leveraging our client relationships across business units. In addition, we believe that we have achieved geographic diversification which has positioned us to exploit changes in market conditions throughout the world.

We believe that our strong market positions across the spectrum of financial services enable us to adapt quickly and prosper under changing market conditions. Our entrepreneurial culture leads us to consistently seek new and diversified revenue sources, including opportunities outside our historical target market in Brazil, such as our acquisitions throughout Latin America, including in Mexico and Argentina, and through our online platform, BTG Pactual Digital. We believe that our geographic diversification and expanding portfolio of businesses increases our potential to successfully grow our business and to maintain our profitability.

In addition, we believe our market strength within each of our business units allows us to maximize the value we obtain from our client relationships by using an integrated approach to cross-sell the services that we provide. For example, many of our significant asset and wealth management clients generated their wealth through public offerings that we have underwritten. This cross-selling is particularly advantageous in Latin America, where many wealthy families control a significant share of local businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

We believe that our solid research capabilities also contributed to our significant participation in equity underwritings in Latin America in addition to generating significant brokerage commissions for our sales and trading unit. Consequently, we currently provide our clients with both high quality asset and wealth management and financial advisory services – both in capital markets and mergers and acquisitions. In addition, our sales and trading and principal investments units cover multiple markets and different geographies, with a focus on building long-term relationships and delivering high quality execution.

History of Successfully Integrating Acquired Businesses

We have acquired and successfully integrated several businesses, which have contributed substantially to our strong track record of growth, the diversification of our business operations and the geographic diversity of our sources of income. Through selective acquisitions, we have: (i) expanded our existing business lines geographically; (ii) increased the products and services we offer to our clients; (iii) increased our client base; and (iv) achieved substantial new revenue sources that we believe neither we nor the businesses we acquired would have achieved on a stand-alone basis.

For example, in 2012, we successfully consolidated our position as a true leader in financial services in Latin America when we acquired Celfin, a leading broker dealer in Chile (with operations in Peru and Colombia), and Bolsa y Renta, a leading broker dealer in Colombia. We identified these acquisitions based on their strategic value to our business and their strong fit with our unique culture. We have leveraged their existing operations by distributing Brazilian and international asset management, wealth management and corporate finance products to their previously existing client base and by significantly expanding our client base in their respective markets by offering a broader and more diverse range of products to larger and more sophisticated corporate clients and HNWIs.

We believe our history of successfully integrating new businesses and replicating the model we first implemented in Brazil has provided us with experience that will be invaluable as we continue to expand into new businesses and geographies, whether through additional acquisitions or organically.

Our Strategy

Our principal strategies are:

Strengthen our Latin America Operations and Capitalize on its Outstanding Growth Prospects

We believe that the growth of the financial services sector in Brazil and in a number of other countries in Latin America, such as Chile, Colombia, Peru and Mexico, will continue and further develop in the future. These countries exhibit a number of characteristics that we believe provide the basis for growth while these countries are still far from the financial maturity of fully developed economies. These characteristics include:

- a relatively positive macroeconomic environment that is no longer destabilized by hyperinflation and external debt arrears;
- political stability associated with democracy and freedom;
- a sound institutional and regulatory framework, including well-established rules of arbitration;
- improved corporate governance;
- sophisticated and, in some cases, deep domestic financial markets;
- highly attractive investment opportunities across different segments;
- a growing middle market and middle income consumer base fostering the growth of the asset management industry, insurance and pension funds;
- numerous domestic companies well-positioned to continue to tap international markets, with several others actively pursuing international markets; and
- a sustainable inflow of foreign direct investments.

Large investment opportunities have been created over the last several years in Latin American countries, including in connection with infrastructure investments in Brazil, Mexico, Peru, Argentina and Colombia, among others. We believe these opportunities, combined with sustained growth in domestic income and consumption and potential demand for further improvements, will continue to foster capital expenditures in Latin American countries. We expect that strong economic growth elsewhere in Latin America, especially Chile, Peru, Argentina, Colombia and Mexico, will lead to increased capital expenditures and investments within those economies.

Multinational companies seeking higher growth continue to expand in Latin America, including through acquisitions, while at the same time numerous Latin American companies have become multinational enterprises that are actively pursuing international acquisitions. A greater percentage of the Latin American population is entering into higher income classes and becoming potential consumers of asset and wealth management products. Also, the middle market and low income consumer base is expected to continue to grow as the economy further develops, especially in the medium to long term scenario.

We intend to continue to take advantage of favorable Latin American market conditions by using our expertise and ability to consolidate and expand our franchises and leverage our reputation among our current and prospective Latin American and international clients interested in emerging markets-related opportunities by, among other things:

- actively marketing our equity and debt capital markets capabilities to Latin American issuers, with a view towards maintaining and expanding our position as the leading underwriter both in Brazil and in other Latin American countries;

- expanding our M&A advisory business, both for Latin American companies seeking to acquire businesses outside their home countries, and foreign companies seeking to acquire Latin American businesses and assets;

- continuing to develop our leading asset management and wealth management businesses in Brazil while further expanding our footprint within other Latin American markets;

- continuing to develop credit, derivatives and other sophisticated FICC products for our corporate clients to meet their needs as they grow both in Latin America and internationally;

- taking advantage of private sector and pre-IPO investment opportunities sourced through our extensive Latin American network;

- continuing to develop the scale and diversity of our products and capabilities of all our offices; and

- continuing to expand our businesses and presence in the region, taking advantage of the expected growth in Latin American economies.

Following our successful completion of two acquisitions in Latin America of Celfin and Bolsa y Renta in 2012, we have continued the implementation of strategies to consolidate our Latin American franchise, including the opening of a bank in Chile in December 2014. In addition, we received approval from the Central Bank and the CNBV in Mexico to operate a broker-dealer in Mexico, where we began our operations in March 2014 and have achieved consistent gains in market share. One of our main strategies relating to our presence in Latin America involves the expansion of our business in Mexico, where we intend to attract even more clients to our local investment funds and broker dealer business. In addition, we are expanding our business in Argentina following our entry into the Argentinian broker dealer market.

We understand that the Latin American market has several opportunities for organic and inorganic growth. We intend to continue to take advantage of favorable Latin American market conditions through our expertise and ability to expand and leverage our reputation among our current and prospective Latin American and international clients interested in emerging markets.

Maintain Our Distinctive Culture

In contrast to other investment banking and asset management firms in Brazil and worldwide that have sold equity to the general market in the past, we have implemented several concrete steps to maintain our partnership model following our initial public offering completed in April 2012. Our partnership has the right, at any time and for any reason, to require any Partner to sell all or a portion of his Partnership Equity. Such Partnership Equity may then be resold to other persons (either existing Partners or new executives) at book value. Such right will continue with respect to all of the Partnership Equity for the foreseeable future, and thus, we expect that such shares will never be eligible for sale into the market or to third parties, except for certain limited exceptions. Accordingly, none of our Partners sold any IPO units or underlying securities in our initial public offering or are expected to sell such securities for the foreseeable future (i.e., we expect that the Partnership Equity will never be eligible for sale into the market or to third parties, except for certain limited exceptions such as in connection with a sale of the entire BTG Pactual Group). These mechanisms result in a substantial amount of the economic burden of incentivizing our most important executives to fall on our existing Partners, rather than Banco BTG Pactual or our public shareholders.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners and our public shareholders, allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See “Our Partnership.”

Pursue Attractive Growth Opportunities

We expect to focus on acquisitions that are complementary to our existing businesses, and that offer opportunities for growth and earnings accretion within our existing businesses. Our presence in significant financial markets such as São Paulo, New York and London enables us to better explore business opportunities arising in different regions and demonstrates our intention to continuously seek diversification. We believe there are attractive opportunities for selective global expansion. For example, we believe that our strong reputation and global presence will allow us to (i) expand our marketing of products to a global customer base, (ii) expand our investment banking, and (iii) attract additional talent.

We also intend to pursue strategic opportunities that further complement our existing businesses through organic growth. Throughout our history, we have experienced many successful cases of organic commenced operations, including: (i) our global asset management business, (ii) our insurance business, through which we offer insurance and reinsurance products in Brazil and elsewhere in Latin America, (iii) our entering into high income retail business through BTG Pactual Digital and (iv) our successful global commodities business which grew, and was later spun-off into an independent company - Engelhart CTP. We believe that the development of these significant new business initiatives reflects our entrepreneurship, agility and ability to capitalize on strategic growth opportunities as they arise in Latin America.

Reduce our Exposure to Proprietary Merchant Banking and Real Estate Investment Activities

We have been reducing, through the divestment and sale of assets, our exposure in relation to certain of our principal investment activities, mainly our merchant banking, private equity and real estate investments. Given this trend, our principal investments have been significantly streamlined, focused now on the allocation of excessive proprietary capital, legacy investments and seed capital in certain funds as a minority investor up to specified limits. We are no longer focused on investing in portfolio companies operating in the real economy and, accordingly, do not intend to allocate new resources and capital in merchant banking and real estate investments, except for seed money in our investment products. Our strategic focus is to reallocate capital and resources to strengthening and expanding our activities in our core business, such as investment banking, asset management, wealth management, sales and trading and corporate lending.

Our History

Our history began in 1983, when Pactual S.A. Distribuidora de Títulos e Valores Mobiliários ("Pactual D.T.V.M.") was founded in Rio de Janeiro as a securities dealer and a new entity named Pactual Administração e Participações Ltda. ("Pactual Limitada") was formed to operate an asset management business.

In 1989, Pactual S.A. Banco de Investimentos established a branch in São Paulo, our first office outside Rio de Janeiro, and obtained a license to become a multiple-service bank (*banco múltiplo*) authorized to engage in commercial banking, investment banking, portfolio management, foreign exchange, real estate financing and savings and loans operations. As a result, the bank was renamed Banco Pactual S.A. In the same year, Pactual Overseas Corp. was incorporated to carry out our international activities. In 1990, we began to offer our clients wealth management services.

The period from 2000 to 2005 was essential to the expansion of our various business units. During these years several companies were created, including:

- BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários, a subsidiary created to segregate the asset management business unit;
- BTG Pactual Corretora de Mercadorias Ltda., a dedicated commodities and future broker-dealer;
- BTG Pactual Corretora de Títulos e Valores Mobiliários S.A., a securities broker-dealer;
- BTG Pactual Gestora de Recursos Ltda., which manages mutual funds and securities portfolios; and
- BTG Pactual Securitizadora S.A., a non-financial institution engaged in the securitization of real estate receivables.

The structure granted us increased cross-selling opportunities by enabling us to offer top-tier capabilities across a full range of products. Such opportunities also facilitated the growth of our asset management and wealth management business units and the enhancement of our investment banking, sales and trading business units. At the same time, Brazil was achieving economic stability and its prospects for growth were improving substantially. In this environment, we were able to anticipate, and thereafter lead, the strong development of the Brazilian capital markets that began in 2004, in offering different products to investors interested in equity and debt securities of Brazilian companies, and to have our asset and wealth management units benefit from the increasing wealth in Brazil.

In May 2006, UBS AG agreed to purchase Banco BTG Pactual. Our principal Partners, including our CEO, CFO and COO remained as the senior management of the bank following the consummation of the sale in December 2006. We became "UBS Pactual," the Latin American division of UBS AG, and our CEO became CEO of all of UBS's Latin American operations. At the time of the acquisition, we were already a leading investment bank and asset manager in Brazil.

In July 2008, a group of our key senior Partners left UBS Pactual with the goal of establishing a new venture based on the same culture they had previously implemented at Banco Pactual S.A.

This group of our key senior Partners, jointly with some former managing directors of UBS AG and other executives with substantial experience acting in G-7 and emerging markets, including Brazil, created PPLAI (formerly, BTG Investments L.P. at such time) in October 2008, a global investment business with offices in São Paulo, Rio de Janeiro, London, New York and Hong Kong.

PPLAI had approximately US$1.3 billion in AUM (including proprietary and third party capital) and more than 100 employees when its Partners signed a contract to acquire the former Banco BTG Pactual (then Banco UBS Pactual S.A.) and its subsidiaries on May 11, 2009. The transaction represented the return of many members of our Senior Management Team to the bank, and reunited this team with many of their former partners who had remained at the bank throughout the period following the sale to UBS AG. The transaction closed in September 2009, creating the group now known as BTG Pactual.

In December 2010, together with PPLAI, we issued US$1.8 billion in capital to a consortium of prestigious international investors and certain senior Partners. This issuance consisted of US$1.44 billion in new shares issued by us and US$360.0 million in new PPLAI limited partnership interests issued by PPLAI, representing an interest of approximately 18.65% in us and PPLAI, respectively. This transaction represented a significant step in our strategic development. The consortium brought an impressive group of investors to us, consolidating and expanding our global network and coverage, providing our clients with unique access to opportunities and resources in an increasingly globalized market.

In January 2011, we entered into an agreement to purchase 100% of the shares in Banco Pan held by Grupo Silvio Santos for R$450.0 million, representing a 37.64% stake in Banco Pan (composed of 51.00% of its voting shares and 21.97% of its non-voting shares). The transaction was approved by the Central Bank and closed on May 27, 2011.

After registering Banco BTG Pactual S.A. as a foreign company in the Cayman Islands, on June 15, 2011 we completed a merger between Banco BTG Pactual S.A. and BTG Pactual Banking Limited, our former subsidiary. As a result of the merger, BTG Pactual Banking Limited ceased to exist, and Banco BTG Pactual S.A. received a Category "B" Banking License and a Trust License from the Cayman Islands Monetary Authority. The transaction resulted in the conversion of BTG Pactual Banking Limited into our Cayman Islands Branch.

On February 8, 2012, we acquired 100% of the shares of Celfin Capital, the leading brokerage (in equity volumes) in Chile with presence also in Peru and Colombia, to further increase our presence in the Latin American market. Celfin has a broad range of products and services in the areas of investment banking, products and financial services, asset management and wealth management. The total purchase price was approximately R$930 million.

On April 30, 2012, we completed our initial public offering, consisting of 103,500,000 IPO units, each representing, directly or through depositary receipts, (i) one common share and two preferred shares of our capital stock and (ii) one voting share and two non-voting shares of PPLA Participations (formerly, BTG Pactual Participations Ltd.). The majority of our IPO units were listed in Brazil on the B3, and 129,000 IPO units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the IPO units offered in the initial public offering were represented by primary securities, resulting in gross proceeds to the BTG Pactual Group of approximately R$2,587.5 million, of which Banco BTG Pactual received R$2,070.0 million. We used our portion of the proceeds from the initial public offering of the BTG Pactual Group to increase our corporate lending and sales and trading operations and develop new lines of business.

In December 2012, Banco BTG Pactual acquired Bolsa y Renta for approximately R$120.5 million. Bolsa y Renta is the largest stockbroker in Colombia. The acquisition was an important step in our expansion throughout Latin America as it combined Bolsa y Renta's position in the growing Colombian market with the strength and reputation of Banco BTG Pactual's business platforms in Brazil, Chile, Peru and Colombia.

On October 10, 2013, the BTG Pactual Group listed its European IPO units on the NYSE Euronext in Amsterdam. This migration from the Alternext Amsterdam had been previously agreed upon with European regulators as part of the initial public offering and no new shares or other securities were offered or issued in connection with this process.

On December 19, 2014, we acquired certain credits and other rights held by Fundo Garantidor de Créditos ("FGC") against Banco Bamerindus do Brasil S.A. and its affiliates, or, collectively, Bamerindus, in extrajudicial liquidation. This transaction resulted in our acquiring control of Bamerindus, with 98.8% of its total and voting capital. Bamerindus' extrajudicial liquidation process concluded on the same date, and Banco BTG Pactual changed Bamerindus' name to Banco Sistema S.A.

On September 30, 2015, we completed the acquisition of 100% of the shares of BSI S.A., a Swiss private bank, for a total consideration of CHF1,248 million, in cash and BSI shares.

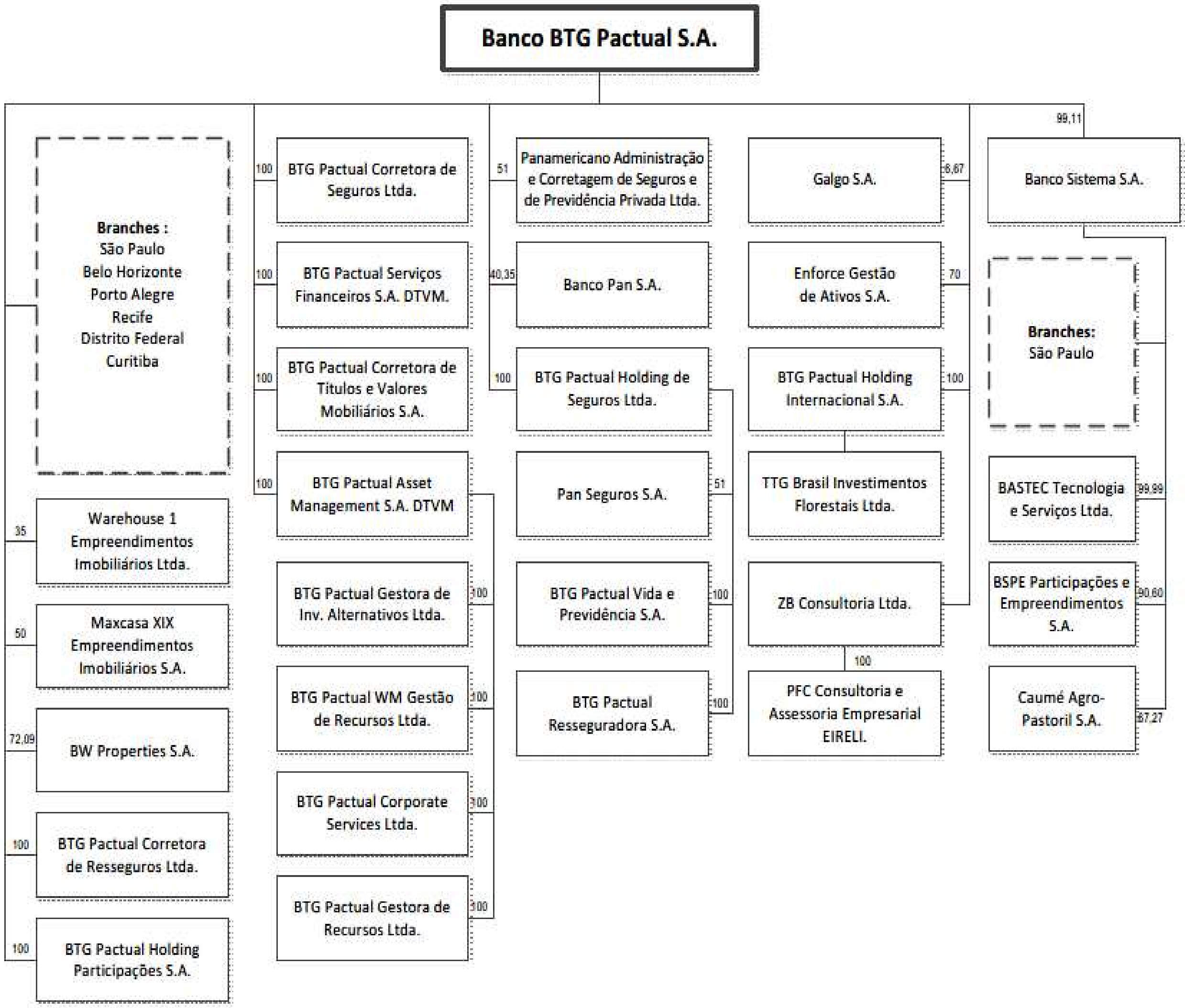
Since November 25, 2015, the BTG Pactual Group was affected by events related to the former chief executive officer of Banco BTG Pactual and controlling shareholder, Mr. André Santos Esteves. Even though no entity in the BTG Pactual Group was named in any investigation or allegation, and Mr. Esteves was ultimately acquitted of all charges by the court of competent jurisdiction on July 12, 2018, news relating to Mr. Esteves impacted the price of our units and bonds, and thus our management decided to adopt a series of actions to preserve liquidity and capital. One of the measures adopted was to sell Banco BTG Pactual's interest in BSI. On November 1, 2016, Banco BTG Pactual sold BSI to EFG, a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration for the sale comprised of: (i) CHF575 million in cash, (ii) 86.2 million in EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million in bonds (Level 1 subordinated debt) issued by EFG, which generated a goodwill in the amount of CHF390 million. The purchase price was later reduced by CHF 89 million as a result of an arbitration with EFG. In addition, on April 8, 2016, Banco BTG Pactual decided to spin-off its commodity trading activities, with the exception of its Brazilian energy trading desk, from the operational structure of Banco BTG Pactual and to reorganize its commodities platform under Engelhart CTP.

On February 14, 2017, our and PPLA's board of directors approved two new unit programs, which are currently traded on the B3. The first unit program includes units traded under the "BPAC11" ticker symbol and comprised of one common share and two class A preferred shares issued by Banco BTG Pactual. The second unit program includes units traded under the "BBTG12" ticker symbol and comprised of one BDR representing one class A share and one BDR representing two class B shares issued by PPLA Participations (formerly, BTG Pactual Participations Ltd).

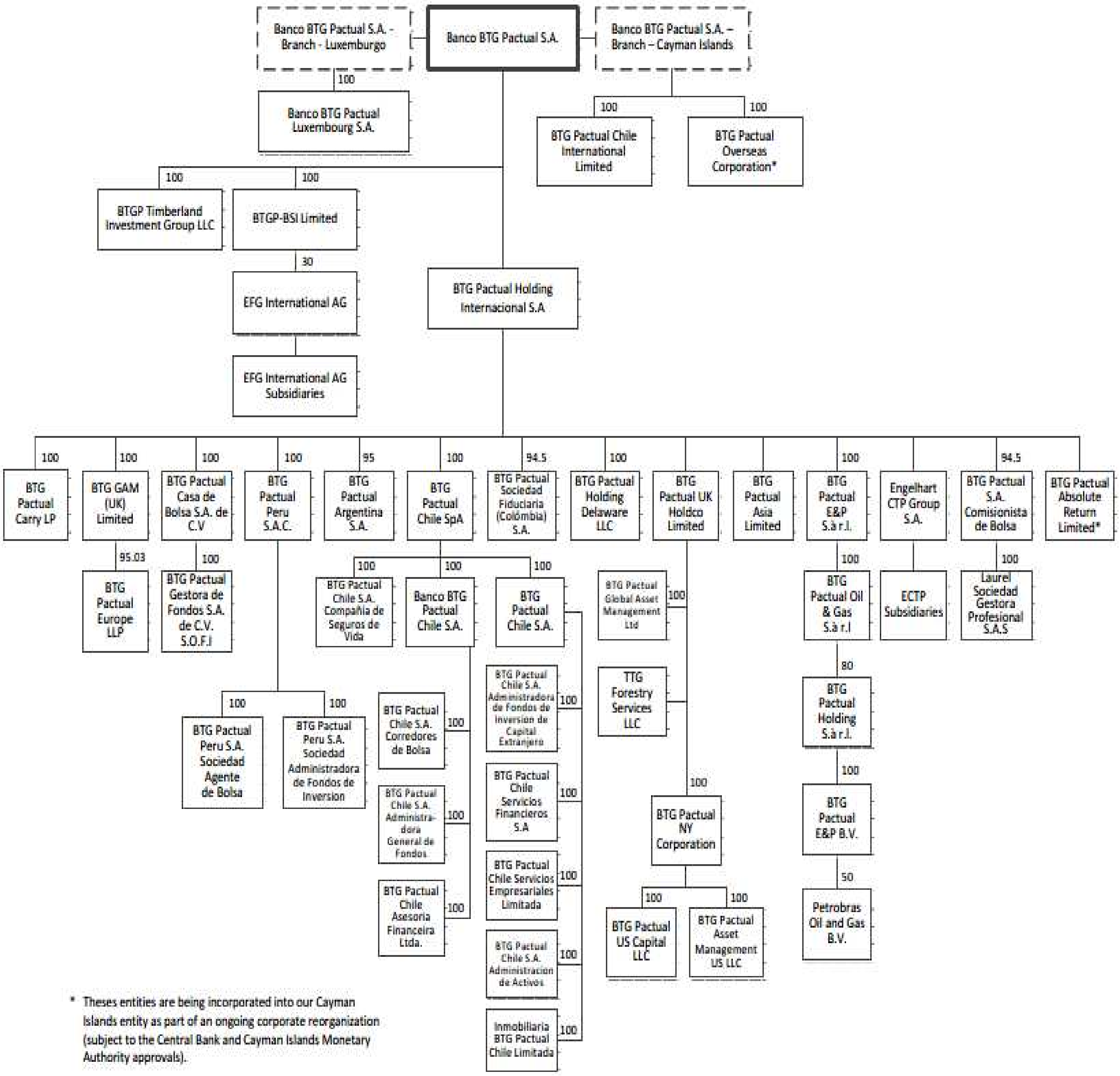
Our Organizational Structure

The diagrams below depict our simplified ownership structure in Brazil and abroad, respectively, as of the date of this Offering Memorandum. For information regarding our principal subsidiaries, see "Business—Overview—Subsidiaries."

Organizational Structure – Brazil



Organizational Structure – Abroad



* Theses entities are being incorporated into our Cayman Islands entity as part of an ongoing corporate reorganization (subject to the Central Bank and Cayman Islands Monetary Authority approvals).

Recent Developments

Share Buyback Program

On October 3, 2018, our board of directors authorized the cancellation of 14,788,400 of our BPAC11 units we acquired through our share buyback program which took place in 2017. These units represented 14,788,400 of our common shares and 29,576,800 of our class A preferred shares, which were being held in treasury. Concurrently, our board of directors authorized a new share buyback program under which we may repurchase an additional amount of up to 15,000,000 BPAC11 units.

Corporate Reorganization

On October 26, 2018, we concluded a corporate reorganization pursuant to which 1,502,975,267 of our common shares and 449,356,340 of our Class B preferred shares previously held by BTG Pactual Holding, our previous direct controlling shareholder, were contributed to the capital of BTG Pactual Holding Financeira, a newly-formed company in which BTG Pactual Holding holds approximately 99.9% of the share capital. The corporate purpose of BTG Pactual Holding Financeira is exclusively to hold equity interest in financial and other institutions authorized by the Central Bank. Such corporate reorganization aimed to align BTG Pactual Holding's structure with applicable Brazilian legislation, and did not entail any modification to our ultimate ownership structure. As a result of this transaction, as of December 31, 2018, BTG Pactual Holding Financeira holds 86.8% of our common shares and 49.6% of our preferred shares directly, while as of the same date, BTG Pactual Holding owns 1.9% of our common shares and 7.2% of our preferred shares directly. G7 Holding continues to hold the majority of the shares of BTG Pactual Holding and, therefore, indirectly control us.

Approval of Dividends Distribution

On December 27, 2018, Banco BTG Pactual recorded R$604.5 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on December 27, 2018 and is to be paid by February 2019.

Change of Control Structure Subject to Regulatory Approval and Resignation of Marcelo Kalim as Chairman of our Board of Directors

On December 28, 2018, Marcelo Kalim resigned as the Chairman of our board of directors, effective immediately, whereupon the position of Chairman was filled by Nelson Jobim, who was already serving as a member of our board of directors.

Simultaneous with Mr. Kalim's resignation as Chairman of our board of directors, he also executed a contract pursuant to which he will transfer his entire ownership interest in G7 Holding to BTG Pactual Holding. As a result of such transactions, Mr. Kalim will cease to be both a Controlling Partner and a shareholder of Banco BTG Pactual, directly or indirectly.

In parallel, André Esteves will join G7 Holding as one of the controlling shareholders, exchanging certain of his voting interest in BTG Pactual Holding for a corresponding stake in G7 Holding. As part of such reallocation of interests, the other Controlling Partners may also acquire or dispose of additional shares of G7 Holding provided that no single Controlling Partner, including Mr. Esteves, will be permitted to hold more than 30.0% of the outstanding voting shares of G7 Holding until December 2022.

The effectiveness of the above changes to our partnership and control structure remain subject to corporate and regulatory approvals in various jurisdiction and, until such approvals are obtained, our control structure will remain unchanged as a result of such events. As of December 31, 2018, Mr. Kalim held a 24.8% interest in G7 Holding, and Mr. Esteves held a 39.7% voting interest and 28.9% economic interest in BTG Pactual Holding, outside of G7 Holding. As a result of the changes described above, assuming receipt of the requisite corporate and regulatory approvals, it is expected that the Controlling Partners will be: Roberto Sallouti, Renato Santos, Antonio Carlos Porto Filho, Guilherme Paes and André Esteves.

THE OFFERING

This summary highlights information presented in greater detail elsewhere in this Offering Memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire Offering Memorandum before investing in the Notes, including "Risk Factors," "Description of the Notes" and our consolidated financial statements.

Issuer	Banco BTG Pactual S.A., acting through its Cayman Islands Branch.
Initial Purchasers	BTG Pactual US Capital, LLC, Banco Bradesco BBI S.A., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Nomura Securities International, Inc. and UBS Securities LLC.
The Notes	US$600,000,000 aggregate principal amount of 7.750% Subordinated Notes due 2029.
Issue Price	100.000% of the principal amount.
Maturity Date	February 15, 2029.
Issue Date	February 15, 2019.
Indenture	The Notes will be issued under the Indenture dated as of February 15, 2019 among us, Deutsche Bank Trust Company Americas as Trustee, registrar, paying agent and transfer agent and Deutsche Bank Luxembourg S.A., as Luxembourg listing agent.
Interest	From February 15, 2019 until the Call Date, the Notes will bear interest at a fixed rate of 7.750% per annum (the "Note Rate"), and on and after the Call Date, at a rate to be calculated by the calculation agent equal to the Benchmark Reset Rate plus the Credit Spread (the "Reset Rate"), except that in each case interest on unpaid principal after the maturity date and interest on any overdue interest will accrue at the Note Rate or Reset Rate, as applicable, plus 1% per annum.
Interest Payment Dates	Interest on the Notes will be paid semi-annually in arrears on February 15 and August 15 of each year, commencing on August 15, 2019 (each, an "Interest Payment Date").
Write-off Notes	All or a portion (which portion shall be in an amount at least equal to the balance accounted as Tier 2 Capital of the Issuer) of the outstanding principal, interest and all other amounts due, or with respect to, the Notes shall be permanently written-off by the Issuer in the following events: • the disclosure by the Issuer, in the form set forth by the Central Bank, that its Common Equity Tier 1 Capital (*Capital Principal*) is lower than 4.5% of the risk-weighted assets of the Issuer, calculated in accordance with CMN Resolution 4,193, provided that the write-off described above will not occur in the event of review or republication of the documents supporting the disclosure in accordance with Article 20, XII, of CMN Resolution 4,192; • the execution of a commitment by applicable Brazilian Governmental Authority to make a public sector capital

contribution to the Issuer, pursuant to and in accordance with the terms of a specific written law, as set forth in the caput of Art. 28 of Brazilian Supplementary Law No. 101, of May 4, 2000, as amended;

- the Central Bank (or other applicable Brazilian Governmental Authority charged with the responsibility to make such determinations) declares, according to the criteria established in the applicable laws and regulations, the intervention or the establishment of a special administration regime (*regime de administração especial temporária*) in the Issuer; or

- the Central Bank, according to the criteria established in the regulation issued by the CMN, determines in writing that the Notes should be written-off, provided that, in such event the Central Bank should have determined a write-off of any Tier 1 Capital of the Issuer before it will determine the Write-off of the Notes and any other Tier 2 Capital of the Issuer. See "Description of the Notes—Write-off by the Issuer" for a description of such criteria.

The write-off of any amount due under the Notes and the events described above will not constitute an event of default and shall not allow any Noteholder to require any repayment on any then outstanding principal, interest or any other amounts due, or with respect to, the Notes or pursue any other remedy in respect of the Notes.

Ranking .... The Notes will be unsecured obligations of the Issuer, and, in the event of our bankruptcy, liquidation, winding up or dissolution under Brazilian law, whether voluntary or involuntary, will be subordinated obligations ranking:

- junior in right of payment to the payment of all of our Senior Indebtedness;

- *pari passu* (i) among themselves and (ii) with any liabilities approved or to be approved by the Central Bank to be classified as Tier 2 capital pursuant to CMN Resolution 4,192, as amended, restated, consolidated or replaced from time to time ("Tier 2 *Pari Passu* Liability"); and

- senior to any instrument approved or to be approved by the Central Bank to be classified as Tier 1 Capital pursuant to CMN Resolution 4,192, as amended, restated, consolidated or replaced from time to time ("Junior Instruments").

Notwithstanding the foregoing, your ability to institute a bankruptcy or liquidation proceedings against us in Brazil is very limited. See "Risk Factors—Risks Relating to the Notes—The ability to institute bankruptcy or liquidation proceedings against us in Brazil may be limited by Brazilian law."

Use of Proceeds	We intend to use the net proceeds from the issuance of the Notes to improve our Tier 2 Capital ratios and otherwise for general corporate purposes. See "Use of Proceeds."
Covenants	The terms of the Indenture will require us, among other things, to: • pay all amounts owed by us under the Indenture and the Notes when those amounts are due; • maintain all necessary governmental and third-party approvals and consents as required in connection with the execution, delivery and performance under the Notes and the Indenture; • maintain our books and records in compliance with applicable laws; • maintain an office or agency in New York where Notes may be presented or surrendered for payment or for exchange, transfer or redemption and where notices and demands may be served; • give notice to the Trustee of any default or event of default under the Indenture and of certain other events; • replace the Trustee upon resignation or removal thereof; and • preserve our corporate existence, subject to certain consolidation, merger, conveyance and transfer provisions. In addition, the terms of the Indenture will require us to meet certain conditions before we consolidate, merge or transfer either all or substantially all of our assets and properties or all or substantially all of our assets, properties and liabilities to another person.
Optional Redemption by the Issuer ..	Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if then required), we may at our option redeem the Notes, in whole but not in part, on the date that is five years following the Issue Date (the "Call Date"), at a redemption price equal to the Base Redemption Price; provided that we are then and, immediately following such redemption, will be in compliance with the minimum requirements for Regulatory Capital and satisfied the Additional Principal Capital (*Adicional de Capital Principal*) and other operational limits.
Optional Tax Redemption by the Issuer..	Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), we may redeem the Notes, in whole but not in part, at a redemption price equal to the Base Redemption Price following the occurrence of a Tax Event (as defined below) at any time on or after the Call Date, as described further under "Description of the Notes—Redemption— Optional Tax Redemption by the Issuer."

Optional Regulatory Redemption by the Issuer	Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), we may redeem the Notes, in whole but not in part, at a redemption price equal to the Base Redemption Price following the occurrence of a Regulatory Event at any time on or after the Call Date, as described further under "Description of the Notes—Redemption—Optional Regulatory Redemption by the Issuer."
No Optional Redemption by the Noteholders	The Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes prior to the Maturity Date. The Notes are redeemable only at the Issuer's option as described above.
Events of Default.................................	The Indenture will contain certain limited events of default, consisting of the following: • failure to pay principal on the due date thereof; • failure to pay interest or any additional amounts due on any Note within 15 days of the due date thereof; and • certain events involving insolvency, winding up, dissolution or similar changes with respect to the Issuer, as applicable. Payment of principal of the Notes may be accelerated only in the case of certain events involving our dissolution, winding up or similar events, and we will be required to make payment after acceleration only after we have been dissolved or otherwise wound up for purposes of Brazilian law. There is no right of acceleration of the payment of principal and accrued interest on the Notes in the case of a default in the performance of any of our covenants.
Amendments to the Terms and Conditions of the Notes	We expect to qualify the Notes as Tier 2 Capital subject to the Central Bank's approval. The Central Bank's approval is still pending and the Central Bank may require us to amend certain terms and conditions of the Notes as a condition to granting such approval. We may once, without the prior consent of the Noteholders, amend the terms and conditions of the Notes solely to comply with the requirements of the Central Bank to qualify the Notes as Tier 2 Capital pursuant to CMN Resolution 4,192. Notwithstanding the foregoing, we will not be permitted to make any amendments without the consent of each Noteholder affected thereby if any such amendment would affect in any way the interest rate of the Notes, the outstanding principal amount of the Notes, the ranking of the Notes (as described in "Description of the Notes—Ranking") or the original maturity date of the Notes. Any subsequent amendment to the terms and conditions of the Notes (other than in respect of providing for the issuance of additional Notes or immaterial amendments required to cure inconsistencies, defects ambiguities and similar matters) is subject to the prior consent of the Noteholders as set forth under "Description of the Notes—Modification of the Indenture."
Clearance and Settlement	The Notes will be issued in book-entry form through the facilities of The Depository Trust Company (the "DTC"), and its direct and indirect

	participants, including Euroclear Bank S.A./N.V., as operator of Euroclear and Clearstream. See "Description of the Notes—Book Entry, Delivery and Form."
Withholding Taxes; Additional Amounts..	All payments of principal and interest in respect of the Notes will be made without withholding or deduction for any taxes or other governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within Brazil or the Cayman Islands or any political subdivision or any authority thereof or therein or any other jurisdiction having power to tax in which the Issuer is organized, doing business or otherwise subject to the power to tax (any of the aforementioned being a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In the event we are required to withhold or deduct amounts for any taxes or other governmental charges, we will pay such additional amounts necessary to ensure that the Noteholders receive the same amount as the Noteholders would have received without such withholding or deduction, subject to certain exceptions. See "Description of the Notes—Additional Amounts."
Listing..	We have applied to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF of the Luxembourg Stock Exchange.
Transfer Restrictions..........................	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on resales and transfers described under "Transfer Restrictions."
Governing Law	The Indenture, the Notes, the purchase agreement and related documents will be governed by the laws of the State of New York, except for the subordination provisions thereof and the terms of subordination which are governed by the laws of Brazil.
Form and Denomination....................	The Notes will initially be issued in the form of one fully registered Restricted Global Note and one fully registered Regulation S Global Note. The Notes will be delivered in book-entry form through the facilities of DTC and its direct and indirect participants, including Euroclear and Clearstream. The Notes will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. See "Description of the Notes—General."
Additional Notes	Upon satisfaction of the conditions set forth in the Indenture, we, from time to time, without notice or consent of the Noteholders, may issue additional tranches of Notes and the original Notes and any additional tranches of Notes will be treated as a single series for all purposes under the Indenture; *provided*, that additional Notes will not bear the same CUSIP number as the original Notes, unless such additional Notes are fungible with the original Notes for U.S. federal income tax purposes. See "Description of the Notes—Additional Notes." Subject to obtaining prior consent from the Central Bank, the additional Notes will be treated as part of our Tier 2 Capital.
Day Count Convention.......................	360-day year comprised of twelve 30-day months.
Trustee, Note Registrar, Paying	Deutsche Bank Trust Company Americas

Agent, Calculation Agent and Transfer Agent....................................	
Luxembourg Listing Agent................	Deutsche Bank Luxembourg S.A.
Taxation..	You should review the discussion under "Taxation" and consult your tax advisor regarding the U.S. federal income tax consequences and the Brazilian federal income tax consequences of an investment in the Notes, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction. The U.S. federal income tax consequences of your investment in the Notes are uncertain.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The tables below set forth our summary financial and operating information as of and for the periods indicated. You should read the information below in conjunction with our consolidated financial statements and related notes and the sections "Presentation of Financial and Other Information," "Selected Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following summary financial data has been derived from our (i) unaudited interim consolidated financial statements as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017 and the notes thereto and (ii) audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015 and the notes thereto, which are included elsewhere in this Offering Memorandum.

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an unaudited adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market. Our unaudited adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles and should not be considered in isolation or construed as segment information under IFRS 8 because our management does not rely on this information for decision-making purposes. Furthermore, our unaudited adjusted income statement has not been audited or reviewed by our independent auditors. Accordingly, you are cautioned to not place undue reliance on our unaudited adjusted income statement.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. Our unaudited adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. The classification of the line items in our unaudited adjusted income statement, however, has not been audited or reviewed by our independent auditors and materially differs from the classification of the corresponding line items in our income statement. See "Presentation of Financial and Other Information—Financial Statements—Our Unaudited Adjusted Income Statement."

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$4.0039 to US$1.00 which was the exchange rate in effect as of September 30, 2018, as published by the Central Bank on its electronic information system, SISBACEN. The U.S. dollar equivalent information presented in this Offering Memorandum are provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars or Swiss Francs at such rates or at any other rate. The real/U.S. dollar exchange rates may fluctuate widely, and the exchange rate as of September 30, 2018 may not be indicative of future exchange rates. We have not updated the translation rates used above for a most recent date as the translation have been performed solely for convenience and therefore should not be considered in making an investment decision. See "Exchange Rates" for information regarding the real/U.S. dollar exchange rates.

Summary Balance Sheet

	As of December 31,				As of September 30,	
	2015	2016	2017	2017	2018	2018
	(in R$ millions)			*(in US$ millions)*[(1)]	*(in R$ millions)*	*(in US$ millions)*[(1)]
Assets					(Unaudited)	
Cash at banks	20,490.9	674.1	4,347.2	1,085.7	931.9	232.7
Interbank investments	32,586.5	20,752.7	27,792.3	6,941.3	61,326.4	15,316.7
Securities and derivative financial instruments	77,669.0	37,486.2	42,288.0	10,561.7	40,510.3	10,117.7
Interbank transactions	1,921.3	2,235.3	1,703.6	425.5	2,640.5	659.5
Loans	55,665.1	9,513.4	13,026.2	3,253.4	16,963.8	4,236.8
Securities trading and brokerage	12,906.1	2,790.9	3,598.4	898.7	7,471.7	1,866.1
Other receivables	44,740.1	29,524.5	28,171.3	7,036.0	27,753.7	6,931.7
Other assets	252.6	153.5	127.2	31.8	234.8	58.6
Permanent assets	8,317.1	8,640.9	5,537.4	1,383.0	6,022.5	1,504.2
Total assets	**254,548.7**	**111,771.6**	**126,591.6**	**31,617.1**	**163,855.7**	**40,924.0**
Liabilities and Shareholders' equity						
Deposits	86,743.5	7,690.8	9,178.3	2,292.3	25,612.6	6,396.9
Open market funding	20,308.2	24,904.0	33,890.2	8,464.3	56,135.7	14,020.3
Funds from securities issued and accepted	19,559.2	10,335.7	10,289.5	2,569.9	14,233.7	3,555.0
Interbank transactions	7.2	5.1	5.4	1.3	7.4	1.8
Interdependencies transactions	–	82.6	24.4	6.1	82.1	20.5
Loans and onlending	8,097.6	3,544.8	4,729.9	1,181.3	5,372.8	1,341.9
Derivative financial instruments	42,327.0	9,644.9	14,161.8	3,537.0	4,234.6	1,057.6
Securities trading and brokerage	12,655.3	4,102.0	4,232.6	1,057.1	6,860.8	1,713.5
Subordinated debts	8,297.2	7,283.0	6,317.2	1,577.8	5,932.6	1,481.7
Debt instrument eligible to equity	5,160.4	4,305.2	3,043.3	760.1	3,618.9	903.8
Other liabilities	31,140.0	21,879.1	21,942.3	5,480.2	22,310.3	5,572.2
Deferred income	310.4	141.8	120.6	30.1	136.7	34.1
Non-controlling interest	229.4	125.5	132.4	33.1	137.3	34.3
Shareholders' equity	19,713.3	17,727.2	18,523.7	4,626.4	19,180.2	4,790.4
Total liabilities and shareholders' equity	**254,548.7**	**111,771.6**	**126,591.6**	**31,617.1**	**163,855.7**	**40,924.0**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Summary Income Statement

	For the year ended December 31,				For the nine months ended September,		
	2015	2016	2017	2017	2017	2018	2018
	(in R$ millions)			*(in US$ millions)*[1]	*(in R$ millions)*		*(in US$ millions)*[1]
					(Unaudited)		
Financial income	**15,565.0**	**13,451.1**	**9,523.7**	**2,378.6**	**7,519.3**	**7,208.9**	**1,800.5**
Loans	3,118.7	1,809.4	1,529.7	382.1	1,250.5	928.2	231.8
Securities	10,251.5	4,969.8	5,873.3	1,466.9	4,766.5	4,281.1	1,069.2
Derivative financial instruments	2,068.4	4,161.8	1,596.7	398.8	1,127.2	1,659.3	414.4
Foreign exchange	–	2,308.0	376.7	94.1	252.1	270.9	67.7
Mandatory investments	126.3	202.1	147.4	36.8	123.0	69.4	17.3
Financial expenses	**(15,767.4)**	**(6,642.6)**	**(5,633.2)**	**(1,406.9)**	**(4,478.3)**	**(5,475.9)**	**(1,367.6)**
Funding operations	(9,236.7)	(7,111.4)	(5,172.7)	(1,291.9)	(4,084.5)	(3,532.9)	(882.4)
Borrowings and onlending	(5,880.0)	565.8	(567.3)	(141.7)	(187.2)	(1,906.9)	(476.3)
Foreign exchange	(82.9)	–	–	–	–	–	–
Allowance for loan losses and other receivables	(567.7)	(97.0)	106.8	26.7	(206.6)	(36.1)	(9.0)
Net financial income (loss)	**(202.4)**	**6,808.5**	**3,890.5**	**971.7**	**3,041.0**	**1,732.9**	**432.8**
Other operating income (expenses)	**1,302.9**	**(2,554.1)**	**(2,117.4)**	**(528.8)**	**(2,051.0)**	**117.0**	**29.2**
Income from services rendered	3,505.5	2,697.8	1,597.0	398.9	1,080.3	1,539.6	384.5
Personnel expenses	(1,633.9)	(1,676.6)	(648.9)	(162.1)	(480.6)	(574.2)	(143.4)
Other administrative expenses	(2,092.7)	(2,134.8)	(2,679.7)	(669.3)	(2,436.1)	(888.0)	(221.8)
Tax charges	(191.1)	(556.1)	(240.7)	(60.1)	(177.7)	(203.2)	(50.8)
Equity in the earnings of associates and jointly controlled entities	1,506.7	(794.0)	4.8	1.2	41.3	(71.5)	(17.9)
Other operating income	2,236.5	1,266.8	895.5	223.7	644.5	727.9	181.8
Other operating expenses	(2,028.1)	(1,357.1)	(1,045.4)	(261.1)	(722.7)	(413.6)	(103.3)
Operating income	**1,100.5**	**4,254.4**	**1,773.1**	**442.8**	**990.0**	**1,850.0**	**462.0**
Non-operating income (expenses)	2,737.1	940.1	4.7	1.2	(7.0)	141.0	35.2
Income before taxation and profit sharing	**3,837.6**	**5,194.5**	**1,777.9**	**444.0**	**983.0**	**1,991.0**	**497.3**
Income tax and social contribution	**3,159.6**	**(1,112.9)**	**1,287.2**	**321.5**	**1,200.6**	**165.5**	**41.3**
Provision for income tax	(1,293.7)	(190.8)	(160.0)	(40.0)	(42.0)	(719.8)	(179.8)
Provision for social contribution	(453.1)	(157.1)	(42.6)	(10.6)	89.8	(598.5)	(149.5)
Deferred income tax and social contribution	4,906.4	(765.1)	1,489.8	372.1	1,152.8	1,483.8	370.6
Statutory profit sharing	**(1,534.5)**	**(721.5)**	**(689.1)**	**(172.1)**	**(466.1)**	**(338.4)**	**(84.5)**
Non-controlling interest	**160.8**	**48.5**	**7.9**	**2.0**	6.0	(9.8)	(2.4)
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**595.4**	**1,723.5**	**1,808.3**	**451.6**
Interest on equity	**(914.8)**	**(1,390.0)**	**(1,223.7)**	**(305.6)**	**(623.8)**	**(592.1)**	**(147.9)**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Unaudited Adjusted Income Statement

(Unaudited)	For the year ended December 31, 2015	2016	2017	2017	For the nine months ended September 30, 2017	2018	2018
	(in R$ millions)			*(in US$ millions)* [(1)]	*(in R$ millions)*		*(in US$ millions)* [(1)]
Investment banking	382.8	367.1	366.6	91.6	222.4	378.0	94.4
Corporate lending	983.4	876.6	790.1	197.3	627.6	715.4	178.7
Sales and trading	4,806.0	2,816.5	2,389.0	596.7	1,698.0	1,042.3	260.3
Asset management	1,252.2	539.6	486.3	121.5	317.1	438.2	109.5
Wealth management	1,454.5	2,407.9	368.7	92.1	270.3	352.4	88.0
Principal investments	548.2	(29.8)	15.1	3.8	104.0	362.7	90.6
Participations	6.0	(112.8)	(15.5)	(3.9)	(9.0)	30.3	7.6
Interest and other	1,647.8	1,932.1	1,127.2	281.5	926.8	483.8	120.8
Total revenues, net of direct expenses allocation	**11,080.9**	**8,797.1**	**5,527.5**	**1,380.5**	**4,157.3**	**3,803.2**	**949.9**
Bonus	(1,598.9)	(805.8)	(745.5)	(186.2)	(504.3)	(386.8)	(96.6)
Salaries and benefits	(1,385.7)	(1,637.4)	(529.4)	(132.2)	(397.8)	(458.6)	(114.5)
Administrative and others	(1,429.7)	(1,707.9)	(852.6)	(212.9)	(602.3)	(611.3)	(152.7)
Goodwill amortization	(209.1)	(243.8)	(279.8)	(69.9)	(226.0)	(106.8)	(26.7)
Tax charges, other than income tax	(430.4)	(370.7)	(244.0)	(60.9)	(174.9)	(187.5)	(46.8)
Total operating expenses	(5,053.8)	(4,765.6)	(2,651.3)	(662.2)	(1,905.3)	(1,751.0)	(437.3)
Income before taxes	6,027.1	4,031.6	2,876.2	718.3	2,252.0	2,052.2	512.6
Income tax and social contribution revenue (expense)	(403.6)	(623.0)	(492.3)	(123.0)	(528.5)	(243.9)	(60.9)
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**595.4**	**1,723.5**	**1,808.3**	**451.6**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

RISK FACTORS

Investing in the Notes involves a high degree of risk. You should carefully consider all of the information set forth in this Offering Memorandum, including the risks described below, before making an investment decision. If any of the following risks actually occurs, we will be adversely affected and you could lose all or part of your investment. The risks described below are those that we currently believe may adversely affect us. Additional risks and factors not currently known to us, or those that we currently deem to be immaterial, may also adversely affect us.

For the purposes of this section, when we state that a risk, uncertainty or problem may, could or will have an "adverse effect on us" or "will adversely affect us," we mean that the risk, uncertainty or problem could have an adverse effect on our business, financial condition, results of operations, cash flow, liquidity and/or prospects and/or the trading price of the Notes, except as otherwise indicated.

Risks Relating to Our Business and Industry

We may incur significant losses from our trading and investment activities due to market fluctuations and volatility.

We maintain large trading and investment positions in the fixed income, currency, commodity and equity markets – both in Brazil and elsewhere, including in Europe and the United States. To the extent that we have long positions in any of our assets in any of those markets, a downturn in those markets could result in losses from a decline in the value of those long positions. Conversely, to the extent that we have short positions in any of those markets, an upturn in those markets could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market. We may from time to time have a trading strategy consisting of holding a long position in one asset and a short position in another, from which we expect to earn revenues based on changes in the relative value of the two assets. Many of our hedging strategies are based on trading patterns and correlations. If, however, the relative value of the two assets changes in a direction or manner that we did not anticipate or against which we are not hedged, we may realize a loss in those paired positions. Accordingly, our hedging strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Unexpected market developments could impact our hedging strategies in the future. In addition, we maintain substantial trading and investment positions that can be adversely affected by the level of volatility in the financial markets (i.e., the degree to which trading prices fluctuate over a particular period, in a particular market) regardless of market levels.

We depend on our Senior Management Team and the departure of any member of this team could adversely affect our ability to execute our business strategies and investment policies.

We are dependent on our Senior Management Team for the development and the execution of our business strategies and investment policies, including the management and operation of our businesses. Our future success depends to a significant extent on the continued service of our Senior Management Team. We also rely on the network of business contacts, track records and reputation of these individuals.

Any member of our Senior Management Team may leave us to establish or work in businesses that compete with ours. In addition, if any member of our Senior Management Team joins an existing competitor or forms a competing firm, some of our clients could choose to use the services of that competitor. There is no guarantee that the compensation arrangements and non-competition agreements we have entered into with our Senior Management Team are sufficiently broad or effective to prevent them from resigning in order to join or establish a competitor or that the non-competition agreements would be upheld in a court of law if we were to seek to enforce our rights thereunder. See "Our Partnership—Partner Non-Competition Agreements."

For example, following the arrest, detainment and temporary suspension of employment of our former chief executive officer and chairman of our board of directors, André Santos Esteves, in 2015 over allegations of obstruction of justice and participation in a criminal enterprise (which charges he was ultimately acquitted of by the court of competent jurisdiction on July 12, 2018), we confronted a series of significant operational and financial challenges and related adverse effects (see "Business—Legal Matters"). While Mr. Esteves resumed working with us as a senior Partner following his release from house arrest in April 2016, the existing procedures involving him or further accusations against him or other senior managers, whether substantiated or not, could have a material adverse effect on our reputation and business. In the event of the further departure or suspension of members of our Senior Management Team, we may confront difficulties in finding suitable replacements, which could have a material adverse effect on us.

Our ability to retain our professionals is critical to our success and our ability to grow and continue to compete effectively may depend on our ability to attract additional Partners and key professionals.

Our most important asset is our people, and our continued success (including our ability to compete effectively in our businesses) is highly dependent upon the efforts of all of our Partners (and, most importantly, our Senior Management Team). As a result, our growth and future success depends to a substantial degree on our ability to retain and motivate our Partners and other key professionals and to strategically recruit, retain and motivate new talent, including new Partners and key professionals. However, we may not be successful in our efforts to recruit, retain and motivate the required personnel for any reason as the market for qualified investment professionals is extremely competitive. For example, the recently departed former chairman of our board of directors, Marcelo Kalim, co-founded a digital consumer banking platform with another former Partner (see "Summary—Recent Developments—Change of Control Structure Subject to Regulatory Approval and Resignation of Marcelo Kalim as Chairman of our Board of Directors"). Our ability to attract, retain and motivate such personnel is dependent on our ability to offer highly attractive incentive opportunities. The incentives that we provide or offer to such personnel may not be effective to attract, retain and motivate such personnel, particularly in a scenario when our performance is suffering.

Holding large and concentrated positions may expose us to large losses.

We have committed substantial amounts of capital to our businesses such as arbitrage, market-making, underwriting, lending and other trading and principal activities and may continue to do so in the future. These types of businesses often require us to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities. Holding large and concentrated positions in any particular issuer may expose us to large losses that could adversely affect us.

Our securities and derivative financial instruments are subject to market price and liquidity variations due to changes in economic conditions and may produce material losses that may adversely affect us.

Financial instruments and securities represent a significant amount of our total assets. Any realized or unrealized future gains or losses from these investments or hedging strategies could have a significant impact on our income. These gains and losses, which we account for when we sell or mark-to-market investments in financial instruments, can vary considerably from one period to another. For example, we enter into derivatives transactions to protect us against decreases in the value of the *real* (or any other currency) or in interest rates and the *real* (or any other currency) instead increases in value or interest rates increase, we may incur financial losses. We cannot forecast the amount of gains or losses in any future period, and the variations experienced from one period to another, do not necessarily provide a meaningful forward-looking reference point, particularly in Brazil given the current climate of market volatility. Gains or losses in our investment portfolio may create volatility in net revenue levels, and we may not earn a return on our consolidated investment portfolio, or on a part of the portfolio in the future. Any losses on our securities and derivative financial instruments could adversely affect us. In addition, the risk is amplified as the Brazilian economy slowly emerges from a prolonged recession in the face of ongoing political turmoil. Any decrease in the value of these securities and derivatives portfolios may result in a decrease in our capital ratios, which could impair our ability to engage in certain activities, such as lending or securities trading, at the levels we currently anticipate, and may also adversely affect our ability to pursue our growth strategies.

Our investment banking, corporate lending and sales and trading revenues may suffer in adverse market or economic conditions.

Unfavorable financial or economic conditions, both in Brazil and elsewhere, would likely reduce the number and size of transactions in which we provide underwriting, mergers and acquisitions advisory and other services. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; or a combination of these or other factors.

Our investment banking revenues in the form of financial advisory and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn – even if the market downturn was primarily outside of Brazil. In particular, our results of operations would be adversely affected by a significant reduction in the number or size of offerings which we underwrite.

In addition, adverse economic conditions such as a prolonged slowdown in the Brazilian economy could adversely affect our commercial and consumer lending and our sales and trading business. Historically, GDP growth rates impact the volume of loans in Brazil as growth translates into an increase in income distribution and increased consumption. The significant growth in Brazil's GDP from 2008 to 2010 corresponded with an average increase in the volume of loans for the Brazilian banking industry. Since then, however, Brazilian GDP has demonstrated stagnated growth devolving into a prolonged recession. In 2014, Brazilian GDP grew only 0.5%, and registered losses in GDP of 3.8% and 3.6% in 2015 and 2016, respectively. In the first half of 2017, Brazilian GDP did not present any growth when compared to the first half of 2016 due to worsening inflation, a series of tax increases, spending cuts and decreased consumer confidence. However, Brazil's GDP grew 1.0% overall in 2017 compared to a contraction of 3.6% in 2016. In 2018, based on preliminary data, Brazilian GDP is estimated to have grown 1.3%.

Our investment banking advisory assignments do not necessarily lead to subsequent assignments.

Our clients generally retain us on a non-exclusive, short-term, assignment-by-assignment basis in connection with specific investment banking transactions or projects, rather than under exclusive long-term contracts. This is particularly true with respect to mandates to sell all or a significant portion of a client's business. Since these transactions and engagements do not necessarily lead to subsequent assignments, we must constantly seek out new engagements, mainly when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in the subsequent or any other period. In addition, when an engagement is terminated, whether due to the cancellation of a transaction as a result of market conditions or otherwise, we may earn limited or no fees and may not be able to recuperate the costs that we incurred prior to such termination.

Our asset management and wealth management business units may be affected by the poor investment performance of our investment products.

Poor investment returns in our asset management and wealth management business units due to underperformance (relative to our competitors or to benchmarks) by funds or accounts that we manage or investment products that we design or sell, affects our ability to retain existing assets and to attract new clients or additional assets from existing clients. This could adversely affect the management and performance fees that we earn on assets under management.

We may generate lower revenues from asset and wealth management fees in a market downturn and as a result of events that negatively affect our reputation.

A sustained market downturn could lead to a decline in the volume of transactions that we execute for our clients and, therefore, the revenues we receive from our asset and wealth management operations could further decline. For example, confronted with a challenging macroeconomic scenario in Brazil and in part due to the reputational consequences emanating from the arrest of André Santos Esteves in 2015, our revenues from asset management declined from R$1,378.3 million in 2014 to R$486.3 million in 2017. In addition, a market downturn may increase redemptions from clients migrating assets to more traditional and less risky classes of assets or reduce the value of clients' portfolios. Because the fees that we charge for managing our clients' portfolios are in many cases based on the value of those portfolios, any of these factors could reduce the revenue we receive from our asset and wealth management operations.

We are vulnerable to disruptions and volatility in the global financial markets as well as to government action intended to alleviate the effects of any such financial crisis.

Our operations cause us to interact with a diverse group of counterparties, clients and other entities located in multiple jurisdictions. Accordingly, as a participant in the global economy, we are susceptible to interruptions and challenges emanating from disruptions and instability in the global financial markets. For example, as a result of the 2008 credit and liquidity crisis, a number of major financial institutions, including some of the largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced significant difficulties. In particular, banks in many markets, including Brazil, faced decreased liquidity or a complete lack of liquidity, rapid deterioration of financial assets on their balance sheets and resulting decreases in their capital ratios that severely constricted their ability to engage in further lending activity. We routinely transact with such institutions as trading counterparties in various agreements and contracts in the financial services industry, as well as brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. If significant financial counterparties experience liquidity problems or the financial services industry in general is unable to fully recover from the effects of a financial crisis, this can have an adverse effect on us.

In addition, in June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit.” The announcement of Brexit and the withdrawal of the United Kingdom from the European Union have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these effects of Brexit, among others, could adversely affect our business, our results of operations, liquidity and financial condition.

Moreover, the financial condition of our borrowers has, in some instances, been adversely affected by the financial and economic crisis, including the European debt crisis starting in 2010, which, in turn, increased our non-performing loans, impaired our loans and other financial assets and resulted in decreased demand for borrowings in general. Further disruption and volatility in the global financial markets could have further negative effects on the financial and economic environment and us. In addition, a prolonged economic downturn would result in a general reduction in business activity and a consequent loss of income, which could have an adverse effect on us.

We are exposed to certain risks that are particular to emerging and other markets.

In conducting our businesses in Brazil, as well as other emerging markets, we are subject to political, economic, legal, operational and other risks that are inherent to operating in these countries. These risks range from difficulties in settling transactions in emerging markets due to possible nationalization, expropriation, price controls and other restrictive governmental actions. We also face the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict our ability to convert local currency received or held by us in their countries into U.S. dollars or other currencies, or to take those dollars or other currencies out of those countries.

Changes in base interest rates could adversely affect us.

A significant portion of our business is conducted in Brazil, where the Central Bank’s Monetary Policy Committee (*Comitê de Política Monetária*) (“COPOM”) establishes the target base interest rate for the Brazilian banking system, and uses changes in this rate as an instrument of monetary policy. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*) (“SELIC”). In recent years, the base interest rate (the “SELIC rate”), has fluctuated significantly reflecting the corresponding volatility in the macroeconomic scenario and inflationary environment. During 2014, as a result of increased prospects of inflation and macroeconomic instability, COPOM increased the SELIC rate, reaching 11.75% as of December 31, 2014. The continued political instability in Brazil coupled with the sustained inflationary environment continued to be reflected in the SELIC rate, corresponding to an increased rate of 14.25% and 13.75% as of December 31, 2015 and December 31, 2016, respectively. As of December 31, 2017 and September 30, 2018, the SELIC rate was 7.00% and 6.50%, respectively, reflecting a historical low. As of the date of this Offering Memorandum, the SELIC rate was 6.50%.

A significant portion of our income, expenses and liabilities is directly tied to interest rates. Therefore, our results of operations and financial condition are significantly affected by inflation, interest rate fluctuations and related government monetary policies.

In addition, U.S. and other international regulators and law enforcement agencies are conducting investigations into a number of rates or indices which are deemed to be "reference rates." Actions by such regulators and law enforcement agencies may result in changes to the manner in which certain reference rates are determined, their discontinuance, or the establishment of alternative reference rates. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. As a result, it appears highly likely that LIBOR will be discontinued or modified by 2021.

At this time, it is not possible to predict the effect that these developments, any discontinuance, modification or other reforms to LIBOR or any other reference rate, or the establishment of alternative reference rates may have on LIBOR, other benchmarks or floating rate debt securities and, in turn, the impact of such changes on us.

A liquidity crisis in Brazil may adversely affect us.

Any international or domestic crisis could lead to a flight of capital from Brazil and/or cause the Central Bank to increase the benchmark rate of interest drastically, which could cause a crisis of liquidity in the Brazilian market. Any such liquidity crisis would lead to a scarcity of funding and liquid assets among Brazilian companies and financial institutions, which could harm the credit markets and our business. Any adverse events affecting the Brazilian economy could directly or indirectly impair our customers' ability to pay their debts or adversely impact us in other ways.

Our ability to expand internationally will depend on our ability to compete successfully with financial institutions globally.

We believe that there are attractive opportunities for selective expansion outside Brazil, as evidenced by our 2012 acquisitions of Celfin and Bolsa y Renta, the opening of a bank in Chile in December of 2014 and the opening of our local offices in Bogota and Medellin, Colombia, Mexico City, Mexico and Buenos Aires, Argentina. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions and asset and wealth managers based in important non-Brazilian markets, particularly in Latin America, the United States, Europe and Asia. Some of these institutions are larger, better capitalized and have a stronger local presence and a longer operating history in these markets than we do. We cannot assure you that our strategy of expanding internationally will be successful.

We may not be able to successfully identify, consummate, integrate, or achieve the benefits from our past and future acquisitions.

Strategic acquisitions have historically been part of our growth strategy and, while we have recently pursued primarily a strategy of divestment, we anticipate that going forward we will continue making strategic acquisitions of businesses or assets that are complementary to our core business, geographies and client coverage. We have engaged in a number of mergers and acquisitions in the past and may make further acquisitions in the future as part of our growth strategy in the financial services industry.

We cannot assure you that we will be able to identify and secure suitable acquisition opportunities. In addition, our ability to make successful acquisitions on terms that are favorable to us may be limited by the number of acquisition targets available, internal demands on our resources and, to the extent necessary, our ability to obtain financing on satisfactory terms for larger acquisitions, as well as our ability to obtain any required shareholders' corporate, regulatory or government approvals. Moreover, even if an acquisition target is identified, the third parties with whom we seek to cooperate may not be willing to enter into arrangements on commercially acceptable terms with respect to a particular transaction. Even if we have entered into definitive agreements to consummate an acquisition, the acquisition may not be completed for an extended period of time, or at all, for various reasons, including failure to satisfy closing conditions or failure to receive the required regulatory approvals or conditions for approval may be imposed that we cannot now anticipate. The negotiation and completion of potential acquisitions, whether or not ultimately consummated, could also potentially disrupt our existing business or divert substantial resources. As a result, our business, growth prospects, results of operations and financial condition could be materially and adversely affected.

In addition, the acquisitions we make may expose us to risks of unknown obligations or contingencies of the acquired companies or assets incurred prior to their acquisition. The due diligence we perform to evaluate the legal and financial condition of the companies to be acquired, as well as any contractual guarantees or indemnities we receive from the sellers of the target companies or businesses, may be insufficient to protect or indemnify us for any contingencies that may surface. Any significant contingencies arising from acquisitions may harm our activities and results. In addition, we may acquire companies that are not subject to independent external audit, which may increase the risks relating to our acquisitions.

Successful integration of our acquisitions is important to achieving our goal of becoming a global leader in financial services. Our inability to realize the benefit of any acquisition may be due to a variety of factors, including our inability to (i) implement our firm’s culture at the companies we acquire, (ii) integrate our respective operating and accounting policies and procedures as well as information systems and back office operations with those of the companies we acquire, (iii) streamline overlapping operations and consolidate subsidiaries, (iv) retain existing senior and middle management teams to the extent we deem necessary or carry out anticipated headcount reductions, (v) avoid potential loss of or harm to relationships with the existing clients of the acquired businesses or our existing clients, or (vi) otherwise generate sufficient revenues to offset the costs and expenses of acquisitions. Moreover, the success of any acquisition will at least in part be subject to a number of economic and other factors that are beyond our control. Any one or a combination of the factors mentioned above may result in our failure to integrate the businesses or assets that we have acquired or will acquire or to obtain the growth or synergies we expect to obtain from a particular transaction. As a result, our business, operating results and financial condition could be materially and adversely affected.

We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

Strategic acquisitions, new business initiatives and international expansion may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and expose us to new asset classes and new markets. Such activities may expose us to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties and investors or in connection with the manner in which these assets are being operated or held, greater regulatory scrutiny of these activities, and increased credit-related, sovereign and operational risks.

The financial services industry is intensely competitive.

The financial services industry is intensely competitive with significant participants that are local entities as well as local offices or units of major international securities firms and we expect it to remain so. We compete on the basis of a number of factors, including transaction execution, products and services, innovation, reputation and price. We have experienced intense price competition in some of our businesses in recent years, such as underwriting fees in equity offerings. We believe we may experience pricing pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing prices. Because of the risk of increased competition, we cannot assure you that we will be able to successfully execute our investment focus to create value for our unit holders or continue the pace of growth or profitability that we have experienced historically.

Specifically in relation to Brazil, Chile, Mexico and certain other key Latin American markets, their attractiveness appears to be increasing and this is likely to result in more competition. Depending on the segment, our competitors may be substantially larger and have considerably greater financial, technical and marketing resources than we do. We already face significant competition in all of our principal areas of operation from other large Brazilian and international banks, both public and private. In recent years, the presence of foreign banks in Brazil and certain other key Latin American markets has grown and competition in the banking sectors and in markets for specific products has increased. We cannot assure you that we will be able to grow or maintain our market share.

We face increased competition due to a trend toward consolidation.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the investment banking industry. In addition, both in Brazil and elsewhere, a number of large commercial banks and other broad-based financial services firms have established or acquired financial advisory practices and broker-dealers or have merged with other financial institutions and/or asset wealth managers. These firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset and wealth management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in pricing pressure in our businesses, among others. In particular, the ability to provide financing as well as advisory services has become an important advantage for some of our larger competitors. An increase in competitive conditions may also adversely affect us as a result of, among other factors, difficulties in trying to increase our client base and expand our operations, decreases in our profit margins on our activities and increasing competitiveness for investment opportunities.

Our market, credit and operational risk management policies, procedures and methods may not be fully effective in mitigating our exposure to unidentified or unanticipated risks.

Our market and credit risk management techniques and strategies, including our use of Value at Risk ("VaR") and other statistical modeling tools, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate. Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential clients believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the trading risks of counterparties. In addition, in cases where we have extended credit against collateral, we may find that we are under secured, for example, as a result of sudden declines in market values that reduce the value of collateral.

We may not be able to prevent our officers, employees or third parties acting on our behalf from engaging in situations that qualify as corruption in Brazil or in any other jurisdiction, which could expose us to administrative and judicial sanctions, as well as have an adverse effect to us.

We are subject to Brazilian anticorruption legislation and similarly-focused legislation of the other countries where we have branches and operations, as well as other anticorruption laws and regulatory regimes with a transnational scope. These laws require the adoption of integrity procedures to mitigate the risk that any person acting on our behalf may offer an improper advantage to a public agent in order to obtain benefits of any kind. Applicable transnational legislation, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, as well as the applicable Brazilian legislation (mainly Brazilian Law No. 12,846/2013 – *Lei Anticorrupção Brasileira*), require us, among other things, the maintenance of policies and procedures aimed at preventing any illegal or improper activities related to corruption involving government entities and officials in order to secure any business advantage, and require us to maintain accurate books and a system of internal controls to ensure the accuracy of our books and prevent illegal activities. If our policies and procedures designed to prevent bribery and other corrupt practices were not in the past or are not in the future capable of preventing voluntary or inadvertent action by our administrators, employees or third parties acting on our behalf that constitutes corruption, applicable regulatory agencies, to which we respond, have the power and authority to impose fines and other penalties.

We cannot assure you that our governance, risk management, compliance, audit and internal controls processes will be able to prevent, detect or remedy all behaviors that are incompatible with the applicable legal requirements or our own ethical or compliance standards, and any deficiency or breach could expose us to sanctions, regulatory penalties, civil claims, tax claims, monetary losses, accounting errors or adjustments, reputational damages, or other adverse effects. The perception or allegations that we, our employees, our affiliates or other persons or entities associated with us have engaged in any such improper conduct, even if unsubstantiated, may cause significant reputational harm and other adverse effects.

Ongoing high profile anti-corruption investigations in Brazil may adversely affect us.

There are ongoing investigations being conducted by the CVM, the SEC, the U.S. Department of Justice ("DOJ"), the Brazilian Federal Police and other Brazilian public authorities responsible for corruption and cartel investigations in connection with corruption allegations (the so called *Lava Jato* investigations) consisting, among other things, of illegal payments made by Brazilian companies to officers, directors and other employees of Petrobras, a Brazilian state-controlled energy company, in order to influence its commercial decisions.

A substantial portion of our business activity is conducted in Brazil and we believe that these investigations have had, and may continue to have, an adverse effect on the Brazilian economy, the general business environment in which we operate and investor sentiment toward Brazil.

Through our corporate lending business, we have extended loans to companies in the Brazilian construction sector that are subject to the *Lava Jato* investigations. If the financial condition of these borrowers is adversely affected by the consequences of these investigations, these borrowers may be required to pay substantial fines, experience liquidity problems or may be restricted in their ability to make payments on these loans, which may increase our number of non-performing loans and could result in decreased demand for borrowings in general and adverse impact to our business.

In addition, our portfolios of merchant banking, real estate and private equity investments include companies which are directly connected to Petrobras. For example, See "Business—Business Units— Principal Investments." Poor returns on these or other investments that are negatively affected by the *Lava Jato* investigations may adversely affect our business, results of operations and financial condition.

In November 2015, André Santos Esteves, then the CEO, chairman and largest shareholder of Banco BTG Pactual, was temporarily taken into custody in Brazil in connection with allegations of obstruction of justice. Following such arrest, we conducted an internal investigation coordinated by an independent committee in conjunction with external legal counsel and forensic and financial consultants, and found no basis to conclude that the allegations of misconduct against Mr. Esteves, Banco BTG Pactual or our personnel that were the subject of the investigation are credible, accurate or otherwise supported by reliable evidence. On September 1, 2017, the Brazilian Federal Prosecutor's Office filed its closing arguments requesting the dismissal of all charges against Mr. Esteves. On July 12, 2018, Mr. Esteves was acquitted by the competent court of the charges and the case was officially closed on August 17, 2018. However, as a result of certain statements included in the plea bargain of Delcídio do Amaral Gomez, a former Brazilian senator, Mr. Esteves became subject to additional corruption-related investigations. See "Business—Legal Matters." Other corruption related allegations have been made against Mr. Esteves in connection with an investment by Banco BTG Pactual in assets acquired by Banco BTG Pactual from Petrobras from its PetroAfrica subsidiary as well. None of the foregoing matters, and other matters involving us, have resulted in any criminal charges being brought against Mr. Esteves, us or any other Banco BTG Pactual employees, and Mr. Esteves and Banco BTG Pactual continue to cooperate with all authorities in any investigations that are proceeding and we continue to monitor the situation.

While a conviction of Mr. Esteves in the ongoing criminal proceedings seems unlikely given the dismissal of all charges as described above on July 12, 2018 by the court of competent jurisdiction and the official closing of the case on August 17, 2018, we cannot predict the ultimate outcome of that criminal proceeding or whether any of the investigations, including new investigations resulting from plea bargains involving third parties or otherwise, will result in criminal charges being brought against Mr. Esteves or us and what impact, if any, any such proceedings or investigations may or could have on Mr. Esteves or us and any of our businesses, including any potential fines and penalties, regardless of whether there is a determination of any wrongdoing.

Moreover, in response to these allegations against Mr. Esteves, our management adopted a series of actions to preserve liquidity and capital, which included, among other actions, the disposal of certain relevant investments in subsidiaries and affiliates and corporate restructuring of certain other of our investments. However, we cannot guarantee that such actions, while designed to preserve liquidity and financial stability in the short term will not hamper our long-term strategic goals.

We cannot predict with certainty the severity or scope of the adverse effects that such events will have on us. We may have to continue to devote significant time to addressing the challenges arising from these allegations. Further investigations, whether made in connection with the current anti-corruption investigations or otherwise, may arise in the future and such potential investigations could have an adverse effect on our business, results of operations and financial condition.

Our unaudited adjusted income statement presented in this Offering Memorandum was not prepared in accordance with Brazilian GAAP or IFRS, is not indicative of our results of operations and should not be considered in isolation or as an alternative to the financial statements included in this Offering Memorandum.

In addition to our income statement derived from our consolidated financial statements, we have included in this Offering Memorandum our unaudited adjusted income statement and a discussion of such unaudited adjusted income statement. The classification of the line items in our unaudited adjusted income statement has not been audited or reviewed by our independent auditors and materially differs from the classification of the corresponding line items in our income statement. See "Presentation of Financial and Other Information—Financial Statements." As a result, our unaudited adjusted income statement (i) was not prepared in accordance with Brazilian GAAP nor IFRS, (ii) should not be presumed to be separate stand-alone operating segments under IFRS because our management does not rely on such information for decision- making purposes, (iii) contains data about our business, operating and financial results that are not directly comparable to the financial statements included in this Offering Memorandum and (iv) is not indicative of our results of operations nor should not be considered in isolation or as an alternative to such financial statements.

The recoverable amounts of fixed assets, intangible assets and equity investments used in our financial impairment tests may differ from the actual recoverable amount of such assets, which could adversely affect us.

The applicable Brazilian accounting rules and IFRS require us to carry out calculations of the value of our assets so that they are not recorded in amounts greater than what is actually recoverable through use or sale of the asset. In cases where this occurs, we record an impairment loss in our income statement equal to the difference between the two amounts. Under these rules, we must estimate the recoverable amount based on prices quoted in the market, discounted cash flows or other techniques, which requires our management to make subjective decisions and adopt assumptions it deems adequate. If management uses incorrect assumptions and the recoverable value of the asset is lower than previously estimated, we would be required to adjust our financial statements to reduce the accounting value of the asset further, which would adversely affect us.

An inability to access financing or to sell assets could impair our liquidity.

We depend on continuous access to credit to finance our day-to-day operations. An inability to raise long-term or short-term debt, or to engage in repurchase agreements or securities lending, could have a substantial negative effect on our liquidity. Our access to credit in amounts adequate to finance our activities could be impaired by factors that affect us in particular or the financial services industry in general. For example, lenders could develop a negative perception of our long-term or short-term financial prospects and restrict our access to financing if we incurred large trading losses, if the level of our business activity decreased due to a market downturn, if regulatory or governmental authorities took significant action against us or any members of our Senior Management Team or if we discovered that any of our personnel had engaged in unauthorized or illegal activity. Our ability to borrow in the debt markets also could be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views about the prospects for the investment banking, securities or financial services industries generally.

In addition, we depend on inter-bank deposits as a principal source of unsecured short-term funding for our operations. As of September 30, 2018, we had R$25,612.6 million of deposits, comprised mainly of time deposits in the amount of R$24,999.5 million. Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Banks that hold inter-bank deposits with us have no obligation to renew these inter-banks deposits when the outstanding deposits mature. If we are unable to refinance these short-term borrowings, we will be adversely affected.

If we are unable to borrow in order to meet our maturing liabilities, we may need to liquidate assets. In certain market environments, such as times of market volatility or uncertainty, overall market liquidity may decline. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may have to sell assets at depressed prices, which could adversely affect us. Our ability to sell our assets may be impaired by other market participants seeking to sell similar assets into the market at the same time.

A reduction in our credit ratings could adversely affect our liquidity and competitive position and increase our borrowing costs.

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings and that of Brazil. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place us on "credit watch" with negative implications at any time. Credit ratings are also important to us when competing in certain markets and when seeking to engage in longer-term transactions, including over-the-counter derivatives. A reduction in our credit ratings could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity.

For example, in 2016, the rating agencies, Moody's Investor Service, Fitch Ratings Inc. and Standard and Poor's downgraded certain of our securities reflecting the view that our profile had been lastingly weakened following the arrest of our former chairman and CEO. In addition, the rating agencies anticipated that recurring earnings would decline as a result of client defection in certain business lines compounded by a general deterioration in the operating environment. In addition, the negative outlook of credit agencies' captured execution risks related to the sale of assets as well as concerns regarding stabilizing profits, funding and liquidity. Starting at the end of 2016 and through 2018, credit ratings for Banco BTG Pactual improved or, at a minimum, were not subject to additional downgrades, with such shift in outlook attributable to our efforts to address negative pressures facing the franchise and our financial profile, however, there is no guarantee that rating agencies will not further downgrade our credit ratings and the ratings of our securities. Changes in circumstances, real or perceived, could result in material changes to credit ratings, which, in turn, could negatively impact our earnings and liquidity.

We may suffer significant losses from our credit exposures.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include our trading counterparties, clients, clearing agents, exchanges, clearing houses and other financial intermediaries as well as issuers whose securities we hold. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from holding securities of third parties; entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to us; executing securities, futures, currency or commodity trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and extending credit to our clients through bridge or margin loans or other arrangements.

Additionally, as part of our brokerage business, we finance our client positions, and we could be held responsible for the defaults or misconduct of our clients. We are also experiencing pressure from corporate clients that require credit commitments in connection with investment banking and other assignments. Our broader credit portfolio, which consists mainly of loans, receivables, advances in foreign exchange contracts, securities with credit exposures (including debentures, promissory notes, real estate bonds, investment funds of credit receivables) and commitments (mainly letters of credit), had an average balance of R$28.2 billion in 2016, an average balance of R$27.3 billion in 2017 and an average balance of R$31.0 billion for the nine months ended September 30, 2018. In addition, as competition in the financial services industry has increased, we have experienced pressure to assume longer-term credit risk, extend credit against less liquid collateral and price more aggressively the credit risks that we take.

The ability of borrowers to meet their obligations on schedule is directly related to their operational and financial performance. An economic crisis such as the world financial crisis in 2008 and the European sovereign debt crisis in 2010 through 2012, or poor economic performance, such as a result of the recent recession in Brazil or otherwise, may also increase the number of defaulting borrowers. An increase in the number of defaulting borrowers within our credit portfolio may increase the losses resulting from loans and adversely affect us.

It may be difficult for us to repossess and realize value from collateral with respect to defaulted loans, which may adversely affect us.

When our customers default on collateralized loans our only recourse, after exhausting all extrajudicial collection measures, is to enforce the collateral. When dealing with financially distressed debtors, the recovery of these loans may also be subject to insolvency proceedings in which our claim may rank lower than other preferred creditors, such as employees and tax authorities. In addition, once we have obtained a court judgment, execution of the judgment in order to obtain the collateral for sale often involves additional obstacles. In view of all the steps necessary in judicial proceedings for debt collection and the low liquidity of specific markets, it may be difficult for us to realize value from collateral, which may adversely affect our financial condition and results of operations.

Defaults by other financial institutions could adversely affect financial markets generally and us as well.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis.

We may experience increases in our level of past due loans as our portfolio of credit products and derivatives increases.

We intend to continue to grow our portfolio of credit products and derivatives. Growth of this portfolio may initially reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. When the portfolio is seasoned, we may experience an increase in the absolute level of past due loans. This may result in increases in our loan loss provisions, charge-offs and the ratio of past due loans to total loans. In addition, as a result of our intention to increase our portfolio, our historic loan loss experience may not be indicative of our future loan loss experience.

If actual loan losses exceed credit risk provisions in our banking activities, we will be adversely affected.

Our financial condition and results of operations depend on the ability to assess losses associated with the risks to which we are exposed. We make allowances for loan losses in banking activities according to the parameters set forth in CMN Resolution No. 2,682 and using estimates that involve many factors, backed by available information including recent loss or default events, the economic scenario, the bank’s financial situation and the internal risk rating of the loan. Calculating allowances for loan losses involves significant judgment on the part of management, and those judgments may change in the future depending on information as it becomes available. If actual loan losses exceed provisions for our corporate lending activities, we will be adversely affected.

We are subject to several operating risks inherent to our businesses, including in relation to the proper functioning of our operating systems.

Our businesses are highly dependent on our ability to process and monitor efficiently and accurately, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services we provide to clients, often must adhere to jurisdiction and client-specific guidelines, as well as legal, tax and regulatory standards. Our management of operational, legal, tax and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Despite the plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption involving electrical, communications or computer systems, internet, transportation, security systems or other services used by us or third parties with which we conduct business. If any of these infrastructure devices do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of these devices to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Losses can also result from inadequate personnel, inadequate or failed internal control processes and systems, information systems failures or external events that interrupt normal business operations such as terrorist acts, natural disasters and sabotage. We face the risk that the design of our controls and procedures for mitigating operational risk proves to be inadequate or is circumvented.

Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis. Furthermore, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses increases the risk that an operational failure at one institution may cause an industry-wide operational failure that could adversely affect us.

Failure to adequately protect ourselves against risks relating to cybersecurity could adversely affect us.

We face various cybersecurity risks, including but not limited to: penetration of our information technology systems and platforms, including our BTG Pactual Digital platform, by ill-intentioned third parties, infiltration of malware (such as computer viruses) into our systems, contamination (whether intentional or accidental) of our networks and systems by third parties with whom we exchange data, unauthorized access to confidential client and/or proprietary data by persons inside or outside of our organization, and cyber-attacks causing systems degradation or service unavailability that may result in business losses.

We may not be able to successfully protect our information technology systems and platforms against such threats. We have seen in recent years computer systems of companies and organizations being targeted, not only by cyber criminals, but also by activists and rogue states. We have been and continue to be subject to a range of cyberattacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of client data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of our information technology systems used to service our clients. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to our clients.

In light of the roll-out of our BTG Pactual Digital platform, if we fail to effectively manage our cyber security risk, for example, by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of client compensation, regulatory penalties and fines and/or through the loss of assets. In addition, we may also be subject to cyber-attacks against critical infrastructures of Brazil. Our information technology systems are dependent on such critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect our ability to service our clients. We have limited ability to protect our information technology systems from the adverse effects of such a cyber-attack.

In addition, according to the CMN Resolution No. 4,658, dated April 26, 2018, financial institutions must now follow new cyber risk management and cloud outsourcing requirements. Policies and action plans to prevent and respond to cybersecurity incidents must be in place by May 6, 2019, and fully compliant by December 31, 2021. Failure to comply with any of these new regulatory requirements could have an adverse effect on us.

Failure to protect personal information could adversely affect us.

We manage and hold confidential personal information of clients in the ordinary course of our business. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures or security breaches could subject us to legal actions and administrative sanctions as well as damages that could materially and adversely affect our operating results, financial condition and prospects. Further, our business is exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter or prevent employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. In addition, we may be required to report events related to information security issues (including any cyber security issues), events where client information may be compromised, unauthorized access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of our systems could cause information, including data related to client requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

Misconduct by our personnel could harm us and may not be timely detected and deterred, and we may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and could have an adverse effect on us.

There have been a number of highly publicized cases involving fraud or other misconduct by individuals involved in the financial services industry in recent years, particularly in Brazil, and we run the risk that such misconduct could occur and harm our business. Misconduct by individuals working for us could occur in the future. For example, these risks could include binding us to transactions that exceed authorized limits or present unacceptable risks, or hiding from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. These risks could also include unauthorized breaches of the existing regulatory, tax and administrative procedures and processes or of the additional procedures and processes which we will implement for the purpose of addressing the standards and requirements applicable to public companies. Such misconduct could also involve the improper use or disclosure of confidential information, which could result in sanctions and serious reputational or financial harm. Any breach of our clients' confidences as a result of such misconduct may impair our ability to attract and retain clients. It is not always possible to deter such misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases.

We are also required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which we operate. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, requiring improved systems, demanding sophisticated monitoring and compliance personnel and becoming the subject of enhanced regulatory supervision. In addition, laws such as the U.S. Foreign Corrupt Practices Act and the recently enacted Brazilian Anti-Corruption Law require us, among other things, to institute policies and procedures aimed at preventing any unlawful offer or promise, or gift of anything of value, to government officials in order to secure a business advantage, and require us to maintain accurate books and records and a system of internal controls to ensure accuracy of our books and records and prevent illegal activity.

Our policies and procedures aimed at detecting and preventing the use of our banking network for money laundering, terrorist financing and related activities, as well as our policies and procedures aimed at preventing bribery and other corrupt practices by our employees and agents may not completely eliminate instances where our banking network may be used by other parties to engage in money laundering and other illegal or improper activities, or may not prevent our employees and agents from engaging in corrupt dealings. Although we review our significant counterparties' internal policies and procedures with respect to internal procedures before engaging in business with them, we, to a large degree, rely upon these counterparties. Such procedures and controls may not be completely effective in preventing our counterparts from using the relationships established with us for the act of corruption. If we are associated with, or even accused of being associated with, or become a party to corruption practices, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement, any one of which could have a material adverse effect on our operating results, financial condition and prospects. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of licenses. In addition, our business and reputation could suffer if customers use our banking network for money laundering, terrorist financing or other illegal or improper purposes.

If we are associated with or become a party to, or even accused of being associated with or being a party to money laundering, terrorist financing or other illegal practices, or if we were to appear as defendants or are investigated in corruption-related investigations, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement, any one of which could have a material adverse effect on our operating results, financial condition and prospects.

Legal restrictions on our clients may reduce the demand for our services.

New laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients may also adversely affect us. For example, changes in antitrust enforcement could affect the level of mergers and acquisitions activity and changes in regulation could restrict the activities of our clients and, therefore, the services we provide to them.

Our inability to successfully implement our strategy relating to, or to realize the intended benefits from, our historical acquisition of a co-controlling interest in Banco Pan could have an adverse effect on us.

There continue to be significant risks associated with our acquisition of a co-controlling interest in Banco Pan, which was consummated on May 27, 2011.

Prior to the announcement of the transaction, Banco Pan disclosed a series of accounting inconsistencies which resulted in losses of approximately R$4.3 billion. We record the results of operations from Banco Pan using the equity method of accounting, pursuant to which our share of Banco Pan's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity in the earnings of associates and jointly controlled entities. We have historically recorded significant losses or minimal profits in connection with the Banco Pan equity pick-up, with a profit of R$5.0 million in 2015, losses of R$95.7 million in 2016, profits of R$85.2 million in 2017 and profits of R$75.1 million in the nine months ended September 30, 2018. There can be no assurance that Banco Pan will not generate net losses thereafter or during 2019 or that Banco Pan's results of operations will not continue to adversely affect our results of operations relating to our commercial banking activities.

Furthermore, as co-controlling shareholder of Banco Pan, we may be required under Brazilian law to make additional capital contributions if certain circumstances arise in which Banco Pan is considered by the Central Bank to be undercapitalized. For more information on Brazilian banking regulations, see "Regulatory Overview—The Brazilian Financial System and Banking Regulation." We have made several significant capital injections in Banco Pan since its acquisition in 2011. It is possible that the initiatives to improve Banco Pan's results may not meet the expected results and that new capital injections at Banco Pan will be required. Any of these factors could have an adverse effect on us. We co-control Banco Pan, Pan Seguros and Pan Corretora with CaixaPar, which may have interests that differ from ours.

We have entered into a shareholders' agreement with Caixa Participações S.A. - CAIXAPAR ("CaixaPar") relating to our co-controlling interest in Banco Pan. Pursuant to the shareholders' agreement, various decisions which impact the business of Banco Pan require the agreement of CaixaPar. CaixaPar may have economic interests that differ from ours and may wish to act in a manner which is contrary to our strategy or objectives. If we are unable to obtain the agreement of CaixaPar with respect to decisions that we consider to be necessary, we may be unable to cause Banco Pan to implement business strategies that we believe to be in its best interests.

Following the separation of the publically traded IPO units offered in our initial public offering, our business is more vulnerable to actual or potential conflicts of interest, real or perceived.

In February 2017, we and PPLA Participations permitted the breaking of our publically traded IPO units, which consisted of our and PPLA Participations' voting and non-voting securities, and simultaneously created two new units programs in order to permit the separate trading of our and PPLA Participations' securities. As of August 18, 2017, trading of the IPO units was suspended, and our securities and PPLA Participations' securities no longer trade together on a combined basis. As a result of this change, former IPO unit holders, including the partnership vehicles currently controlling both PPLA and us, were able to change their proportional equity interests in PPLA Participations or us. Accordingly, this could create, or appear to create, potential conflicts of interest when our management and directors and PPLA Participations' management and directors face decisions that could have different implications for each of us and PPLA Participations. In addition, key managers or employees that have managed both PPLA Participation and us on a combined basis may not be suited or effective at managing them on a standalone basis. In addition, we and PPLA Participations can no longer allocate resources among ourselves to the same extent as in the past, which may adversely affect our operations.

We and our affiliates routinely engage in transactions with related parties that may present conflicts of interest and such transactions may not create value for us and our shareholders to the same extent as they may for our affiliates.

We are part of the BTG Pactual Group and we routinely enter into transactions with other entities in the BTG Pactual Group in the ordinary course of our business, including financing facilities and commercial and services agreements. For more information, see "Related Party Transactions." For example, in the ordinary course of its business, PPLAI maintains bank accounts with, and has invested in certain financial products offered by us and certain of our subsidiaries, including medium-term notes (acquired in the secondary market), demand deposits and time deposits. In addition, PPLAI has entered into several financial derivative contracts with us. We are likely to continue to engage in transactions with related parties and, in light of this strategy, we cannot guarantee that such transactions will generate value for us and our shareholders to the extent that they will for our affiliates.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us.

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies and regulations to influence Brazil's economy. The Brazilian government's actions to control inflation and effect other policies have involved depreciation of the *real*, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates, among other measures. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future. We may be adversely affected by changes in Brazilian government policies, laws or regulations at the federal, state and municipal levels as well as general economic factors, including, without limitation:

- banking regulations;
- growth or downturn of the Brazilian economy;
- the regulatory environment;
- inflation;
- interest rates;
- variations in exchange rates;
- reserve requirements;
- capital requirements;
- decreases in wages and economic levels;
- increases in unemployment;
- exchange rate control policies and restrictions on remittances abroad;
- fiscal policy and changes in the tax law;
- liquidity of the domestic financial, capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

We cannot predict what future policies will be adopted by current or future Brazilian governments, or whether these policies will result in adverse consequences to the Brazilian economy or cause an adverse effect on us, particularly under the new administration of the President of Brazil, Jair Bolsonaro, who was sworn into office on January 1, 2019.

Brazil continues to experience political instability, which may adversely affect us. Brazil is currently recovering from a recession, and continued weaknesses in the Brazilian macroeconomic environment could adversely affect us.

Brazil is currently recovering from a recession, and material weaknesses and imbalances continue to threaten macroeconomic stability and the future prospects of the Brazilian economy. The persistence or intensification of the economic crisis in Brazil and the uncertainty over whether the Brazilian government will be willing and able implement changes in policy or regulation in order to address the current economic challenges could adversely affect us.

Uncertainty regarding whether the Brazilian government will implement policy and regulatory changes may be compounded by political instability. Historically, Brazilian politics have affected the performance of the Brazilian economy. Political crises have affected and continue to affect the confidence of investors and the general public, and have historically resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

Since 2014, Brazil has experienced amplified economic and political instability derived from various currently ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as *Lava Jato*, which have negatively impacted the Brazilian economy and political environment and contributed to a decline in market confidence in Brazil.

As a result of these investigations, a number of senior politicians, including members of Congress, and high-ranking executive officers of major corporations and state-owned companies in Brazil, have been arrested (including our former CEO and chairman of our board), convicted of various charges relating to corruption, entered into plea agreements with federal prosecutors and/or have resigned or been removed from their positions. The individuals involved in the *Lava Jato* investigations are alleged to have accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties, which funds were unaccounted for or not publicly disclosed. These funds were also allegedly destined toward the personal enrichment of certain individuals.

Amidst this background of political and economic uncertainty, in August 2016, the Brazilian Senate approved the removal of Dilma Rousseff, Brazil's then-President, from office, following a legal and administrative impeachment process for infringing budgetary laws. Michel Temer, the former Vice-President who assumed the presidency of Brazil following Rousseff's ouster, is also under investigation on corruption allegations. In addition, former President Luiz Inacio Lula da Silva was leading polls as a top contender to win the 2018 presidential election when he began serving a 12-year prison sentence on corruption and money laundering charges in April 2018. We cannot predict which policies the President of Brazil, Jair Bolsonaro, who was sworn into office on January 1, 2019, may adopt or change during his administration in relation to corruption investigations or otherwise, or the effect that any such policies might have on our business and the Brazilian economy as a whole.

The potential outcome of *Lava Jato* as well as other ongoing corruption-related investigations is uncertain, but they have already had an adverse impact on the image and reputation of those companies that have been implicated as well as on the general market perception of the Brazilian economy, political environment and the Brazilian capital markets. We have no control over and cannot predict whether such investigations or allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future or will adversely affect us.

Any of the above factors may create additional political uncertainty, which could have a material impact on the Brazilian economy, our business, financial condition, results of operations and the market price of the Notes.

Policies under the new administration of Jair Bolsonaro, Brazil's recently inaugurated president, may adversely affect the Brazilian economy, our business and the market price of the Notes.

On October 28, 2018, Jair Bolsonaro, a retired military officer who represented the state of Rio de Janeiro in the lower house of the Brazilian Congress from 1991 through 2018, was elected the next President of Brazil and took office on January 1, 2019. We cannot predict with certainty how Jair Bolsonaro's administration may impact the overall stability, growth prospects and economic and political health of the country.

During his presidential campaign, Jair Bolsonaro was reported to favor the privatization of state-owned companies, economic liberalization, and social security and tax reforms. However, there is no guarantee that Bolsonaro will be successful in executing his campaign promises or passing certain favored reforms fully or at all, particularly when confronting a fractured congress.

Moreover, Jair Bolsonaro was generally a polarizing figure during his campaign for presidency, particularly in relation to certain of his social views, and we cannot predict the ways in which a divided electorate may continue to impact his presidency and ability to implement policies and reforms, all of which could have a negative impact on our business and the market price of the Notes.

Exchange rate instability may adversely affect us.

The Brazilian currency has been devalued frequently over the past three decades. Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely and during this period, the *real*/U.S. dollar exchange rate has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies.

As of December 31, 2014, the *real*/U.S. dollar exchange rate reported by the Central Bank was R$2.66 per US$1.00. During 2015, due to the poor economic conditions in Brazil and rampant political instability, the *real* devalued at a much higher rate than in previous years. On September 24, 2015, the *real* fell to the lowest level since the introduction of the currency, at R$4.195 per U.S. $1.00. Overall in 2015, the *real* depreciated 32.0%, reaching R$3.905 per U.S. $1.00 on December 31, 2015. In 2016, the *real* continued to fluctuate, primarily as a result of Brazil's political instability, and ultimately appreciated 19.8% year-over-year against the U.S. dollar as of December 31, 2016 to R$3.26 per U.S. $1.00. As of December 31, 2017, the *real*/U.S. dollar selling exchange rate was R$3.308 per U.S. $1.00, reflecting a 1.1% depreciation against the U.S. dollar as compared to December 31, 2016. As of September 30, 2018, the real/U.S. dollar selling exchange rate was R$4.0039 per U.S. $1.00, reflecting a 20.9% depreciation against the U.S. dollar as compared to September 30, 2017, and as of the date of this Offering Memorandum, the real/U.S. dollar selling exchange rate was R$3.7296 per U.S. $1.00.

Depreciation of the *real* relative to the U.S. dollar has created additional inflationary pressures in Brazil, which have led to increases in interest rates, limited Brazilian companies' access to foreign financial markets and prompted the adoption of recessionary policies by the Brazilian government. Depreciation of the *real* may also, in the context of an economic slowdown, lead to decreased consumer spending, deflationary pressures and reduced growth of the Brazilian economy as a whole. Conversely, appreciation of the *real* relative to the U.S. dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange currency accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy.

We cannot assure you that the *real* will not continue to appreciate or depreciate substantially against the U.S. dollar in the future. Our costs are principally denominated in *reais*. However, because a substantial portion of our revenues is denominated in U.S. dollars, whereas our reporting currency is the *real*, we may be adversely affected due to fluctuations in the value of the *real* against the U.S. dollar. For example, changes in the relative value of the *real* and the U.S. dollar will result in realized and unrealized foreign exchange gains and losses to the extent that we have assets and liabilities denominated in U.S. dollars or these other currencies. Further, the depreciation of the *real* against the U.S. dollar may create additional inflationary pressures in Brazil, which may negatively affect the Brazilian economy as a whole and cause an adverse effect on us.

Inflation, and the Brazilian government's measures to curb inflation, may contribute to economic uncertainty in Brazil, adversely affecting us.

Brazil has historically experienced extremely high rates of inflation and has therefore implemented monetary policies that have resulted in one of the highest interest rates in the world.

In 2015 and 2016, Brazil experienced high levels of inflation of 10.54% (IGP-M) and 7.17% (IGP-M), mainly due to unfavorable macroeconomic conditions. According to the IGP-M index, Brazil registered a 0.53% deflation in 2017 and on September 30, 2018 the accumulated inflation over the immediately preceding 12-month period was 4.2%. Despite the current scenario, Brazil may experience high levels of inflation in the future.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. The Central Bank has frequently adjusted the interest rate in situations of economic uncertainty and to achieve objectives under the economic policy of the Brazilian government.

If Brazil experiences substantial inflation or deflation in the future, we and our ability to comply with our obligations may be adversely affected. Such pressures may also affect our ability to access foreign financial markets and may lead to policies that may adversely affect the Brazilian economy and us. In addition, we may not be able to adjust the prices we charge our clients to offset the impact of inflation on our expenses, leading to an increase in our expenses and a reduction in our net operating margin.

Exposure to Brazilian federal government debt could have an adverse effect on us.

We invest in Brazilian government sovereign bonds. As of September 30, 2018, approximately 8.6% of our total assets, and 41.4% of our securities portfolio, was comprised of debt securities issued by the Brazilian government. Any failure by the Brazilian government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on us.

Our clients' and counterparties' ability to make timely payments may be restricted by liquidity constraints in Brazil.

The Brazilian economy has been subject to a number of developments or conditions that have significantly affected the availability of credit. In addition, Brazil is vulnerable to the effects of global financial crises. For example, the global economic crisis that affected developed markets in the United States and Europe starting in 2008 (particularly in Greece, Spain, Italy and Portugal) markedly reduced investor confidence globally. In the case of Brazil, it has lost its investment grade sovereign debt credit rating by the three main U.S. based credit rating agencies, Standard & Poor's, Moody's and Fitch. Standard & Poor's changed Brazil's sovereign debt credit rating from BBB-minus to BB-plus in September 2015, subsequently reducing it to BB in February 2016 and to BB- minus with stable outlook on in January 2018, citing less timely and effective policymaking and a risk of greater policy uncertainty after Brazil's 2018 elections. In December 2015, Moody's placed Brazil's Baa3 sovereign debt credit rating on review and downgraded Brazil's sovereign credit rating in February 2016 to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's indebtedness figures amid a recession and challenging political environment. After that, in April 2018 Moody's placed Brazilian sovereign outlook as stable. Fitch downgraded Brazil's sovereign credit rating to BB-plus with a negative outlook in December 2015, citing the country's rapidly expanding budget deficit and worse-than-expected recession, and further downgraded Brazil's sovereign debt credit rating in May 2016 to BB with a negative outlook. In February 2018, Fitch further downgraded Brazil's sovereign credit rating to BB-minus with a stable outlook.

These ongoing events could negatively affect our ability and the ability of other Brazilian banks to obtain financing in the global capital markets, as well as weaken the recovery and growth of the Brazilian and/or foreign economies and cause volatility in the Brazilian capital markets. In addition, to control inflation in general, the Brazilian government has maintained a tight monetary policy, with associated high interest rates, and has constrained the growth of credit. The combination of these developments has made it difficult at times for certain companies and financial institutions in Brazil to obtain cash and other liquid assets and has resulted in the failure of a number of weaker financial institutions in Brazil. In addition, concerns as to the stability of some financial institutions have caused significant transfers of deposits from smaller banks to larger banks since the beginning of 1995. No assurance can be given that developments in the Brazilian economy will not adversely affect the ability of certain of our counterparties or direct and indirect clients to make timely payments on their obligations to us or otherwise adversely affect us.

Developments and the perception of risk in other countries, such as the recent developments in the global financial markets, and particularly in emerging market countries, may adversely affect the market price of Brazilian securities, including the Notes.

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States, European countries other Latin American and emerging market countries. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Brazilian economy and resulted in considerable outflows of funds from Brazil and decreased the amount of foreign investments in Brazil. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries, such as the recent developments in the global financial markets, may have an adverse effect on the market value of securities of Brazilian issuers, including the Notes. Emerging market economies have been affected by the recent changes in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If the global economy or the current economic situation in other countries where we have significant operations deteriorates significantly, our results of operations could be adversely affected and the value of the Notes could decline. Such risks may also affect our access to the capital markets and compromise our ability to finance our operations through capital market issuances on favorable terms, or at all.

Brazil's economy remains vulnerable to external factors, which may adversely affect Brazil's economic growth and us.

The globalization of capital markets has increased the vulnerabilities of countries to each other's adverse events. Brazil could be negatively affected by negative financial and economic developments in other countries. The global financial crisis that occurred in mid-2008 led to reduced liquidity, crashes in credit markets and economic recessions in developed countries, which in turn negatively affected emerging markets. Financial losses and cash deficiencies, bankruptcies of financial and non-financial institutions and a decrease in confidence of economic agents increased risk aversion and led to more cautious lending.

In addition, fiscal problems in certain countries, especially in Europe, heightened concerns about the fiscal sustainability of weaker economies and reduced the confidence of international investors, which increased market volatility. These factors may affect our and other Brazilian financial institutions' ability to obtain financing in the international markets, limiting the credit. In addition, adverse events, such as those mentioned above, may damage the macroeconomic conditions in Brazil, impairing our customers' payment ability, and may also limit the realization of certain of its business strategies, which may cause an adverse impact on its businesses and operating results.

Our capability to make interest payments may be limited by liquidity constraints in Brazil.

Any international or domestic situation of liquidity constraint could lead to a flight of capital from Brazil and/or cause the Central Bank to increase the base rate of interest drastically, could impact the liquidity in the Brazilian market. These uncertainties in the financial environment, which may be both external and domestic, may increase liquidity risks, adversely affecting our major sources of funds, especially short-term deposits, raising its borrowing costs, which would have an adverse effect on our revenues and levels of liquidity. Any adverse events affecting the Brazilian economy could directly or indirectly impair our customers' ability to pay their debts or adversely impact us in other ways.

Risks Relating to the Regulatory Environment

Legal and regulatory risks are inherent and substantial in our businesses.

Substantial legal liability or a significant regulatory action against us could cause significant harm to our reputation or otherwise adversely affect us, which in turn could seriously harm our business prospects. We face significant legal risks in our businesses and the volume and amount of damages claimed in litigation against financial intermediaries are increasing. These risks include potential liability under securities and related laws for materially false or misleading statements made in connection with securities and other transactions, potential liability for the "fairness opinions" and other advice we provide to participants in corporate transactions and disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties in complex or risky trading transactions will claim that we failed to disclose the risks or that they were not authorized or permitted to enter into these transactions with us and that their obligations to us are not enforceable. We are increasingly exposed to claims for recommending investments that can be considered inconsistent with a client's investment objectives or engaging in unauthorized or excessive trading. During a prolonged market downturn, we would expect these types of claims to increase. See "Management Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Legal and Regulatory Risk."

We face risk of loss from legal and regulatory proceedings, mainly tax proceedings and proceedings before the Central Bank and the CVM. Such proceedings could subject us to monetary judgments, fines, penalties and reputational losses.

We are from time to time subject to certain claims and party to certain legal and regulatory proceedings incidental to the normal course of our business, including in connection with conflicts of interest, lending activities, trading strategies, relationships with our employees, economic plans and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal and regulatory matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. The amount of our reserves in respect of these matters is substantially less than the total amount of the claims asserted against us, and, in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period. For a discussion of other legal proceedings in which we are involved, see "Business—Legal Matters."

We are subject to review by taxing authorities, and an incorrect interpretation by us of tax laws and regulations may have an adverse effect on us.

The preparation of our tax returns requires the use of estimates and interpretations of complex tax laws and regulations and is subject to review by taxing authorities. We are subject to the income tax laws of Brazil. These tax laws are complex and subject to different interpretations by the taxpayer and relevant governmental taxing authorities, leading to disputes which are sometimes subject to prolonged evaluation periods until a final resolution is reached. In establishing a provision for income tax expense and filing returns, we must make judgments and interpretations about the application of these inherently complex tax laws. If the judgment, estimates and assumptions we use in preparing our tax returns are subsequently found to be incorrect, there could be a material adverse effect on us. In some jurisdictions, the interpretations of the taxing authorities are unpredictable and frequently involve litigation, which introduces further uncertainty and risk as to tax expense.

Changes in taxes and other fiscal assessments may adversely affect us.

The Brazilian government regularly enacts reforms to the tax and other assessment regimes to which we and our clients are subject. Such reforms include changes in the rate of applicable taxes and, occasionally, enactment of temporary levies, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms cannot be quantified and there can be no assurance that any such reforms would not have an adverse effect upon our business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing credit portfolio.

Changes in tax policy, including the creation of new taxes, may occur with relative frequency and such changes could have an adverse effect on our financial position or operating results. Also, the Brazilian Congress may discuss broad tax reforms in Brazil to improve the efficiency of allocation of the economic resources, as proposed by the executive branch of the Brazilian federal government. Major tax reforms in Brazil have been discussed over the last few years. It is anticipated that the reforms, if adopted, would involve a major restructuring of the Brazilian tax system, including the possible creation of a value added tax on goods and services that would replace several taxes currently in force (including the social contribution tax, the federal tax on industrial products and state taxes on the circulation of goods and services). In addition, we cannot predict if tax reforms will be implemented in the future. The effects of these changes, if enacted, and any other changes that could result from the enactment of additional tax reforms, cannot be quantified.

Extensive regulation of our businesses may limit our activities and adversely affect us.

The financial services industry is subject to extensive regulation, both in Brazil and elsewhere and, in many jurisdictions, increasing scrutiny from tax authorities and tax policy makers. See "Management Discussion and Analysis of Financial Condition and Results of Operations—Risk Management." We are subject to regulation by governmental and self-regulatory organizations, including the Central Bank, the CVM, and stock exchanges, in all jurisdictions in which we operate. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect clients and other third parties. Consequently, these regulations often (i) limit our business activities, including through net capital requirements, client protection, market conduct requirements and trading strategies, (ii) increase compliance costs and, (iii) to the extent the regulations strictly control the activities of financial services firms, make it more difficult for us to distinguish ourselves from competitors. We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or prohibited from engaging in some of our business activities. In addition, recent market disruptions have led to numerous proposals for significant additional regulation of the financial services industry. These regulations could further limit our business activities, increase compliance costs and, to the extent the regulations strictly control the activities of financial services firms, make it more difficult for us to distinguish ourselves from competitors.

Specifically, the Brazilian financial markets are subject to extensive and continuous regulatory review by the Brazilian government, principally by the Central Bank the CVM, and self-regulatory organizations. The Cayman Islands Branch is a licensed credit institution and as such is also subject to laws and regulations and ongoing regulatory review by the Cayman Islands' authorities. We have no control over these laws and regulations, which govern all aspects of our operations, including regulations that impose:

- minimum capital requirements;
- internal procedures to assess capital adequacy;
- compulsory deposit and/or reserve requirements;
- requirements for investments in fixed rate assets;
- lending limits and other credit restrictions, including compulsory allocations;
- limits and other restrictions on invoiced fees or other matters;
- money laundering, privacy, record keeping, and ethical issues;
- limits on the amount of interest banks can charge or the period for capitalizing interest;
- accounting and statistical requirements;
- requirements for and restrictions on trading transactions;
- risk exposure limits;

- price and salary controls;
- tax policy and regulation; and
- other requirements or limitations imposed in the context of the global financial crisis.

The Central Bank also must approve certain acts by Brazilian financial institutions.

In addition, some of our subsidiaries are also subject to regulation under U.S. federal and state law, United Kingdom laws and Luxembourg laws, which impose, among other things, minimal standards for different areas of operation, including operational, market, counterparty and other risk assessment, regulatory capital requirements, conduct of business requirements and internal systems and controls with regard to market abuse and insider dealing, among others.

Our Chilean, Colombian, Peruvian, Argentinian and Mexican operations are subject to regulatory capital requirements determined by the laws of such countries and their regulators, respectively, calculated based on their own capital considered individually.

Failure to comply with these standards could result in the application of fines or other sanctions, including the suspension or revocation of the licenses of these subsidiaries or their liquidation.

Changes in the regulation of operations of Brazilian banks and their foreign branches (including the Cayman Islands Branch) may adversely affect us.

Brazilian banks and their foreign branches (including the Cayman Islands Branch) are subject to extensive and continuous regulatory review by Brazilian and other relevant governments and regulators. Banking regulation is regularly enacted by the relevant government and regulator as a means of controlling credit availability and reducing or increasing consumption. Certain of these controls are temporary in nature and may vary from time to time in accordance with the relevant government's or regulator's credit policies. We have no control over any such regulations, which govern all facets of our operations, including the imposition of:

- minimum capital requirements;
- compulsory reserve requirements;
- lending limits and other credit restrictions; and
- accounting and statistical requirements.

The regulatory structure governing Brazilian banks and their branches abroad has frequently evolved. Existing laws and regulations could be amended; the manner in which laws and regulations are enforced or interpreted could change; and new laws or regulations could be adopted. Such changes could adversely affect us.

Changes in regulations regarding capital reserve and compulsory deposit requirements may adversely affect us.

Compulsory deposits are resources that financial institutions in Brazil are required to maintain with the Central Bank in relation to demand deposits, savings deposits and time deposits. The Central Bank has periodically changed the amount of reserves that financial institutions in Brazil are required to maintain. For example, as from September 2008, the Central Bank revoked and changed a number of compulsory deposit requirements in an attempt to reduce the impact of the global financial markets crisis, and, in the past year, the Central Bank increased and restated the compulsory deposit requirements. The Central Bank may increase its reserve and compulsory deposit requirements in the future or impose new reserve and compulsory deposit requirements.

We may be adversely affected by changes to compulsory deposit requirements because funds held as compulsory deposits generally do not yield the same return as our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;

- we are obliged to hold some of our compulsory deposits in Brazilian government securities, which may yield lower interest rates; and

- we must use a portion of the deposits to finance federal housing program, microcredit transactions and the rural sector.

Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, but they are now seen as an instrument by which the Central Bank pursues stability in the financial system and we have no control over their policy. Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect our business.

Minimum capital adequacy requirements imposed on us following the implementation of the Basel III Accord may negatively adversely affect us.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the "Basel III Accord," which was endorsed at the Seoul G20 Leaders summit in December 2010. The "Basel III Accord" recommendations aimed to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth. The Basel Committee's package of reforms increased the minimum capital requirements and required banks to hold a capital conservation buffer and a countercyclical buffer to withstand periods of stress and to control systemic risk.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution 4,192 established new rules for the calculation of the regulatory capital (*Patrimônio de Referência*) ("PR"), which requirements were gradually implemented by the Central Bank from 2013 to January 1, 2019, and determined, among others, that Brazilian financial institutions must comply with new minimum capital requirements. See "Regulatory Overview—Banking Regulation—Capital Adequacy and Leverage."

Additionally, from January 1, 2016 onwards, financial institutions licensed by the Central Bank are required to present their Additional Principal Capital (*Adicional de Capital Principal*, "ACP"), pursuant to CMN Resolution 4,193, which is an additional rate of Common Equity Tier 1 Capital (*Capital Principal*). ACP is calculated by applying certain percentage rates to Risk Weighted Assets (*Ativos Ponderados pelo Risco*, "RWA"). According to CMN Resolution 4,193, the calculation of ACP corresponds to the sum of the following: Preserved ACP (*Adicional de Conservação de Capital Principal*) + Countercyclical ACP (*Adicional Contracíclico de Capital Principal*) + ACP of Systemic Importance (*Adicional de Importância Sistêmica de Capital Principal*). Non-compliance with Additional Principal Capital limits, as long as the insufficiency of ACP is verified, restricts: (i) the payment of variable remuneration to officers and administrators of the respective financial institution; (ii) the payment of dividends and interest on shareholder's equity; (iii) the payment of net surplus and annual compensation to shareholders of credit cooperatives; (iv) the repurchase of shares, in any amount; and (v) any possible capital decrease. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Capital Requirements—Regulatory Capital Adequacy."

We may be unable to meet the minimum capital adequacy requirements required by the Central Bank due to changes in the rules concerning capital adequacy or changes in the performance of the Brazilian economy as a whole. We may also be compelled to limit our credit operations, dispose of assets and/or take other measures that may adversely affect us.

If we were deemed an "investment company" required to register as such under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

The Investment Company Act and the rules thereunder contain detailed parameters for the organization and operation of registered investment companies (or companies that should be but are not so registered). Among other things, the Investment Company Act and the rules thereunder applicable to such companies limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. Operation of a complex financial services business within those rules is impracticable. We therefore intend to conduct our operations so that we will not be an investment company required to register as such under the Investment Company Act.

We hold ourselves out as a diversified financial services firm and do not propose to engage primarily in the business of investing, reinvesting or trading in securities, a key element in the definition of an investment company under the Investment Company Act. However, there is a risk that some of our equity investment activities, especially if viewed in isolation from our other activities and our related companies, potentially could be considered those of an investment company subject to regulation under the Investment Company Act. As a result, we have elected to take steps to ensure compliance under such laws by limiting the persons and entities that may acquire units. The Notes will be offered pursuant to an exclusion from the definition of investment company as the Notes will be offered and sold in the United States only to prospective investors that are "qualified purchasers" within the meaning given to such term in the Investment Company Act, and outside the United States only in accordance with Rule 903 under the Securities Act. See "Transfer Restrictions."

The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business.

Since it was enacted in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") has resulted in rulemakings that have instituted a wide range of reforms impacting the U.S. financial markets and covering a broad range of market participants, including broker-dealers and investment advisers. In particular, the Dodd-Frank Act affects our investment adviser in the U.S. because it mandates additional new reporting requirements, including information with respect to positions, use of leverage and counterparty and credit risk exposure. The Dodd-Frank Act also creates the Financial Stability Oversight Council (the "Council"), which is charged with monitoring and mitigating systemic risk in the financial industry. As part of this responsibility, the Council has the authority to subject certain financial firms to additional regulations, which could limit the amount of risk-taking engaged in by certain financial firms.

While no asset managers have been subjected to these additional regulations, in December of 2014, the Council released a notice seeking public comment on the risks to the U.S. financial system posed by certain aspects of the asset management industry. If we were ever subjected to these additional regulations, it could result in increased regulation of our business, including higher standards on capital, leverage, liquidity, risk management, credit exposure reporting and concentration limits, restrictions on acquisitions and annual stress tests by the Federal Reserve.

In addition, the Dodd-Frank Act gives the SEC discretion to adopt rules regarding the standards of conduct that a broker-dealer employs when providing investment advice to retail customers.

Failure to comply with, or changes to, net capital requirements could adversely affect us.

The SEC, FINRA and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by SEC-registered broker-dealers. Our U.S. broker-dealer is required to comply with these net capital requirements and if it fails to maintain the required net capital, the SEC could suspend or revoke its registration or FINRA could expel it from membership, which could ultimately lead to its liquidation, or they could impose censures, fines and other sanctions. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital, then our operations that require capital could be limited. A large operating loss or charge against net capital could have a material adverse effect on our ability to maintain or expand our broker-dealer business in the U.S.

Limits on bank loan interest rates could have an adverse effect on us.

The Brazilian Federal Constitution historically imposed a 12.0% cap on the interest rates of loans from financial institutions. In 2003, however, such limit was eliminated by the enactment of Constitutional Amendment No. 40. as this amendment allows the Brazilian financial system to be regulated by specific laws. The Brazilian Civil Code and Decree No. 22,626, dated April 7, 1933 (known as the Usury Law), however, continue to provide limitations on interest rates. Law No. 4,595, dated December 31, 1964, which regulates the national financial system, together with several court decisions, has exempted financial institutions from the limits mentioned above. However, changes in Brazilian courts' interpretations, or any new legislation or regulation imposing a ceiling or limiting bank loan interest rates, could have a negative effect on us. In addition, the Brazilian government has recently been pressuring financial institutions to lower the applicable interest rates, which could also have a negative effect on us.

Risks Relating to the Notes

We and BTG Pactual US Capital, LLC, an initial purchaser in this offering, are affiliated companies that are part of the BTG Pactual Group, and once BTG Pactual US Capital, LLC participates in the bookbuilding process, distortions may occur in the setting of the material terms of the Notes.

BTG Pactual US Capital, LLC, an initial purchaser in this offering, is our wholly-owned subsidiary and will participate in the setting of the issue price, interest rate and other material terms of the Notes, together with other initial purchasers. In addition, vehicles owned by some of the Partners, acting in their personal capacity, were allocated approximately US$55.4 million in the bookbuilding process of this offering. This participation in the bookbuilding process may cause distortions in such terms of the Notes or reduce the liquidity of the Notes in the secondary market.

We may without the prior consent of the Noteholders, amend certain terms and conditions of the Notes to comply with the requirements of the Central Bank to qualify the Notes as Tier 2 Capital. Any of these amendments could have a material adverse effect on your investment in the Notes.

Under the terms and conditions of the Notes, we may once, amend certain terms and conditions of the Notes, without the prior consent of the Noteholders, in order to comply with any new resolution or written instruction of the Central Bank setting forth its requirements to qualify, or maintain the qualification of, the Notes as Tier 2 Capital pursuant to CMN Resolution 4,192, or supplemented by reason of implementation of Basel III, or otherwise. See "Description of the Notes—Modification of the Indenture—Changes Not Requiring Noteholder Approval" for more information regarding these amendments.

Notwithstanding the foregoing, we will only be permitted to make amendments to the Notes without Noteholders' consent as long as such amendments would not affect in any way the interest rate of the Notes, the outstanding principal amount of the Notes, the ranking of the Notes, or the original maturity date of the Notes.

Any of these amendments to the Notes may adversely impact your rights as a holder of Notes, and may adversely impact the market value of the Notes. Furthermore, we have wide discretion in determining whether these amendments are reasonably required under the Central Bank (or other) regulations, and therefore, will be able to determine unilaterally if these amendments are made.

No assurance can be given that the Notes will qualify as Tier 2 Capital or that the Central Bank will not amend the existing regulations or change its interpretation of the Tier 2 Capital regulations.

Subject to the Central Bank's approval, we expect that the Notes will qualify as Tier 2 Capital in accordance with CMN Resolution 4,192, as amended. The regulatory process in Brazil involves the Issuer submitting to the Central Bank the final terms and conditions of the Notes for confirmation that they meet the regulatory capital requirements for Tier 2 Capital and the Central Bank will not provide specific guidance prior to the issuance of the Notes. We cannot give any assurance that the Notes will qualify as Tier 2 Capital.

Furthermore, the Issuer cannot give any assurance as to whether the applicable requirements for Tier 2 Capital will change in the future. Even if the Notes initially meet the requirements of Tier 2 Capital under the current regulations, if such changes are made in the future, and unless the Notes are grandfathered into the new regulations, they could become disqualified as Tier 2 Capital and need to be treated as other capital or debt.

If we do not satisfy our obligations under the Notes, your remedies will be limited.

Payment of principal of the Notes may be accelerated only upon the occurrence of certain events involving our bankruptcy, extrajudicial liquidation, winding up or dissolution or similar events. There is no right of acceleration in the case of a default in the payment of principal of or interest or any other amount on the Notes or the failure by the Issuer to perform any other obligation under the Indenture.

Even if the payment of principal of the Notes is accelerated, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full, as described above in "—Our obligations under the Notes are subordinated to our senior liabilities and to certain statutory liabilities"; and

- we are actually declared bankrupt, are liquidated, wound up or are otherwise dissolved for purposes of Brazilian law.

If, after these conditions are met, we make any payment from Brazil, we may be required to obtain the approval of the Central Bank for the remittance of funds outside Brazil. See "—If we are unable to make payments on the Notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining, or be unable to obtain, the necessary Central Bank approvals, if then applicable, which could delay or prevent us from making payments on the Notes", below.

If we are unable to make payments on the Notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining, or be unable to obtain, the necessary Central Bank approvals, if then applicable, which could delay or prevent us from making payments on the Notes.

Securities issued by us through our Cayman Islands Branch do not require approval by, or registration with, the Central Bank (except for its classification as Tier 1 or 2 Capital, as the case may be). In case payment under the Notes issued by us acting through our Cayman Islands Branch needs to be made directly from Brazil (whether by reason of a lack of our liquidity acting through our Cayman Islands Branch, acceleration, enforcement, judgment or the imposition of any restriction under the laws of the Cayman Islands), a specific Central Bank approval may be required. If we are unable to obtain the required approvals, if needed, for the payment of amounts owed by us acting through our Cayman Islands Branch through remittances from Brazil, we may have to seek other lawful mechanisms to effect payment of amounts due under the Notes. However, we cannot give any assurance that other remittance mechanisms will be available, and even if they are available in the future, we cannot give any assurance that payment on the Notes would be possible through such mechanisms.

The Notes are subject to a write-off in certain circumstances, which are unpredictable and may be caused by factors not fully within our control. In case of a write-off, the Noteholders may lose their entire investment in the Notes.

Pursuant to Art. 20, X and XII, of CMN Resolution 4,192, as amended, all or a portion (which portion shall be in an amount at least equal to balance accounted for as our Tier 2 Capital of the Issuer) of the Notes may be permanently written-off. The occurrence of a write-off of the Notes is inherently unpredictable and depends on a number of factors, any of which may be outside our control. The occurrence of a write-off depends on, among others, our Common Equity Tier 1 Capital (*Capital Principal*); risk-weighted assets; the absence of public sector injections of capital by the Brazilian Government; and the Central Bank's determinations upon our dissolution or otherwise.

Fluctuations in our Common Equity Tier 1 Capital (*Capital Principal*) may be affected by changes in applicable capital adequacy standards and guidelines of governmental authorities, including with respect to solvency margins and provisions regarding the regulatory treatment of our business. Fluctuations in our risk-weighted assets may be caused by changes in the total risk exposure. As of the date of this Offering Memorandum, our Common Equity Tier 1 Capital (*Capital Principal*) is calculated according to CMN Resolution 4,192 and our risk-weighted assets are calculated according to CMN Resolution 4,193; however that calculation could change in the future to comply with new requirements of relevant governmental authorities. In addition, because a governmental authority may require our Common Equity Tier 1 Capital (*Capital Principal*) and risk-weighted assets to be calculated as of any date, a write-off could occur at any time.

Calculation of our Common Equity Tier 1 Capital (*Capital Principal*) and risk-weighted assets could be affected by, among other things, the growth of our business and our future earnings and expected dividend payments. It may also be impacted by our ability to reduce risk exposure in businesses that it may seek to exit or losses in our business.

In addition, the calculation may be affected by changes in applicable accounting rules. Accounting changes may have a material adverse impact on our reported financial position. We may apply such accounting policies based on applicable rules and regulations, including the exercise of any discretion that may be permitted from time to time by such rules and regulations, notwithstanding any potential adverse impact this may have on the position of Noteholders.

An amount at least equal to the balance accounted for as Tier 2 Capital portion will be written-off in case our Common Equity Tier 1 Capital (*Capital Principal*) falls below 4.5% of our risk-weighted assets, even if the shortfall amount is less than the amount that would be written-off. In addition, the Central Bank has discretion, subject to certain criteria established in the regulation issued by CMN, to determine that the Notes should be written-off even if our Common Equity Tier 1 Capital (*Capital Principal*) is above the threshold of 4.5% of our risk-weighted assets. See "Description of the Notes—Write-Off by the Issuer."

Furthermore, the Central Bank regulations that require the write-off are new and have not been tested. There is uncertainty on how these regulations and the relevant triggering events will be interpreted and applied to us. It will be difficult to predict when, if at all, a write-off may occur. Accordingly, the market value of the Notes may not necessarily follow other types of subordinated securities. Any indication that our Common Equity Tier 1 Capital (*Capital Principal*) level is trending towards a level below 4.5% of our risk-weighted assets, can be expected to have a material adverse effect on the market price of the Notes. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to more conventional investments.

As of September 30, 2018, the ratio of our Common Equity Tier 1 Capital (*Capital Principal*) in relation to our risk-weighted assets was 11.0%. For more information regarding our capital ratios and capital adequacies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Capital Requirements."

CMN Resolution No. 4,279, dated October 31, 2013, ("CMN Resolution No. 4,279"), sets forth the criteria as adopted by the Central Bank for determining in what circumstances securities accounted for as Additional Tier 1 Capital (*Capital Complementar*) or Tier 2 Capital may be written off or converted into shares of the issuing institution eligible for Common Equity Tier 1 Capital (*Capital Principal*). Pursuant to CMN Resolution No. 4,279, the Central Bank can write-off or convert such Additional Tier 1 Capital (*Capital Complementar*) or Tier 2 Capital in case the Central Bank considers such measures necessary: (i) to make possible the continuity of a financial institution's operations; and, at the same time (ii) to mitigate relevant risks for the Brazilian financial system. The Central Bank may consider the continuity of a financial institution's operations at risk when: (a) there is a material deterioration in (1) the value and liquidity of the financial institution's assets; (2) the financial institution's solvency; or (3) the financial institution's trustworthiness, characterized by a significant decrease in its borrowings; or (b) there is a material increase in default risk and, as a result, the safeguards and guarantee mechanisms used by Brazilian clearing chambers and services are activated, according to the rules applicable to the Brazilian payment system. A material risk for the Brazilian financial system can be verified by the Central Bank when the discontinuity of the affected financial institution can lead to: (i) an impairment in the operations of other financial institutions or relevant segments of the market that might create concerns regarding the stability of the financial system; or (ii) a material loss to the availability (at adequate levels) of services that are considered essential to the financial system. Furthermore, CMN Resolution No. 4,279 requires that Brazilian financial institutions adopt an action plan in case a write-off or conversion of securities is necessary.

Other regulatory capital instruments may not be subject to a write-off.

The terms and conditions of other financial instruments issued or to be issued after the date hereof by us and subject to Brazilian capital requirements may vary. Accordingly, these instruments may not be written-off at the same time, or to the same extent, as the Notes, or at all.

The Controlling Partners may have interests that differ from your interests as a Noteholder.

As of the date of this Offering Memorandum, our Controlling Partners, through G7 Holding, controlled our common shares which, subject only to certain limited exceptions (see "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement" and "Principal Shareholders"), will allow our Controlling Partners to control our management, direction and policies, including the outcome of any matter submitted to a vote of shareholders. As a result, subject to certain exceptions, our Controlling Partners will be able to (i) elect and control the decisions of the majority of our board of directors, (ii) control our management and policies, and (iii) determine without the consent of Noteholders the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including mergers, amalgamations, consolidations and the sale of all or substantially all of our assets. As the controlling shareholders of Banco BTG Pactual, our Controlling Partners will also be able to prevent or cause a change in control of Banco BTG Pactual. The interests of our Controlling Partners may not coincide with yours as a holder of Notes. For example, our Controlling Partners may have an interest in undertaking expansions, acquisitions, divestitures, financings and other actions that, in their judgment, could enhance their equity investments, even though those actions might involve risks to you as a holder of the Notes. In addition, we expect certain forthcoming changes in relation to the composition of our Controlling Partner group, involving mainly the imminent departure of Marcelo Kalim as a Controlling Partner and the entry of André Esteves as one of the controlling shareholders, subject in all cases to receipt of the requisite regulatory and corporate approvals (for additional information, see "Summary—Recent Developments"). We cannot predict whether these changes to the Controlling Partner block may bring corresponding changes to the management and control of Banco BTG Pactual, which may introduce additional risks to you as a holder of Notes.

Our interests and the regulatory authorities' interests may not be aligned with those of the Noteholders.

Our Common Equity Tier 1 Capital (*Capital Principal)* will depend in part on decisions made by us and other entities in the BTG Pactual Group relating to our business and operations, as well as the management of our capital position. We and other entities in the BTG Pactual Group will have no obligation to consider the interest of Noteholders in connection with our strategic decisions, including in respect of capital management. We may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a write-off. Moreover, in order to avoid the use of public resources, regulatory authorities may decide that we should allow a write-off to occur at a time when it is feasible to avoid this. Noteholders will not have any claim against us or any other entity in the BTG Pactual Group relating to decisions that affect the capital position of the BTG Pactual Group, regardless of whether they result in the occurrence of a write-off. Such decisions could cause Noteholders to lose the amount of their investment in the Notes.

The rating of the Notes may be lowered or withdrawn depending on some factors, including the rating agency's assessment of our financial strength and Brazilian sovereign risk.

Any rating assigned to the Notes reflects the rating agency's assessment of our ability to make timely payment of interest on each payment date. Any rating assigned to the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure the investors that any rating assigned to the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in the rating of the Notes will not be an event of default under the Indenture. The assigned rating may be raised or lowered depending, among other factors, on the rating agency's assessment of our financial strength as well as its assessment of Brazilian sovereign risk generally and any change to these may affect the market price or liquidity of the Notes. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Controls and restrictions on foreign currency remittances, or remittances to foreign investors generally, could impede our ability to make payments under the Notes.

The purchase and sale of foreign currency in Brazil is subject to governmental control. The Brazilian economy has experienced balance of payment deficits and shortages in foreign currency reserves to which the Brazilian government has responded by restricting the ability to convert Brazilian currency into foreign currency. Brazilian law provides that whenever a serious imbalance in Brazil's balance of payments exists or is anticipated, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. For example, in 1989 and early 1990, the Brazilian government restricted fund transfers that were owed to foreign equity investors and held by the Central Bank, in order to preserve Brazil's foreign currency reserves. These amounts were subsequently released. However, similar measures could be taken by the Brazilian government in the future.

Even though the Brazilian foreign exchange market has recently experienced a de-regulation process, the Brazilian government may in the future:

- restrict companies, including financial institutions, such as us, from paying amounts denominated in foreign currencies (such as payments under the Notes); or

- require that any of those payments be made in *reais*.

The likelihood of such restrictions may be determined by the extent of Brazil's foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy toward the International Monetary Fund, political constraints to which Brazil may be subject and other factors. To date, the Brazilian government has not imposed any restrictions on payments by Brazilian issuers in respect of debt securities issued in the international capital markets, but we cannot assure you that such restrictions will not be imposed by the Brazilian government.

There is currently no public trading market for the Notes and your ability to sell the Notes is limited.

The Notes are new debt securities, and there is no existing public market for them. Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF, which is not a regulated market within the meaning of the MIFID II. We cannot assure you that an active trading market for the Notes will ever develop or be sustained. If an active market for the Notes does not develop or is interrupted, the market price and liquidity of the Notes may be adversely affected. We also cannot assure you as to the liquidity of any markets that may develop for the Notes, the ability of Noteholders to sell their Notes, or the price at which holders would be able to sell their Notes. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, our financial condition, the prospects for other companies in the banking industry, and the market for similar securities.

Judgments of Brazilian courts enforcing our obligations under the Notes or the Indenture would be expressed in real-equivalent amounts.

If proceedings were brought in Brazil seeking to enforce our obligations under the Notes or the Indenture, any judgment obtained thereunder against us would be expressed in the amount in *reais* equivalent to the relevant non-Brazilian currency denominated amount due and unpaid under such Notes as of the date on which: (i) the respective proceeding is filed; (ii) the respective judgment is rendered; or (iii) the relevant payment is made. Accordingly, absent the imposition hereafter of any law, regulation or directive otherwise restricting the exchange of *reais* into, or the remittance from Brazil of, the non-Brazilian currency in which the Notes are denominated dictated by economic, market or other disruptive circumstances, the amount of *reais* made available as a result of such judgment would be applied towards the exchange into, and the remittance from Brazil of, such amount of non-Brazilian currency due and unpaid under the Notes.

Our obligations under the Notes are subordinated to our senior liabilities and to certain statutory liabilities.

The Notes will be, by their terms unsecured, subordinated obligations and will rank behind claims of our depositors, other unsubordinated and subordinated creditors, and will rank *pari passu* with our other instruments that qualify as Tier 2 capital and will rank in priority only to Junior Instruments. The Indenture does not contain any restrictions on our ability to incur additional indebtedness that is senior to the Notes. By reason of the subordination of the Notes, in the event of our winding up or dissolution, or similar events, although the full amount of the Notes and any accrued interest thereon will become immediately due and payable, our assets will be available to pay such amounts only after all of its Senior Liabilities and other obligations which are preferred by law have been paid in full.

Under Brazilian law, our obligations under the Notes and the Indenture are subordinated to certain statutory preferences. In the event of our extrajudicial liquidation or bankruptcy, such statutory preferences, such as claims for salaries, wages, secured payment obligations, social security and other taxes, court fees and expenses, will have preference over any other claims.

We may issue further debt or other instruments which may rank pari passu with the Notes.

There is no restriction on the amount of debt or instruments that we may issue which rank *pari passu* with the Notes. The issuance of any such instruments may reduce the amount recoverable by the holders of Notes upon any bankruptcy or insolvency and would increase the likelihood that we may suspend the payment of interest on the Notes.

The ability to institute bankruptcy or liquidation proceedings against us in Brazil may be limited by Brazilian law.

The Noteholders' ability to institute bankruptcy proceedings against us in Brazil, where a significant portion of our assets and operations are located, is currently not guaranteed by Brazilian law. To the fullest extent permitted by applicable law, the Noteholders' sole remedy against us to recover any amounts owing to them under the Notes may be to institute bankruptcy proceedings against us in any state or federal court in New York or Cayman Islands if there has been an Payment Default (see "Description of the Notes"). Neither the Noteholders nor the Trustee may declare the principal amount of any outstanding Notes to be due and payable or pursue any other legal remedy, including commencing a judicial proceeding for the collection of sums due and unpaid on the Notes. Furthermore, if it is determined that our bankruptcy is against Brazilian public policy, national sovereignty or public morality, a court in Brazil will not enforce a bankruptcy ruling from a New York or Cayman Islands court. There is also significant uncertainty whether a court in the United States or Cayman Islands would be able to exercise jurisdiction or be willing to accept this type of proceeding since a significant portion of our assets and operations are located in Brazil.

In the event of a breach of any of our obligations under the Notes and the Indenture, Noteholders will not be entitled to accelerate or institute bankruptcy proceedings and will only be entitled to certain rights and remedies provided under New York, Cayman Islands and Brazilian laws.

Noteholders may face difficulties in serving process on or enforcing judgments against us and other relevant persons.

We are a corporation organized under the laws of Brazil. Most of our board members, executive officers and independent public accountants reside or are based in Brazil. Most of our assets and those of such other persons are located in Brazil. As a result, it may not be possible for you to effect service of process upon us or such other persons within the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil, if certain conditions are met, you may face greater difficulties in protecting your interests in the case of actions against us, our board of directors or executive officers than would Noteholders issued by a U.S. corporation.

Investors will be deemed to have waived all rights of set-off.

Subject to applicable law, Noteholders may not exercise or claim any right of set-off in respect of any amount Banco BTG Pactual owes arising under or in connection with the Notes, and the Noteholders will be deemed to have waived all such rights of set-off. See "Description of the Notes—Events of Default and Limitation of Remedies."

ERISA, the U.S. Internal Revenue Code and Similar Laws may restrict investments by plans in the Notes.

Each purchaser or holder of a Note, by its acquisition of a Note or any interest therein, will be deemed to make certain representations regarding its status as an "employee benefit plan" subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); a "plan" subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"); a governmental, church or non-U.S. plan that is subject to federal, state, local, non-U.S. or other laws or regulations that contain provisions that are similar to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code ("Similar Laws"); or any entity whose underlying assets are considered to include plan assets of any of the foregoing. See "Certain ERISA Considerations."

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. Holders.

Based on the projected composition of our income and valuation of our assets, we do not expect to be classified as a passive foreign investment company ("PFIC"), for the taxable year ending December 31, 2019, and we do not expect to become one in the future, although there can be no assurance in this regard. A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income." The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. The authorities we rely upon in making our determination as to PFIC status are complex and may be interpreted differently by the Internal Revenue Service ("IRS") and the courts.

We have not sought a ruling from the IRS with respect to our PFIC status, and there can be no assurance that the IRS will agree with our determination with respect to any given taxable year. In addition, our determination that we do not expect to be a PFIC is based in part upon certain proposed U.S. Treasury regulations that are not yet in effect (the "Proposed Regulations"), and are subject to change in the future. The Proposed Regulations and other administrative pronouncements from the IRS provide special rules for determining the character of income and assets derived in a banking business for purposes of the PFIC rules. Although we believe we have adopted a reasonable interpretation of the Proposed Regulations and administrative pronouncements, there can be no assurance that the IRS will agree with our interpretation. If we are classified as a PFIC, such characterization could result in adverse U.S. federal income tax consequences to a U.S. Holder. For more information on PFICs, see "Taxation—United States Federal Income Tax Consequences—Passive Foreign Investment Company Considerations."

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

CAPITALIZATION

The table below presents our capitalization as of September 30, 2018 and, as adjusted, to reflect the receipt of net proceeds from the offering of the Notes, after deducting the initial purchasers' discount, but before deducting estimated offering expenses. The information described below is derived from our unaudited interim consolidated financial statements as of September 30, 2018. Except as otherwise disclosed in this Offering Memorandum, there has been no material change to our capitalization since September 30, 2018.

You should read this table together with the sections "Presentation of Financial and Other Information," "Summary Financial and Operating Information," "Selected Financial and Operating Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our unaudited interim consolidated financial statements, and related notes thereto, included elsewhere in this Offering Memorandum.

	As of September 30, 2018			
	Actual		**As adjusted(1)**	
	(R$ millions)	***(US$ millions)(2)***	***(R$ millions)***	***(US$ millions)(2)***
	(Unaudited)			
Current liabilities				
Deposits	23,982.4	5,989.8	23,982.4	5,989.8
Open market funding	55,968.7	13,978.5	55,968.7	13,978.5
Funds from securities issued and accepted	3,416.0	853.2	3,416.0	853.2
Loans and onlending	3,876.2	968.1	3,876.2	968.1
Derivative financial instruments	3,130.3	781.8	3,130.3	781.8
Securities trading and brokerage	6,860.8	1,713.5	6,860.8	1,713.5
Subordinated debts	1,649.8	412.0	1,649.8	412.0
Other liabilities	16,292.7	4,069.2	16,292.7	4,069.2
Total current liabilities	**115,176.9**	**28,766.1**	**115,176.9**	**28,766.1**
Long-term liabilities				
Deposits	1,630.2	407.2	1,630.2	407.2
Open market funding	166.9	41.7	166.9	41.7
Funds from securities issued and accepted	10,817.7	2,701.8	10,817.7	2,701.8
Loans and onlending	1,496.6	373.8	1,496.6	373.8
Derivative financial instruments	1,104.3	275.8	1,104.3	275.8
Subordinated debts	4,282.7	1,069.6	6,670.0	1,665.9
Debt instrument eligible to equity	3,618.9	903.8	3,618.9	903.8
Other liabilities	6,107.4	1,525.4	6,107.4	1,525.4
Total long-term liabilities	**29,224.7**	**7,299.1**	**31,612.0**	**7,895.4**
Deferred income	**136.7**	**34.1**	**136.7**	**34.1**
Non-controlling interest	**137.3**	**34.3**	**137.3**	**34.3**
Shareholders' equity	**19,180.2**	**4,790.4**	**19,180.2**	**4,790.4**
Total liabilities and shareholders' equity	**163,855.7**	**40,924.0**	**166,243.1**	**41,520.3**

(1) Adjusted to reflect (i) an increase of US$596.3 million of "Subordinated debts" (or R$2,387.3 million) from the proceeds from this offering, after deducting the initial purchasers' discount, but before deducting estimated offering expenses.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the Notes will be approximately US$596,250,000, after deducting discounts and commissions to the initial purchasers which are unaffiliated with us, but before deducting estimated offering expenses payable by us. We intend to use the net proceeds from this offering to improve our Tier 2 Capital ratios and otherwise for general corporate purposes.

EXCHANGE RATES

The Brazilian foreign exchange system allows for the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely and during this period, the *real*/U.S. dollar exchange rate has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R$3.5333 per US$1.00 at the end of 2002. Between 2003 and mid- 2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the Brazilian macroeconomic environment and a substantial increase in foreign investment in Brazil, with the *real* appreciating to R$1.6344 per US$1.00 in August 2008. Particularly as a result of the crisis in the global financial markets from mid-2008, the *real* depreciated by 24.2% against the U.S. dollar during 2008 and closed the year at R$2.3370 per US$1.00. As of December 31, 2014, 2015 and 2016, the exchange rate was R$2.6562 per US$1.00, R$3.9048 per US$1.00 (representing a cumulative devaluation of 32.0% in 2015) and R$3.2591 per US$1.00, respectively. As of December 31, 2017 the exchange rate was R$3.308 per US$1.00. As of September 30, 2018, the exchange rate was R$4.0039 per U.S. $1.00, reflecting a 21.0% devaluation against the U.S. dollar as compared to December 31, 2017.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluation, periodic mini devaluation during which the frequency of adjustments ranged from daily to monthly, floating exchange rates, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are substantial reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Risk Factors—Risks Relating to Brazil—Exchange rate instability may adversely affect us."

The following tables set forth the selling rate, expressed in *reais* per U.S. dollar (R$/US$) for the periods indicated, as reported by the Central Bank:

	Closing Selling Rates of R$ per US$1.00			
Year ended	**Low**	**High**	**Average**(1)	**Period end**
December 31, 2013	1.95	2.45	2.16	2.34
December 31, 2014	2.20	2.74	2.35	2.66
December 31, 2015	2.58	4.19	3.34	3.90
December 31, 2016	3.12	4.16	3.48	3.26
December 31, 2017	3.05	3.38	3.19	3.31
December 31, 2018	3.83	3.93	3.89	3.87

Month ended	**Low**	**High**	**Average**(2)	**Period end**
January 2019	3.65	3.86	3.74	3.65
February 2019 (through February 12)	3.67	3.74	3.70	3.73

(1) Represents the average of exchange rates on each day of each respective month during the periods indicated.

(2) Represents the average of the daily exchange rates during each day of each month.

SELECTED FINANCIAL AND OPERATING INFORMATION

The tables below set forth certain of our selected financial information as of and for the periods indicated. You should read the information below in conjunction with our consolidated financial statements and related notes and the sections "Presentation of Financial and Other Information," "Summary Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following selected financial data has been derived from our: (i) unaudited interim consolidated financial statements as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017 and the notes thereto and (ii) audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015 and the notes thereto, which are included elsewhere in this Offering Memorandum.

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which our management believes is better suited for the financial disclosure of commercial banks rather than investment banks like us. Our management believes that the additional presentation of an unaudited adjusted income statement provides information which is more consistent with the manner in which our publicly traded global investment banking competitors present financial information to the market. Our unaudited adjusted income statement is not based on Brazilian GAAP, IFRS, U.S. GAAP or any other generally recognized accounting principles and should not be considered in isolation or construed as segment information under IFRS 8 because our management does not rely on this information for decision-making purposes. Furthermore, our unaudited adjusted income statement has not been audited or reviewed by our independent auditors. Accordingly, you are cautioned to not place undue reliance on our unaudited adjusted income statement.

Our unaudited adjusted income statement includes a revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, and a reclassification of certain other expenses and costs for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. Our unaudited adjusted income statement is derived from the same accounting information that generated accounting records used for preparing our income statement in accordance with Brazilian GAAP for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. The classification of the line items in our unaudited adjusted income statement, however, has not been audited or reviewed by our independent auditors and materially differs from the classification of the corresponding line items in our income statement. See "Presentation of Financial and Other Information—Financial Statements—Our Unaudited Adjusted Income Statement."

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. Except as otherwise expressly indicated, the rate used to convert such amounts was R$4.0039 to US$1.00, which was the exchange rate in effect as of September 30, 2018, as published by the Central Bank on its electronic information system, SISBACEN. The U.S. dollar equivalent information presented in this Offering Memorandum are provided solely for the convenience of the reader and should not be construed as implying that the amounts presented in *reais* represent, or could have been or could be converted into U.S. dollars at such rates or at any other rate. The *real*/U.S. dollar exchange rates may fluctuate widely, and the exchange rate as of September 30, 2018 may not be indicative of future exchange rates. We have not updated the translation rates used above for a most recent date as the translation have been performed solely for convenience and therefore should not be considered in making an investment decision. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

Selected Balance Sheet

	As of December 31,				As of September 30,	
	2015	2016	2017	2017	2018	2018
	(in R$ millions)			*(in US$ millions)* (1)	*(in R$ millions)*	*(in US$ millions)*(1)
Assets					(Unaudited)	
Cash at banks	20,490.9	674.1	4,347.2	1,085.7	931.9	232.7
Interbank investments	32,586.5	20,752.7	27,792.3	6,941.3	61,326.4	15,316.7
Securities and derivative financial instruments..	77,669.0	37,486.2	42,288.0	10,561.7	40,510.3	10,117.7
Interbank transactions	1,921.3	2,235.3	1,703.6	425.5	2,640.5	659.5
Loans..	55,665.1	9,513.4	13,026.2	3,253.4	16,963.8	4,236.8
Securities trading and brokerage	12,906.1	2,790.9	3,598.4	898.7	7,471.7	1,866.1
Other receivables...................................	44,740.1	29,524.5	28,171.3	7,036.0	27,753.7	6,931.7
Other assets	252.6	153.5	127.2	31.8	234.8	58.6
Permanent assets	8,317.1	8,640.9	5,537.4	1,383.0	6,022.5	1,504.2
Total assets...	**254,548.7**	**111,771.6**	**126,591.6**	**31,617.1**	**163,855.7**	**40,924.0**
Liabilities and Shareholders' equity						
Deposits...	86,743.5	7,690.8	9,178.3	2,292.3	25,612.6	6,396.9
Open market funding.............................	20,308.2	24,904.0	33,890.2	8,464.3	56,135.7	14,020.3
Funds from securities issued and accepted	19,559.2	10,335.7	10,289.5	2,569.9	14,233.7	3,555.0
Interbank transactions	7.2	5.1	5.4	1.3	7.4	1.8
Interdependencies transactions...............	–	82.6	24.4	6.1	82.1	20.5
Loans and onlending	8,097.6	3,544.8	4,729.9	1,181.3	5,372.8	1,341.9
Derivative financial instruments............	42,327.0	9,644.9	14,161.8	3,537.0	4,234.6	1,057.6
Securities trading and brokerage	12,655.3	4,102.0	4,232.6	1,057.1	6,860.8	1,713.5
Subordinated debts................................	8,297.2	7,283.0	6,317.2	1,577.8	5,932.6	1,481.7
Debt instrument eligible to equity	5,160.4	4,305.2	3,043.3	760.1	3,618.9	903.8
Other liabilities......................................	31,140.0	21,879.1	21,942.3	5,480.2	22,310.3	5,572.2
Deferred income....................................	310.4	141.8	120.6	30.1	136.7	34.1
Non-controlling interest	229.4	125.5	132.4	33.1	137.3	34.3
Shareholders' equity..............................	19,713.3	17,727.2	18,523.7	4,626.4	19,180.2	4,790.4
Total liabilities and shareholders' equity	**254,548.7**	**111,771.6**	**126,591.6**	**31,617.1**	**163,855.7**	**40,924.0**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Selected Income Statement

	For the year ended December 31,				For the nine months ended September,		
	2015	2016	2017	2017	2017	2018	2018
	(in R$ millions)			*(in US$ millions)* [(1)]	*(in R$ millions)*		*(in US$ millions)*[(1)]
					(Unaudited)		
Financial income	**15,565.0**	**13,451.1**	**9,523.7**	**2,378.6**	**7,519.3**	**7,208.9**	**1,800.5**
Loans	3,118.7	1,809.4	1,529.7	382.1	1,250.5	928.2	231.8
Securities	10,251.5	4,969.8	5,873.3	1,466.9	4,766.5	4,281.1	1,069.2
Derivative financial instruments	2,068.4	4,161.8	1,596.7	398.8	1,127.2	1,659.3	414.4
Foreign exchange	–	2,308.0	376.7	94.1	252.1	270.9	67.7
Mandatory investments	126.3	202.1	147.4	36.8	123.0	69.4	17.3
Financial expenses	**(15,767.4)**	**(6,642.6)**	**(5,633.2)**	**(1,406.9)**	**(4,478.3)**	**(5,475.9)**	**(1,367.6)**
Funding operations	(9,236.7)	(7,111.4)	(5,172.7)	(1,291.9)	(4,084.5)	(3,532.9)	(882.4)
Borrowings and onlending	(5,880.0)	565.8	(567.3)	(141.7)	(187.2)	(1,906.9)	(476.3)
Foreign exchange	(82.9)	–	–	–	–	–	–
Allowance for loan losses and other receivables	(567.7)	(97.0)	106.8	26.7	(206.6)	(36.1)	(9.0)
Net financial income (loss)	**(202.4)**	**6,808.5**	**3,890.5**	**971.7**	**3,041.0**	**1,732.9**	**432.8**
Other operating income (expenses)	**1,302.9**	**(2,554.1)**	**(2,117.4)**	**(528.8)**	**(2,051.0)**	**117.0**	**29.2**
Income from services rendered	3,505.5	2,697.8	1,597.0	398.9	1,080.3	1,539.6	384.5
Personnel expenses	(1,633.9)	(1,676.6)	(648.9)	(162.1)	(480.6)	(574.2)	(143.4)
Other administrative expenses	(2,092.7)	(2,134.8)	(2,679.7)	(669.3)	(2,436.1)	(888.0)	(221.8)
Tax charges	(191.1)	(556.1)	(240.7)	(60.1)	(177.7)	(203.2)	(50.7)
Equity in the earnings of associates and jointly controlled entities	1,506.7	(794.0)	4.8	1.2	41.3	(71.5)	(17.9)
Other operating income	2,236.5	1,266.8	895.5	223.7	644.5	727.9	181.8
Other operating expenses	(2,028.1)	(1,357.1)	(1,045.4)	(261.1)	(722.7)	(413.6)	(103.3)
Operating income	**1,100.5**	**4,254.4**	**1,773.1**	**442.8**	**990.0**	**1,850.0**	**462.0**
Non-operating income (expenses)	2,737.1	940.1	4.7	1.2	(7.0)	141.0	35.2
Income before taxation and profit sharing	**3,837.6**	**5,194.5**	**1,777.9**	**444.0**	**983.0**	**1,991.0**	**497.3**
Income tax and social contribution	**3,159.6**	**(1,112.9)**	**1,287.2**	**321.5**	**1,200.6**	**165.5**	**41.3**
Provision for income tax	(1,293.7)	(190.8)	(160.0)	(40.0)	(42.0)	(719.8)	(179.8)
Provision for social contribution	(453.1)	(157.1)	(42.6)	(10.6)	89.8	(598.5)	(149.5)
Deferred income tax and social contribution	4,906.4	(765.1)	1,489.8	372.1	1,152.8	1,483.8	370.6
Statutory profit sharing	**(1,534.5)**	**(721.5)**	**(689.1)**	**(172.1)**	**(466.1)**	**(338.4)**	**(84.5)**
Non-controlling interest	**160.8**	**48.5**	**7.9**	**2.0**	6.0	(9.8)	(2.5)
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**595.4**	**1,723.5**	**1,808.3**	**451.6**
Interest on equity	**(914.8)**	**(1,390.0)**	**(1,223.7)**	**(305.6)**	**(623.8)**	**(592.1)**	**(147.9)**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Unaudited Adjusted Income Statement

(Unaudited)	For the year ended December 31, 2015	2016	2017	2017	For the nine months ended September 30, 2017	2018	2018
	(in R$ millions)			*(in US$ millions)* (1)	*(in R$ millions)*		*(in US$ millions)* (1)
Investment banking	382.8	367.1	366.6	91.6	222.4	378.0	94.4
Corporate lending	983.4	876.6	790.1	197.3	627.6	715.4	178.7
Sales and trading	4,806.0	2,816.5	2,389.0	596.7	1,698.0	1,042.3	260.3
Asset management	1,252.2	539.6	486.3	121.5	317.1	438.2	109.5
Wealth management	1,454.5	2,407.9	368.7	92.1	270.3	352.4	88.0
Principal investments	548.2	(29.8)	15.1	3.8	104.0	362.7	90.6
Participations	6.0	(112.8)	(15.5)	(3.9)	(9.0)	30.3	7.6
Interest and other	1,647.8	1,932.1	1,127.2	281.5	926.8	483.8	120.8
Total revenues, net of direct expenses allocation	**11,080.9**	**8,797.1**	**5,527.5**	**1,380.5**	**4,157.3**	**3,803.2**	**949.9**
Bonus	(1,598.9)	(805.8)	(745.5)	(186.2)	(504.3)	(386.8)	(96.6)
Salaries and benefits	(1,385.7)	(1,637.4)	(529.4)	(132.2)	(397.8)	(458.6)	(114.5)
Administrative and others	(1,429.7)	(1,707.9)	(852.6)	(212.9)	(602.3)	(611.3)	(152.7)
Goodwill amortization	(209.1)	(243.8)	(279.8)	(69.9)	(226.0)	(106.8)	(26.7)
Tax charges, other than income tax	(430.4)	(370.7)	(244.0)	(60.9)	(174.9)	(187.5)	(46.8)
Total operating expenses	(5,053.8)	(4,765.6)	(2,651.3)	(662.2)	(1,905.3)	(1,751.0)	(437.3)
Income before taxes	6,027.1	4,031.6	2,876.2	718.3	2,252.0	2,052.2	512.6
Income tax and social contribution revenue (expense)	(403.6)	(623.0)	(492.3)	(123.0)	(528.5)	(243.9)	(60.9)
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**595.4**	**1,723.5**	**1,808.3**	**451.6**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a Latin American multi-service investment bank, asset manager and wealth manager. In addition, we have established a successful global asset management platform, along with strong international investment and distribution capabilities. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have local coverage offices across Latin America, including in Brazil, Chile, Colombia, Mexico and Argentina, and have an international presence focused on distribution of a wide variety of banking products in Latin America and managing global clients' funds in New York and London. Through this platform, we provide a comprehensive range of financial services to a Latin American and global client base that includes corporations, institutional investors, governments and HNWI.

Our Business Units

Our operational strategy is focused on five main business units consisting of:

- **Investment Banking**, which provides financial advisory and capital markets services to companies;
- **Corporate Lending**, which offers financing and loan guarantees to companies;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and equities, derivatives, interest rate and foreign exchange transactions, as well as energy, insurance and reinsurance products and services;
- **Asset Management**, which offers asset management services with a broad range of products across several international asset classes, especially in Latin America, to local and international clients; and
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI and institutions. We also offer investment products through BTG Pactual Digital, our recently launched online retail platform.

We continue to also hold ownership interests in companies as part of our Principal Investments business unit and, separately, hold strategic investments in certain other companies both in Brazil and abroad as part of our Participations business unit, each as described below:

- **Principal Investments**, consisting of, as of September 30, 2018: (i) seed capital in certain of our investment products as a minority investor, with the objective that any such investments usually represent less than 10% of our total investments, (ii) a 17.4% stake in our infrastructure fund; (iii) small investments in real estate funds; and (iv) certain other legacy assets; and
- **Participations**, consisting of, as of September 30, 2018: (i) a co-controlling interest (with 50.6% ownership) in Banco Pan, a commercial and consumer bank, focused on loans, consumer credit, payment-deducted loans and middle market loans; (ii) a 30.00% ownership interest in EFG, following our sale of BSI to EFG; (iii) a 50.99% ownership interest in Pan Seguros, a Brazilian insurance company providing personal property insurance to individuals; (iv) a 51.00% ownership interest in Pan Corretora, a Brazilian insurance broker with activities in diverse insurance segments; and (v) an approximately 19.01% ownership interest in Engelhart CTP, a global commodities trading platform, which we spun-off but in which we continue to hold a minority interest.

We are committed to expanding our platform to further strengthen our presence and product offering across Latin America. Following our successful completion of the acquisitions of Celfin, a leading broker dealer in Chile (with operations in Peru and Colombia), and Bolsa y Renta, a leading broker dealer in Colombia in 2012, we have consolidated and expanded our Latin American franchise, including the opening of a bank in Chile in December of 2014 and the opening of our local offices in Bogota and Medellin, Colombia, Mexico City, Mexico and Buenos

Aires, Argentina, each focusing on advisory, asset management and wealth management services, as well as providing a broad range of sales and trade offerings through local broker-dealers. Beyond our initiatives in Latin America, we are focused on continuing to strengthen our broad global asset management capabilities, where we have reestablished our teams and capabilities, grown our AUM, and presented benchmark performance.

We are focused on offering innovative products and services to meet our clients' evolving demands, including through expanding our presence and product offerings in Latin America; and capturing banking disintermediation opportunities arising from technological developments in Brazil and the increasing maturity of Brazilian investors. With these objectives in mind, we recently developed an on-line business platform, BTG Pactual Digital, which is focused primarily on offering several products similar to those products offered to our wealth management clients, including access to our or third party's investment funds, fixed income products and private pension plans.

Macroeconomic Environment

Most of Banco BTG Pactual's business activities are conducted in Brazil. Accordingly, it is significantly affected by the general economic environment in Brazil, which, in turn, is impacted to a larger degree by the political environment. In addition, it derives substantial revenues from non-Brazilian securities and is therefore also subject to global economic conditions and, in particular, fluctuations in worldwide financial markets.

Launched by the Office of the Brazilian Federal Prosecutor at the end of 2014, the ongoing *Lava Jato* investigation has probed members of the Brazilian federal government and other members of the legislative branch, as well as senior officers and directors of large state-owned and other private sector companies in connection with allegations of political corruption. The resulting fallout from the *Lava Jato* investigation contributed to the impeachment of Brazil's former president, Dilma Rousseff, in August 2016 and the destabilization of the Brazilian economy. Following Brazil's presidential elections in October 2018 and under the new administration of Jair Bolsonaro, who was sworn in as president of Brazil on January 1, 2019, uncertainty continues to prevail regarding the policies that the new government may adopt or change or the effect that any such policies might have on our business and on the Brazilian economy as a whole. In addition, throughout this period since 2014, the Brazilian political and economic scenario has been characterized by high levels of volatility and instability including, until 2017, a contraction of GDP, sharp fluctuations of the Brazilian *real* against the U.S. dollar and increased levels of unemployment. Increasing levels of political instability or uncertainty resulting from the ongoing *Lava Jato* investigation or other investigations as well as the new administration's policies may create additional uncertainty in a number of sectors of the Brazilian economy. For more information, see "Risk Factors—Risks Relating to our Business and Industry—Ongoing high profile anti-corruption investigations in Brazil may adversely affect us."

2015

During 2015, the Brazilian economic outlook continued to deteriorate. GDP contracted by 3.77% as of December 31, 2015, recording the worst annual performance in 25 years. On September 15, 2015, Standard & Poor's cut its ratings outlook on Brazil to negative from stable, citing that the country still faced political and economic challenges despite a significant policy correction.

Inflation, as measured by Brazil's official consumer price index (the *Índice Nacional de Preços ao Consumidor Amplo*, the "IPCA"), ended the year at 10.67%, reflecting an 18.1% increase in regulated prices and an 8.5% rise in the free-market prices.

Fiscal spending increased 0.72% in real terms in 2015 (compared to 2014) while fiscal revenues decreased 7.16%. On the positive side, external accounts improved significantly. The trade balance accumulated US$19.7 billion surplus in 2015, the highest since 2011. The depreciation of the Brazilian *real* coupled with the decline in the economic activity explains the result.

In 2015, the *real* suffered a 32.0% depreciation in relation to the U.S. dollar, reaching R$3.90 as of December 31, 2015.

2016

The Brazilian economy continued to deteriorate in 2016. On February 15, 2016, Standard & Poor's downgraded Brazil's long-term debt to BB from BB+ and maintained the negative outlook. Further, on May 26, 2016, Moody's Investors Service downgraded Brazil's government bond rating to Ba2(P) from Ba2. Moody's also changed the outlook on the rating to negative from stable. Moody's Investors Service cited: (i) weak economic growth, increased government spending and a lack of political consensus, which will limit the authorities' ability to arrest and reverse upward trends in deficit and debt metrics, and (ii) materially deteriorating debt metrics relative to Baa-rated peers.

Brazil recorded a 3.59% decrease in its GDP in 2016. In addition, the IPCA recorded a 6.29% year-over-year decrease as of December 31, 2016.

In the external sector, the current account deficit totaled US$23.5 billion (1.2% of GDP) in 2016, less than half the 2015 total (US$59.4 billion).

Finally, the *real* appreciated relative to the U.S. dollar reaching R$3.26 as of December 31, 2016.

2017

In the fourth quarter of 2017, Brazil's GDP increased 0.1% quarter-over-quarter and 2.1% year-over-year. Such increase was mainly attributable to gains in both consumption and investments at the margin, which enabled the economy to grow 1.0% over the full year of 2017. Such result reinforced the view of a slow but consistent economic recovery for Brazil.

After decreasing from 2014 to 2016, the industrial sector achieved stability in 2017, while services increased 0.3%, following a 5% decrease in the prior two years. In addition, the soy and corn harvest in Brazil led to a significant increase of 13% in the agriculture/livestock segment in 2017, adding 0.6 percentage points to the overall annual increase of 1.0% in GDP. Specifically, the soy and corn harvests increased 19% and 55%, respectively, in 2017 compared to 2016, and resulted in the agriculture/livestock segment to be the largest growth contributor in 2017. With respect to the demand side, household consumption experienced a relative revival, increasing 1.0% in 2017 after decreasing approximately 7% in the prior two years. Lastly, the momentum of gains in investments in the second half of 2017 did not translate to growth over the full year as the segment declined 1.8% in 2017 as compared to 2016. The net contribution of the external sector remained flat in 2017.

Inflation, as measured by IPCA, recorded a strong performance in 2017, finishing the year at 2.95% year-over-year (vs. 6.29% in 2016), below the lower band (3%) of the inflation target (4.5% year-over-year). The unusually strong performance of the food group, which witnessed a deflation due to the historically strong harvest season, was the major driver behind the significant slowdown of the IPCA index. In addition, deflation in other free-market prices, particularly in industrial goods and services, contributed in keeping inflation low in 2017.

On the fiscal front, mandatory expenditures and the large social security deficit continue being the main source of deficit in public accounts and have yet to be addressed.

2018

First quarter

Inflation for the first quarter of 2018 was low. March IPCA inflation was 0.09% month-over-month, significantly below the IPCA inflation of 0.25% month-over-month recorded in March 2017. This result limited inflation to 2.68% year-over-year. Such positive IPCA inflation figure was primarily due to the strong performance of the free-price group.

Brazil's GDP increased 0.4% quarter-over quarter and 1.2% year-over-year in the first quarter of 2018 according to IBGE, with gains in both consumption and investment at the margin. While the increases were limited, the results were consistent with a gradual economic recovery, and showed favorable results on the demand side. Specifically, household consumption increased for the fifth consecutive quarter, and also showed a greater increase when compared to the quarter over quarter increase in the fourth quarter of 2017. Although investments remained at depressed levels, they increased for the fourth consecutive quarter (albeit a smaller increase than the quarter-over-quarter increase in the fourth quarter of 2017). On the supply side, output of services and industry remained relatively flat, which demonstrated a negative contribution of elevated inventories.

Second quarter

With respect to economic activity, following a strong upward trend in the previous four quarters, the national truck driver strike in May and June 2018 had a significant negative impact on short-term figures, leading to a weak expansion of 0.2% quarter-over-quarter in the second quarter. On the demand side, household consumption increased by 0.1% quarter-over-quarter, while investments decreased 1.8% at the margin. On the supply side, output of services rose 0.3% quarter over quarter (led by rents/real estate, financial services and Information Technology), while industry (in particular manufacturing and construction) was affected most by the national truck driver strike and decreased 0.6% quarter-over quarter.

With respect to inflation, the consumer price index was heavily affected by the national truck driver strike in May and June of 2018. IPCA inflation increased from 2.86% year-over-year in May to 4.39% year-over-year in June due to the interruption of supply chains and resulting shortages of food and fuel.

On the fiscal front, the 12-month consolidated public-sector primary deficit decreased to R$89.8 billion (-1.3% of GDP) in June. Large social security deficits remained the main challenge. The national truck driver strike also reduced the margin for the government to meet its annual primary deficit target of -R$159 billion given the concessions offered by the government to end the strike. In addition, gross debt reached 77.0% of GDP, compared to 72.4% for the corresponding 2017 period.

Third quarter

With respect to economic activity, the latest indicators show that the industrial and services sectors have recovered from the losses of the second quarter, having recovered from the losses of the national truck driver strike during the second quarter of 2018, but are still struggling to gain momentum. At the same time, retail sales continue to recover slowly at the margin. In this context, the labor market is improving, but employment growth continues to be significantly driven by non-payroll jobs and self-employment. Brazil's GDP increased 1.1% for the nine months ended September 30, 2018, with gains in both consumption and investment.

With respect to inflation, after confirming the temporary effects stemming from the transportation stoppages in May/June, headline IPCA increased in September, above the levels forecasted in the last inflation report. Such increase however, has been the result of pressures on the food and fuel prices, while core inflation measures continued at low levels, reinforcing a scenario of weak underlying price pressures. IPCA inflation was 3.75% in 2018, compared to 2.95% in 2017, primarily due to the yet lower economic activity and deflationary pressures through the year.

On the fiscal front, the consolidated public accounts continue to register negative results with sizable pressure coming from the social security deficit. The risks to long-term fiscal consolidation however, still outweigh some recent positive expectations related to short-term fiscal targets. Structural reform proposals, specifically the much-needed social security reform, and the ability of the new administration to pass those reforms in Congress, will be key to remove certain limits on discretionary spending and reform expenditure rules. The 12-month consolidated public-sector primary deficit accounted for R$120.3 billion in 2018, below previous year and government expectations. Large social security deficits remained the main challenge.

These results were consistent with a gradual economic recovery, and showed favorable results on the demand side. Although investments and household consumption remained low from a historical perspective, they increased 2.0% and 4.5% for the nine months ended September 30, 2018, respectively. Specifically, household consumption increased, and also showed a greater increase when compared to the nine months ended September 30, 2017 and investments increased from previous down cycle for the same period.

The following table presents key data relating to the Brazilian economy for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,
	2015	2016	2017	2018
GDP growth	(3.77%)	(3.59%)	1.00%	1.10%
CDI rate[(1)]	13.18%	14.00%	9.93%	4.81%
TJLP[(2)]	7.00%	7.50%	7.00%	6.50%
SELIC rate[(3)]	14.25%	13.75%	7.00%	6.50%
Appreciation (depreciation) of the *real* against the U.S. dollar[(4)]	(31.04%)	23.92%	22.09%	(20.88%)
Selling exchange rate (at period end) R$ per US$1.00[(5)]	R$3.90	R$3.26	R$3.31	R$4.00
Average exchange rate R$ per US$1.00[(6)]	R$3.34	R$3.48	R$3.34	R$3.61
Inflation (IGP-M)[(7)]	10.54%	7.17%	(0.52%)	8.3%
Inflation (IPCA)[(8)]	10.67%	6.29%	2.95%	3.34%

Sources: BNDES, Central Bank, IBGE and Economática.

(1) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*, "CDI"), is the average daily interbank deposit rate in Brazil (at the end of the periods presented).

(2) *Taxa de Juros de Longo Prazo* ("TJLP") represents the long-term interest rate applied by BNDES for long-term financing (at the end of the periods presented).

(3) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC (at the end of the periods presented).

(4) Calculated for 2017, 2016 and 2015 using the exchange rate for conversion of U.S. dollars into *reais* on December 31 as compared to January 1 of the same year, and with the exchange rate on September 30 as compared to January 1 of the same year for 2018.

(5) The selling exchange rate at the end of the years for 2017, 2016 and 2015 and end of period for the nine months ended September 30, 2018.

(6) Average of the selling exchange rates on the last day of each month during the periods presented.

(7) The IGP-M, as calculated by FGV (at the end of the periods presented).

(8) The inflation rate is the Consumer Price Index, as calculated by the IBGE (at the end of the periods presented).

Principal Factors Affecting Banco BTG Pactual's Financial Condition and Results of Operations

Banco BTG Pactual faces a variety of risks that are substantial and inherent to its businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. A summary of the most important factors that could affect its businesses follows below. For a further discussion of these and other important factors that could affect its businesses, see "Risk Factors." For a discussion of how management seeks to manage some of these risks, see "—Risk Management" below.

Market Conditions and Market Risk

The financial performance of Banco BTG Pactual's various business units is affected in various degrees by the environments in which it operates.

A favorable business environment in any particular market, including Brazil, is generally characterized by, among other factors, high and sustainable gross domestic product growth, transparent, liquid and efficient capital markets, low inflation, a high level of business and investor confidence, stable political and economic conditions and strong business earnings. Unfavorable or uncertain economic and market conditions mainly result from: (i) declines or volatility in economic growth, business activity or investor confidence; (ii) limitations on the availability or increases in the cost of credit and capital; (iii) increases in inflation, interest rates, exchange rate volatility, default rates, commodity prices, capital controls or limits on the remittance of dividends; (iv) outbreaks of hostilities or other geopolitical instability; (v) corporate, political or other scandals, including with respect to corruption, that reduce investor confidence; (vi) natural disasters, pandemics or acute climatic conditions, such as drought; (vii) nationalization or forced seizures by the government; or a combination of these or other factors. Banco BTG

Pactual's businesses and profitability have been and may continue to be adversely affected by market conditions in many ways, including the following:

- Many of Banco BTG Pactual's business activities, such as its principal investments and corporate lending unit, have exposures to debt securities, loans, derivatives, mortgages, equities (including private equity) and other types of financial instruments. In addition, Banco BTG Pactual also maintains an inventory of securities on its balance sheet to facilitate its clients' activities in its sales and trading unit, including its market-making business. As a result, it commits large amounts of capital to maintain financial instruments in its trading book and loans and other debt instruments in its banking book. The majority of these long and short exposures to financial instruments are marked-to-market on a daily basis and, as a result, declines in asset values directly and immediately impact its earnings, unless it has effectively "hedged" its exposure to such declines. Even with respect to financial instruments that are not marked-to-market, declines in asset values may eventually impact Banco BTG Pactual's earnings, unless it has effectively "hedged" its exposure to such declines. In certain circumstances (particularly in the case of private equities or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economically viable to hedge such exposures, and even to the extent that it does so, the hedge may be ineffective or may greatly reduce Banco BTG Pactual's ability to profit from increases in the values of the assets. Sudden declines and significant volatility in the prices in financial markets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces its ability to limit losses in such positions, which could require Banco BTG Pactual to maintain additional capital and increase its funding costs.

- Banco BTG Pactual's cost of obtaining long-term unsecured funding is directly related to its credit spreads. Credit spreads are influenced by market perceptions of Banco BTG Pactual's creditworthiness. Widening credit spreads, as well as significant declines in the availability of credit, may adversely affect its ability to borrow. Banco BTG Pactual funds its operations on an unsecured basis by issuing deposits, medium-term debt and long-term debt, or by obtaining lines of credit. It seeks to finance many of its assets, including its less liquid assets, on a secured basis, including by entering into repurchase agreements. Disruptions in credit and financial markets make it difficult and more expensive to obtain funding for its businesses. If available funding is limited or Banco BTG Pactual is forced to fund its operations at higher costs, these conditions may require it to curtail its business activities or increase its cost of funding, both of which could reduce its profitability, particularly in its businesses that involve investing, lending and taking principal positions, including market making.

- In the recent past, Banco BTG Pactual's business units, particularly its investment banking unit, have been, and may continue to be, adversely affected by challenging market conditions. Brazil, for example, is currently recovering from a challenging economic environment, and there can be no assurance that the economic disruptions that have been affecting the country in recent years will not reemerge. With respect to its investment banking unit, unfavorable economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected the confidence of investors, companies and their controlling shareholders, and management teams, resulting in significant industry-wide declines in the size and number of underwritten capital raising and of financial advisory transactions, which could have an adverse effect on Banco BTG Pactual.

- Banco BTG Pactual's sales and trading unit reacts to market volatility, which in turn affects trading and arbitrage opportunities. Decreases in market volatility can reduce these activities and adversely affect the results of the business unit. Increases in market volatility can increase trading volumes and spreads, and positively affect revenues, but can also increase Banco BTG Pactual's risk exposure, which could eventually lead to a decrease in revenues.

- The performances of Banco BTG Pactual's asset and wealth management units are directly influenced by prevailing economic conditions in Latin America (particularly in Brazil) and elsewhere. These activities generally depend, among other factors, on assumption by its clients of greater risk, which may decline in periods of economic uncertainty. In addition, unfavorable market conditions generally lead to increased interest rates for time deposits and fixed-income instruments. Any of these factors may cause Banco BTG

Pactual's clients to transfer their assets out of its funds or affect its ability to attract new clients or additional assets from existing clients and result in reduced net revenues from these activities. Banco BTG Pactual receives management fees based on the value of its clients' portfolios or investment in funds managed by it and, in many cases, also receives performance fees based on increases in the value of such investments. Declines in asset values reduce the value of its clients' portfolios or fund assets, which in turn reduce the management and performance fees it earns for managing such assets.

Liquidity Risk

Liquidity is essential to Banco BTG Pactual's business. Banco BTG Pactual's liquidity may be impaired by an inability to access secured and/or unsecured funding, an inability to access funds from its subsidiaries or to sell assets or redeem its investments, or by unforeseen outflows of cash or collateral. Such situations may arise due to regulatory changes or circumstances that Banco BTG Pactual may be unable to control, such as a general market disruption or an operational problem that affects third parties or us, or even by the perception among market participants that Banco BTG Pactual, or other market participants, are experiencing liquidity constraints. Liquidity risk tends to increase to the extent that Banco BTG Pactual holds a larger inventory or trades a broader range of financial instruments and invests in non-publicly traded companies, mainly via its private equity activities.

The financial instruments that Banco BTG Pactual holds and the contracts to which it is a party often do not have readily available markets to access in times of liquidity stress, as in the case of loans and other types of credit instruments and other financial instruments not traded in organized markets (i.e., over the counter financial instruments). Further, its ability to sell assets or otherwise access debt markets may be impaired if other market participants seek to sell similar assets at the same time, as is likely to occur in a general liquidity or other market crisis. In addition, financial institutions with which Banco BTG Pactual interacts may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair its access to liquidity.

Banco BTG Pactual's credit ratings are important to its liquidity. A reduction in its credit ratings could adversely affect its liquidity and competitive position, increase its borrowing costs, limit its access to the capital markets or trigger certain obligations under bilateral provisions in some of its trading and collateralized financing contracts. Under these provisions, counterparties could, for example, be permitted to terminate contracts with Banco BTG Pactual or require it to post additional collateral. Termination of Banco BTG Pactual's trading and collateralized financing contracts could cause it to sustain losses and impair its liquidity by requiring it to find other sources of financing or to make significant cash payments or securities movements.

Credit and Counterparty Risk

Banco BTG Pactual is exposed to the risk that third parties that owe it money, securities or other assets will not perform their obligations. These parties may default on their obligations to Banco BTG Pactual due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect it. Banco BTG Pactual is also subject to the risk that its rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations it holds could result in losses and/or adversely affect its ability to use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of any of its counterparties could also have a negative impact on its results. While in many cases Banco BTG Pactual is permitted to require additional collateral by counterparties that experience financial difficulty, disputes may arise as to the amount of collateral Banco BTG Pactual is entitled to receive and the value of pledged assets. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

Through our corporate lending business, we have extended loans to companies in the Brazilian construction sector that are subject to the *Lava Jato* investigations. In some cases, the financial condition of these borrowers was, and continues to be, adversely affected by the consequences of these investigations. As a result of these investigations, these borrowers may be required to pay substantial fines, experience liquidity problems or may be restricted in their ability to make payments on these loans, which may increase the number of non-performing loans, decrease demand for borrowings and adversely impact our business. See "Risk Factors—Risks Relating to Our Business and Industry—Ongoing high profile anti-corruption investigations in Brazil may adversely affect us."

Banco BTG Pactual finances its clients' positions as part of its sales and trading business, and could be held liable for defaults or misconduct by its clients. Although Banco BTG Pactual regularly reviews and manages credit exposures to specific clients and counterparties and to specific industries, countries and regions, default risk may arise from events or circumstances that are difficult to detect or foresee, particularly as new business initiatives lead it to transact with a broader array of clients and counterparties and expose it to new asset classes and new markets.

As it has divested assets, the amount and duration of Banco BTG Pactual's credit exposures and the number of entities to which it has credit exposures have decreased over the past two years. Due to the wholesale nature of its business, Banco BTG Pactual has a natural concentration risk in its credit portfolio.

The credit risk analysis of the transactions and counterparties are performed by an independent area (Credit Risk Control), and approved by the Credit Risk Committee, where consent from both business and control functions are required.

Operational Risk

Operational risk incidents can adversely affect Banco BTG Pactual's profitability, customer service and reputation and may require substantial resources and effort by management to remediate. It is Banco BTG Pactual's strategy to manage operational risks in a cost effective manner, within targeted levels consistent with our risk appetite. All areas are required to review and improve continuously the robustness of Banco BTG Pactual's Operational Risk Framework through the ongoing analysis of operational risk incidents and understanding whether such incidents resulted from lack of appropriate control standards or non-performance of existing controls. All areas must reassess their risks, issues and controls at least annually and report them to operational risk area according to internal standards.

The business of Banco BTG Pactual is highly dependent on its ability to process, monitor and settle a large and complex number of operations. These transactions often involve different markets, currencies, jurisdictions and legal, tax and regulatory standards. To assist in this scenario, Banco BTG Pactual relies on a variety of systems, which can be developed internally or supported by an external vendor. System failures (hardware or software), disruption in telecommunication, and power failure can all result in interrupted business and financial loss.

The interconnectivity between financial institutions and the central agents or clearing houses may increase the risk of an operational failure at one of these agents, causing an industry-wide failure. These events are also monitored by Banco BTG Pactual and directly impact the ability of the institution to conduct its business.

The large volume of transactions processed by Banco BTG Pactual coupled with, in some cases, their highly complex nature, presents additional operational risks in terms of failure in delivery, transaction or process management that has the potential to cause losses. Errors in data entry, miscommunication, deadline misses, accounting errors, inaccurate reports, incorrect client records, negligent loss of client assets and vendor disputes are operational risk events that could bring legal exposure.

Business Continuity Management (BCM) is a management process that identifies risk, threats and vulnerabilities that could impact an entity's continued operations and provides a framework for building organizational resilience and the capability for an effective response.

The objective of Business Continuity Management is to make Banco BTG Pactual more resilient to potential threats and allow the entity to resume or continue operations under adverse or abnormal conditions. This is accomplished by the introduction of strategies to reduce the likelihood and impact of a threat and the development of plans to respond and recover from threats that cannot be avoided or mitigated.

Legal and Regulatory Risk

Banco BTG Pactual is subject to extensive and evolving regulation in jurisdictions around the world. Firms in the financial services industry are subject to rigorous regulatory scrutiny worldwide. These regulations could limit

Banco BTG Pactual's business activities, increase compliance costs and, to the extent the regulations strictly control the activities of financial services firms, make it more difficult for Banco BTG Pactual to distinguish itself from competitors. Substantial legal liability or a significant regulatory action against Banco BTG Pactual could have material adverse financial effects or cause significant reputational harm to it, which in turn could seriously harm its business.

As a financial institution, Banco BTG Pactual is generally subject to capital requirements on a consolidated basis set forth by the Central Bank, and certain of its subsidiaries are also subject to capital requirements based on standards adopted by local (i.e., host) government regulators, by whom they are also supervised on a stand-alone basis. Complying with these requirements may require Banco BTG Pactual to liquidate assets or raise capital in a manner that could adversely increase its funding costs or otherwise adversely affect its unit holders and creditors, including note holders. In addition, failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on its financial condition.

Like other institutions that operate in the financial segments in which it operates, Banco BTG Pactual faces some litigation risks in its businesses, including potential litigation involving securities fraud, conflicts of interest and insider trading, among others. For additional information regarding global regulatory standards for banks and banking systems and their implementation in Brazil, see "Regulatory Overview—The Brazilian Financial System and Banking Regulation—Banking Regulation—Principal Limitations and Restrictions on Financial Institutions" and "Regulatory Overview—The Brazilian Financial System and Banking Regulation—Banking Regulation—Capital Adequacy and Leverage."

Through its subsidiaries in the United States, Banco BTG Pactual is also subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and SEC. Through BTG Pactual Europe LLP, one of Banco BTG Pactual's operating entities authorized and supervised by the Financial Conduct Authority (the "FCA"), to provide investment services, Banco BTG Pactual is additionally subject to other regulatory requirements in the United Kingdom. Through the Luxembourg Branch and its subsidiary, Banco BTG Pactual is subject to Luxembourg regulatory law and the supervision of the Luxembourg financial services authority (*Commission de Surveillance du Secteur Financier*) (the "CSSF"). See "Risk Factors—Risks Relating to the Regulatory Environment—The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business," "Regulatory Overview—Regulation in the United States" and "Regulatory Overview—Regulation in the United Kingdom." Its Chilean, Colombian, Peruvian, Mexican and Luxembourg operations are subject to regulatory capital requirements determined by the laws of such countries and their regulators, respectively, calculated based on their own capital considered individually. Due to Banco BTG Pactual's investment in EFG, it is also subject to regulatory oversight in Switzerland, Liechtenstein and Luxembourg, mainly relating to reporting and disclosure obligations rather than capital requirements.

Tax Risk

Tax risk includes the risk of exposure to fines, penalties, judgments, damages and/or settlements in connection with regulatory assessment as a result of non-compliance with applicable legal and regulatory requirements.

Banco BTG Pactual is subject to the tax laws of the various jurisdictions in which it operates. To determine the financial statement impact of accounting for taxes, including the provision for income tax expense and deferred taxes, and to seek to comply with applicable tax law, Banco BTG Pactual must make assumptions and judgments about how to apply these tax laws. However, many of these tax laws are complex, subject to different interpretations and are frequently under review by governmental authorities. These reviews frequently result in revisions to applicable laws, regulations and interpretations thereof, sometimes with retroactive effect.

For example, in recent years, tax authorities have paid closer attention to transfer pricing and have reviewed the allocation of income and loss, and taxes paid, to their respective jurisdictions. It is possible that tax authorities could require that items of income or loss be reallocated among, or disallowed for, Banco BTG Pactual's subsidiaries, or could levy tax assessments on its subsidiaries in a manner that adversely affects it.

In addition, disputes may occur regarding Banco BTG Pactual's view with respect to a tax position. These disputes with the various taxing authorities may be settled by audit, administrative appeals or adjudication in the court systems of the tax jurisdictions in which it operates. Banco BTG Pactual regularly reviews whether it may be assessed additional taxes as a result of the resolution of these matters, and additional reserves may be recorded as appropriate. Additionally, it may revise Banco BTG Pactual's estimate of taxes due to changes in tax laws, regulatory instructions, legal interpretations and tax planning strategies. It is also responsible for withholding taxes, acting as the withholding agent in some transactions and serving as the legal representative of foreign investors, if elected. It is possible that revisions in its estimate of taxes may materially affect it in any reporting period.

Banco BTG Pactual's tax department is accountable for managing tax risks and also for supporting all its business units and administrative areas. All potential risks are promptly and clearly reported to its Senior Management Team.

Reputational Risk

The success of Banco BTG Pactual's businesses is highly dependent on its reputation and, as a result, it maintains principles and practices that it believes conform to the highest ethical standards. Banco BTG Pactual strives to carefully and selectively review transactions and services before it accepts an engagement in order to minimize any potential damage to its reputation. Banco BTG Pactual believes that damage to its reputation can arise from: (i) doing business with controversial counterparties or clients; (ii) the social, environmental or public impact of a transaction performed or facilitated by Banco BTG Pactual; (iii) any action or decision that does not conform to the letter and spirit of the law and regulations to which Banco BTG Pactual and its clients are subject or otherwise comply with Banco BTG Pactual's internal policies; and (iv) the perceptions of Banco BTG Pactual's clients, counterparties, investors and regulators, or the public in general, with respect to the foregoing. To ensure the appropriate monitoring of reputational risks, Banco BTG Pactual maintains a Code of Conduct, which sets forth its principles regarding ethical business standards. In addition, Banco BTG Pactual provides specific guidance on various topics in the form of internal policies and procedure manuals and offers extensive training for all of its staff. However, employee misconduct is often difficult to detect. See "Risk Factors—Risks Relating to Our Business and Industry—Misconduct by our personnel could harm us and may not be timely detected and deterred, and we may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and could have a material adverse effect on us."

Financial Statements

Applicable Accounting Standards

Banco BTG Pactual's consolidated financial statements are prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank in accordance with the standards and instructions of the CMN, the CVM and the Central Bank, when applicable. Banco BTG Pactual's consolidated financial statements include the financial statements of the Banco BTG Pactual, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities ("SPE").

The preparation of Banco BTG Pactual's consolidated financial statements in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank, requires management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with suspended eligibility, the provision for contingent liabilities and the fair value measurement of financial instruments. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inherent inaccuracies in its determination. Banco BTG Pactual and its subsidiaries periodically review these estimates and assumptions. No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See "Annex A: Principal Differences between Brazilian GAAP and IFRS" and "Presentation of Financial Information and Other Information."

Consolidated Financial Statements

In the consolidated financial statements all intercompany balances of assets and liabilities, revenues, expenses and unrealized profit were eliminated, and the portions of net income (loss) and shareholders' equity relating to non-controlling interest were included. Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill of investments in subsidiaries is recognized as deferred income. Goodwill and negative goodwill calculated on the acquisition of jointly controlled entities are recognized in investments.

Functional Currency

The items included in our consolidated financial statements are measured using the currency of the main economic environment in which we operate (functional currency). Our consolidated financial statements are presented in *reais* (R$), which is our functional currency. Assets and liabilities were translated into *reais* using the closing rate at the reporting period, while income and expense accounts were translated at the monthly average rate. The financial statements of our foreign affiliates, originally stated in their functional currencies, were translated into *reais* at the foreign exchange rates on the reporting dates. The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature in 2016 and 2015. Starting in 2017, the effects of foreign exchange variations on investments abroad are distributed in the fair value adjustments in the shareholders' equity.

Emphasis Paragraphs Included in the Auditors' Reports

The auditor's reports for our consolidated financial statements included elsewhere in this Offering Memorandum include emphasis-of-matter paragraphs related to:

(i) *tax credits recorded in jointly-controlled subsidiary*. As of September 30, 2018 and as of December 31, 2017, 2016 and 2015 and as of September 30, 2018, Banco Pan had deferred tax assets recorded on its balance sheet amounting to R$3.1 billion, R$3.1 billion, R$3.2 billion and R$3.3 billion, respectively, recognized based on long-term projections of future taxable income on which the deferred tax assets will be realized. These deferred tax realization projections were reviewed by Banco Pan's management based on current and future scenarios analyses and approved by its board of directors, relying on certain assumptions related to macroeconomics indices for production and funding costs. The realization of these tax credits, within the estimated realization period, depends on delivery of these projections and business plan as approved by the management bodies of Banco Pan;

(ii) *foreign subsidiary equity pick-up*. As mentioned in Note 13 to Banco BTG unaudited interim consolidated financial statements as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017, Banco BTG Pactual holds investments in EFG, but Banco BTG Pactual usually discloses its consolidated financial statements before it has access to the financial information of EFG. This is due to the fact that EFG is a publically listed company on the SIX Swiss Exchange Ltd. and, accordingly, cannot disclose its financial information to Banco BTG Pactual or any single shareholder prior to releasing its consolidated financial statements to the market. As a result, the equity pick-up is recognized in a period longer than permitted under the rules of the Central Bank, and any adjustment recorded by EFG are only considered in a later period by Banco BTG Pactual; and

(iii) *separate financial statements.* Banco BTG Pactual prepared a separate set of individual financial statements of Banco BTG Pactual on a standalone basis for the nine months ended September 30, 2018 and for the years ended December 31, 2017, 2016 and 2015. Such individual financial statements were also prepared in accordance with accounting principles adopted in Brazil applicable to institutions authorized to operate by the Central Bank.

Selected Balance Sheets and Income Statements

Banco BTG Pactual's balance sheet and income statement data (i) as of and for the nine months ended September 30, 2018 and 2017 are derived from and should be read in conjunction with its unaudited interim consolidated financial statements and related notes thereto and (ii) as of and for the years ended December 31, 2017, 2016 and 2015 are derived from and should be read in conjunction with its audited consolidated financial statements and related notes for the years ended December 31, 2017, 2016 and 2015, respectively.

Critical Accounting Policies

In connection with the preparation of its financial statements, Banco BTG Pactual was required to make judgments, estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenue and expenses during the reporting periods. Banco BTG Pactual's judgment is particularly relevant in the determination of fair values of financial assets and the assessment of the need for provisions for contingent liabilities. Although Banco BTG Pactual believes that its judgment and estimates are based on reasonable assumptions and are made in light of information available to it, they are nevertheless subject to several risks and uncertainties and its actual results may differ from these judgments and estimates.

Banco BTG Pactual sets forth below summarized information relating to its critical accounting policies. See the notes to its financial statements for further information on these critical accounting policies and other accounting policies it adopts.

Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments with original maturities of up to 90 days, subject to an insignificant risk of change in value.

Short-term interbank investments, remunerated deposits at the Central Bank, time and interbank deposits, open market funding, funds from securities issued and accepted, loans and onlending, subordinated debts and other asset and liability transactions

Transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a "pro rata die basis", based on the effective rate of the transactions.

Securities

Measured and classified in accordance with the criteria established by the Central Bank Circular No. 3068/01 under the following categories:

Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are initially recognized at cost plus income earned, and adjusted to fair value, recognized in statements of income.

Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, with interest recorded in profit or loss, and subsequently adjusted to fair value, with that amount recorded in a separate account under shareholders' equity, net of tax effects, which will only be recognized in statements of income after the effective realization.

Held-to-maturity securities

These are securities that Banco BTG Pactual has the intent and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to the statements of income. Decreases in the fair value of available for sale and held to maturity securities below their respective restated costs, related to non-temporary reasons, will be recorded in statements of income as realized losses.

According to the Central Bank Circular No. 3,068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

Derivative Financial Instruments

These are classified according to management's intent, on the transaction date, considering whether such transactions are for hedging purposes.

The transactions using financial instruments of one's own portfolio, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or unrealized, recorded directly in statements of income.

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as a hedge and are classified according to their nature:

- Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in the statements of income.

- Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.

- Net Investment Hedge of Foreign Operations: accounted for similarly to cash flow hedge, i.e. the portion of gains or losses on a hedging instrument that is determined to be an effective hedge, including overhedge to offset tax impact on hedge, is recognized in stockholders' equity, and reclassified to income for the period in the event of the disposal of the foreign operation. The ineffective portion is recognized in statements of income for the period.

Starting January 1, 2017, Banco BTG Pactual adopted net investment hedge of foreign operations.

Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or based on the price determined for other financial instruments with similar characteristics. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the options market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the maturity of their agreements.

Assets and liabilities resulting from swap and non-deliverable forward agreements ("NDF") are recognized in assets and liabilities at their carrying amount, with adjustments to fair value, recorded in statements of income. The notional amount of such agreements is recorded in memorandum accounts.

Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

Sale or transfer of financial assets with substantial retention of risks and benefits

Financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

Loans and other receivables (operations with credit characteristics)

Loans and other receivables with credit characteristics are recorded at present value, calculated on a "pro rata die" basis on the index variation and on the agreed upon interest rate, updated up to the 59th day of default, provided the expected receipt. As from the 60th day, the recognition in income occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least at the same level in which they were classified before renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in results when actually received.

Allowance for loan losses

Allowance for loan losses are recognized based on an analysis of loan risk losses at an amount deemed sufficient to cover probable losses, pursuant to CMN Resolution 2,682/99, among which:

- Allowances are recorded for loans, based on the classification of the client's risk, based on the periodic analysis of client quality and activity of industries and not only upon default.

- Considering exclusively the default, written off loans against losses are carried after 360 days from the credit due date or after 540 days for transactions with maturity over 36 months.

- The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio in accordance with the criteria established by CMN Resolution 2,682/99.

Investment property

Investment properties held by subsidiaries, whose main business is real estate investments, are initially measured at cost including transactions costs. After initial recognition, investment properties are stated at fair value, reflecting market conditions at each balance sheet date. Adjustments to fair value are determined considering the fair value of the property minus the attributed costs of the property, and recognized in net income.

The fair value of investment properties is determined at least on an annual basis, or when the company deems it necessary, and may involve an independent valuation.

Investment properties are derecognized when disposed of or when they cease to be used permanently and no further economic benefits are expected from their disposal.

Investments

Jointly controlled and associates are accounted for under the equity method. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

Foreign currency translation

The items included in our consolidated financial statements are measured using the currency of the main jurisdiction in which we operate (functional currency). Our consolidated financial statements are presented in *reais* (R$), which is our functional currency. Assets and liabilities were translated into *reais* using the closing rate at the reporting period, while income and expense accounts were translated at the monthly average rate. The financial statements of the companies abroad, originally stated in their functional currencies, were translated into *reais* at the foreign exchange rates on the reporting dates. The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature for 2016 and 2015. Starting in

2017, the effects of foreign exchange variations on investments abroad are recorded as currency translation adjustments under asset valuation adjustments in the shareholders' equity.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated financial statements.

Goodwill and negative goodwill

Goodwill and negative goodwill are calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired. Goodwill and negative goodwill, recorded according to the basis of expected future results of the acquired subsidiaries, is amortized according to cash flow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved. Negative goodwill is recognized in investments for jointly controlled entities, and in deferred income to subsidiaries.

Property and equipment in use and deferred charges

Property and equipment in use and deferred charges are recorded as costs. Depreciation is calculated using the straight-line basis as the method and is based on the economic useful live of the asset. Appreciation is also calculated using the straight-line basis as the method over the estimated period the asset is expected to be used or disposed. Deferred charges mainly corresponds to leasehold improvements.

Intangible assets

Refers to acquired rights that have their underlying assets destined to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3,642. Comprised of (i) goodwill paid in acquisition transferred to intangible asset due to incorporation of acquirer's equity by the acquired, or consolidation of the company; (ii) for acquired rights of assets management contracts; and (iii) software and improvements in third party property. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

Impairment on non-financial assets

Whenever there is clear evidence that assets are measured at an unrecoverable amount, it is recorded as loss in the results in the income statement. This procedure is performed at the end of each fiscal year. Assets subject to impairment are deducted, when applicable, of provision for losses that is calculated according to the bigger of value in use or fair value less costs to sell the assets. The main estimates used in determining the provision are, with respect to expectations of future cash flows, discount rates and illiquidity, among others.

Tax charges

Starting January 1, 2017, in connection with net investment hedge of foreign operations, shareholders' equity is recorded net of tax impact from hedges and reclassified as income or loss for the period in the event of the disposal of the foreign operation.

Income tax and social contribution

The provisions for income tax and social contribution are recorded based on accounting profits adjusted by additions and deductions according to the applicable tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R$240,000, and 20% for social contribution.

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

Recognized according to the criteria described below:

- Contingent assets: Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

- Contingent liabilities: Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably relevant. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions nor disclosure.

- Legal obligations: tax and social security: Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

Earnings per share

Calculated based on weighted average shares outstanding for the period.

Revenue Recognition

Revenues and expenses are recorded under the accrual method.

Banco BTG Pactual's Unaudited Adjusted Income Statement

The presentation of our audited income statement is based upon Brazilian GAAP and the standardized framework established by the Central Bank, which its management believes is better suited for the financial disclosure of commercial banks rather than investment banks like Banco BTG Pactual. We believe that the additional presentation of an unaudited adjusted income statement provides information which is more consistent with the manner in which our publicly-traded global investment banking competitors present financial information to the market.

Banco BTG Pactual's unaudited adjusted income statement includes revenues breakdown by business unit net of funding costs and financial expenses allocated to such unit, a reclassification of certain other expenses and costs for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015, and a discussion of such adjusted income statement. Banco BTG Pactual's unaudited adjusted income statement is derived from the same accounting information that generated accounting records used for preparing its income statement in accordance with Brazilian GAAP for the nine months ended September 30, 2018 and 2017 and the years ended December 31, 2017, 2016 and 2015. The classification of the line items in its unaudited adjusted income statement, however, has not been audited or reviewed by its independent auditors and materially differs from the classification of the corresponding line items in its income statement, as further described below. Prospective investors are urged to read carefully the financial statements before making an investment decision to purchase the Notes. Banco BTG Pactual's unaudited adjusted income statement has not been audited nor reviewed by its independent auditors, Ernst & Young Auditores Independentes S.S.

A summary of certain material presentation differences between Banco BTG Pactual's unaudited adjusted income statement and the presentation of the income statement in accordance with Brazilian GAAP for the years ended included in this Offering Memorandum can be found on "Presentation of Financial Information and Other Information—Financial Statements—Our Unaudited Adjusted Income Statement."

Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations

Following allegations against Mr. Esteves in November 2015, our management adopted a series of actions to preserve liquidity and capital, which included, among other actions, the disposal of certain relevant investments in subsidiaries and affiliates and corporate restructuring of certain other of our investments. The impact of certain recent acquisitions, divestitures and spin-offs is described below.

BSI/EFG

On July 14, 2014, Banco BTG Pactual entered into a definitive share purchase agreement providing for its indirect acquisition of 100% of the capital shares of BSI SA, a Swiss financial institution ("BSI"), from a subsidiary of Assicurazioni Generali S.p.A. ("Generali NV"). The total final aggregate consideration paid, before the adjustments described below, was CHF1,248 million in cash (equivalent to R$4,935 million using the exchange rate as of the closing date) consisting of: (i) CHF1,048 million in cash (equivalent to R$4,162 million using the exchange rate as of the closing date) and (ii) a number of common and preferred shares of Banco BTG Pactual's underlying IPO units of the BTG Pactual Group, with a value of CHF200 million based on trading price over a period prior to closing of the acquisition of BSI (equivalent to R$773 million using the exchange rate as of the closing date). The transaction also generated a preliminary negative goodwill of CHF27 million (equivalent to R$109 million using the exchange rate as of the closing date).

The cash consideration and value of the equity consideration accrued interest from January 1, 2014 through the closing date of the acquisition of BSI at Swiss LIBOR plus 1% (in the case of the cash consideration) and Swiss LIBOR plus 2% (in the case of the value of the equity consideration) and was subject to certain adjustments as provided in the BSI share purchase agreement. In addition, BSI was participating as a "Category 2 bank" in the U.S. Department of Justice's Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks (the "DOJ Program"), which allows Swiss banks to resolve certain U.S. client related matters within the defined framework of the DOJ Program. The cash consideration and value of the equity consideration was proportionately decreased for certain pre-closing liabilities of BSI, including the payment or provisions made by BSI under or in connection with the DOJ Program. On March 30, 2015, BSI was the first bank to obtain a non-prosecution agreement under the DOJ Program, under which BSI paid US$211 million to the DOJ, with the effect of reducing the cash consideration and value of the equity consideration payable by the BTG Pactual Group.

On January 22, 2015, the acquisition of BSI was approved by the Central Bank. On May 29, 2015, the acquisition of BSI was approved by the Swiss Financial Market Supervisory Authority, and on September 30, 2015, the transaction closed, with BSI's results incorporated into our consolidated financial statements as of that date.

In February 2016, BSI sold its remaining equity interest, equivalent to 49.0%, in B-Source, BSI's business process outsourcer.

Confronted with a challenging financial and liquidity scenario at the end of 2015 in the aftermath of the arrest of André Esteves and mounting macroeconomic pressures in Brazil, we pursued a strategy to maintain a conservative balance sheet and increased liquidity, and consistent with this strategy, on February 21, 2016, the BTG Pactual Group entered into a definitive share purchase agreement to sell 100% of BSI to EFG International ("EFG"), a global private banking and asset management firm headquartered in Zurich, Switzerland. We completed the sale to EFG on October 31, 2016. The final transaction consideration for the sale comprised of: (i) CHF575 million in cash (equivalent to R$1,880 million using the exchange rate of R$3.27 per CHF1.00, which was the exchange rate on November 1, 2016), (ii) CHF86.2 million in EFG shares listed on SIX, the Swiss stock exchange, corresponding to a 30% stake in EFG (using the exchange rate of R$3.27 per CHF1.00, which was the exchange rate on November 1, 2016) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG (equivalent to R$101 million using the exchange rate of R$3.27 per CHF1.00, which was the exchange rate on November 1, 2016), which generated a goodwill in the amount of CHF340 million (equivalent to R$1,111.8 million using the exchange rate of R$3.27 per CHF1.00, which was the exchange rate on November 1, 2016).

On March 15, 2017, the BTG Pactual Group received a notification from EFG requesting purchase price adjustments of approximately CHF278 million in favor of EFG pursuant to the documentation related to the sale of BSI. After careful review of such requested adjustments, and based on available information as of such date, including input from the BTG Pactual Group's advisers, the BTG Pactual Group disagreed and believed that the appropriate adjustment on a risk adjusted basis could be CHF95.7 million in favor of BTG Pactual. On July 17, 2017, after negotiations with EFG, the BTG Pactual Group agreed to return CHF89 million (equivalent to R$294 million using the exchange rate of R$3.31 per CHF1.00, which was the exchange rate on July 17, 2017) of the amount previously paid by EFG. The resolution of this matter included the CHF95 million amount previously imposed by the Swiss Financial Market Supervisory Authority on BSI that is the subject of a pending appeal.

Following the release of EFG's financial statements for the year ended December 31, 2017, on February 27, 2018, Banco BTG Pactual became aware of EFG's decision to reflect certain adjustments in its accounting practices with prospective adoption effects. Due to these changes, EFG recognized a reduction in its shareholders' equity corresponding to CHF493.9 million for the year ended December 31, 2017, which consequently caused a negative effect on BTG Pactual shareholders' equity in the amount of R$503.1 million as a reduction of the statutory reserve, for the nine months ended September 30, 2018.

Banco BTG Pactual recognizes the remaining stake of its investment in EFG as an investment in an associate entity based on the equity method. As of September 30, 2018 Banco BTG Pactual's remaining stake in EFG was 30%.

In 2016, prior of the sale of BSI to EFG, Banco BTG Pactual recorded financial income of R$874.1 million from BSI compared to no revenues in 2017.

Banco Pan Capital Increase

On November 6, 2017, Banco Pan approved a capital increase in the amount of R$400 million. CaixaPar assigned to Banco BTG Pactual its rights to subscribe for additional shares in the capital increase and to effect such understanding entered into call/put options for over 50% of the capital increase. The Shareholders Agreement of Banco Pan was not modified since CaixaPar and Banco BTG Pactual remained as co-controllers of Banco Pan. The capital increase concluded on January 8, 2018 pursuant to which Banco BTG Pactual contributed R$381.2 million, with no contribution from CaixaPar. As a result, Banco BTG Pactual holds a 50.6% economic interest in Banco Pan.

Acquisition of Bamerindus

On December 19, 2014, the Central Bank approved Banco BTG Pactual's acquisition of certain credits and rights held by FGC against Banco Bamerindus do Brasil S.A. and other companies in Bamerindus's economic group (collectively, "Bamerindus"). As consideration, Banco BTG Pactual paid R$107 million to FGC in December 2014, and will pay the remaining amount to FGC in four annual installments of R$87 million, indexed to CDI, through 2018, of which R$129.9 million remains outstanding as of September 30, 2018. As a result of this transaction, Banco BTG Pactual acquired control of Bamerindus, with 98.8% of its total and voting capital and recorded negative goodwill in the amount of R$26.5 million in 2014. Also on December 19, 2014, Bamerindus's extrajudicial liquidation process concluded, and Banco BTG Pactual changed Bamerindus's name to Banco Sistema S.A. The acquired assets did not include the Bamerindus brand.

As of December 31, 2014, Banco Sistema S.A. had assets and shareholders' equity in the amount of R$2,355.6 million and R$804.4 million, respectively. In addition, as of December 31, 2014, Banco Sistema S.A. had tax losses basis carryforward in the amount of R$5,220.6 million generated in the years 1993 and 2010. Deferred income tax asset over this base (40%) will be registered when management can support with reasonable assurance profitable forecast taxable income or when they are realized. In connection with a special tax regularization program (PERT), deferred income tax assets may be used to settle tax obligations.

Commodities Business Spin-Off

Banco BTG Pactual historically operated a diversified global commodities business operating in Asia, Africa, the Americas and Europe with a focus on energy products, minerals, metals and ores, and agriculture, in addition to an underlying bulk-shipping business. Its activities were primarily concentrated on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows.

On April 8, 2016, Banco BTG Pactual decided to separate its commodity trading activities, with the exception of those activities carried out by the Brazilian energy trading desk, from the operational structure of Banco BTG Pactual and to rearrange the commodities platform under a new Luxembourg-based company named Engelhart Commodities Trading Partners. As a result of this spin-off, Banco BTG Pactual's historical commodities platform began operating separately from Banco BTG Pactual, with limited administrative and operational services to be provided by Banco BTG Pactual based on arm's length contracts in accordance with market practices, including cost sharing and infrastructure sharing agreements, until such services are fully assumed by Engelhart CTP. Through April 8, 2021, Engelhart CTP has the option to acquire its remaining equity interest held by the Banco BTG Pactual for its equity value.

In October 2016, as part of this commodities spin-off, (i) 596,209,676 Class A shares of Engelhart CTP were delivered to Banco BTG Pactual's shareholders that elected to receive an equity interest in Engelhart CTP against delivery to Banco BTG Pactual of 596,209,676 Class C Preferred Shares and (ii) 59,457,673 additional IPO units were added, as at October 14, 2016, to the book-entry position of those shareholders that did not elect to receive equity interests in Engelhart CTP.

In 2016, as part of the commodity trading activities separation process, Engelhart CTP acquired 6.1% of its own shares held by Banco BTG Pactual. The total consideration was US$150 million and the price was equivalent to Engelhart CTP's net asset accounting value.

In 2017, as part of the commodity trading activities separation process, Engelhart CTP acquired 10.62% of its own shares held by the Banco BTG Pactual. The total consideration paid was US$251 million and the price was equivalent to Engelhart CTP's net asset accounting value.

Banco BTG Pactual recognizes the remaining stake of its investment in Engelhart CTP as an investment in an associate entity based on the equity method. As of the date of this Offering Memorandum, Banco BTG Pactual's remaining stake in Engelhart CTP was 19.01%.

Sale of Insurance Assets

On November 14, 2016, the BTG Pactual Group, together with its joint-venture partner Abu Dhabi Investment Council (ADIC), entered into definitive agreements to sell 100% of the equity interests in Maybrooke, which held a number of regulated reinsurance entities, to Argo Group International Company Ltd. for an estimated cash consideration of US$235 million. On February 6, 2017, the transaction was completed, and generated a loss in the amount of R$35 million.

Sale of Rede D'Or

In April 2015, Banco BTG Pactual through one of its subsidiaries, converted debentures in the amount of R$986.0 million issued by Rede D'Or, a Brazilian healthcare provider, as a result of which Banco BTG Pactual received shares equivalent to 21.1% of Rede D'Or's equity, generating goodwill in the amount of R$649.8 million. In May 2015, following a capital increase of Rede D'Or, Banco BTG Pactual's interest was diluted to 19.4% and generated an equity pickup gain of R$269.2 million, net of proportional goodwill amortization.

In June, 2015, Banco BTG Pactual sold 7.2% of its interest in Rede D'Or and recognized a gain of R$1,027.2 million under non-operating income. In 2016, Banco BTG Pactual sold its remaining investment in Rede D'Or and recognized a gain of R$2.7 billion, also under non-operating income. The transaction documents for the sale contemplate an adjustment in the sale price in case the share price of an initial public offering does not reach a certain price. On December 31, 2016, Banco BTG Pactual estimated that the value of these contractual rights is zero.

Loans Recovery Activity

On December 31, 2015, Banco BTG Pactual entered into a firm commitment with Itaú Unibanco S.A. to sell its full ownership interest in Recovery do Brasil Consultoria S.A. ("Recovery"), which provided corporate loan portfolio recovery and other credit agreement services as part of Banco BTG Pactual's corporate lending activities, for the total amount of R$1.2 billion, structured as follows: (i) transfer of ordinary shares, equivalent to 81.94% of Recovery's share capital; (ii) transfer of shares issued by Fundo de Investimento em Direitos Creditórios NPL ("FIDC NPL I"), which is a fund that holds a non-performing loan portfolio, equivalent to 69.34% of the FIDC NPL I's total investment, and (iii) transfer of non-convertible debentures issued by Renova Companhia Securitizadora de Créditos Financeiros S.A., which is an entity that also holds a non-performing loan portfolio. On the same date, the referred assets were transferred to be held for sale measured at fair value. The transaction generated an approximate gain of R$560 million recorded in 2015 under other operating income. On February 17, 2016, the sale transaction was approved by the Brazilian antitrust authorities, and on March 31, 2016 the transaction closed.

In November 2016, Banco BTG Pactual entered into definitive purchase agreements to acquire 70% of the share capital of Enforce, a Brazilian company that, like Recovery, operates in the recovery of corporate loan portfolios, for a purchase price of R$19.0 million, which it acquired to perform some of the same types of operations that Recovery once did. On December 20, 2016, the Central Bank approved the acquisition of 70% of the share capital of Enforce by Banco BTG Pactual, and on April 5, 2017, the transaction closed.

On October 5, 2017, Banco BTG Pactual acquired Novaportfolio Participações S.A., a Brazilian company that holds certain non-performing loan assets of Banco BVA S.A. which is currently in the process of extrajudicial liquidation, for a purchase price of R$211 million.

Restructuring of Eneva

The restructuring of Eneva, a power generation company based in Rio de Janeiro to which Banco BTG Pactual provided corporate loans, was completed in September 2015. As part of the restructuring process, part of the Eneva loans held by Banco BTG Pactual were converted into equity, following which Banco BTG Pactual held an ownership interest equivalent to 33.7% of the total capital of Eneva considering two additional asset contributions made by Banco BTG Pactual. As a result of the completion of Eneva's restructuring and considering its share market price, Banco BTG Pactual recognized fair value in the amount of R$142 million in 2016 under the line item "Net Financial Income—Securities."

In addition, in October 2017, Eneva completed a follow-on equity offering, where Banco BTG Pactual acted as selling shareholder. In connection with this follow-on equity offering, Banco BTG Pactual's ownership interest in Eneva decreased from 36.4% to 27.6%, without any material effect on Banco BTG Pactual's revenues for 2017.

Provision for Impairment of SETE

Over the course of 2015, Banco BTG Pactual recorded several provisions for impairment in connection with its proprietary investment in SETE Participações S.A. ("SETE"), a Brazilian company specialized in drilling rigs for the Brazilian oil and gas industry in which Petrobras holds a minority interest. These write-offs were equal to 92.1% of SETE's book value, which effectively decreased Banco BTG Pactual's results in 2015 by R$1,095.7 million.

Sale of Thor Comercializadora

On October 30, 2015, Banco BTG Pactual sold Thor Comercializadora, one of its energy trading entities with contracts totaling R$1.8 billion on such date, for the total amount of R$2.0 billion to a third party buyer, of which R$200 million was received at closing, with the remaining amount to be received over five years in semiannual installments, subject to price adjustments. In connection with this sale, Banco BTG Pactual recorded gains of R$345.4 million on October 30, 2015. In December 2016, Banco BTG Pactual repurchased Thor Comercializadora de Energia S.A. from the buyer, applying the accounts receivable in connection with the original transaction plus payment of R$89.5 million.

Acquisition of Uruguayan Timberlands from Weyerhauser

On June 5, 2017, the Timberland Group announced that a consortium led by it, part of BTG Pactual Asset Management and one of the world's largest timber asset managers, would purchase Uruguay timberlands and a manufacturing business from Weyerhaeuser for US$402.5 million in cash. The acquisition will significantly expand the Timberland Group's presence in Uruguay, where it has operated since 2005. The transaction includes over 300,000 acres (120,000 hectares) of timberlands in northeastern and north central Uruguay, as well as plywood and veneer manufacturing facility, a cogeneration facility and a seedling nursery.

Other Divestments

In addition, in the 60 days following the arrest of Mr. Esteves in November 2015, Banco BTG Pactual also sold (i) its remaining stake in BR Properties, a portfolio company focused on the development, acquisition, leasing and sale of commercial & industrial/logistics real estate properties in Brazil, for R$600 million and (ii) its stake in ATLL Concessionaria de La Generalitat de Catalunya S.A., the company responsible for managing the 50-year concession granted to Aigues Ter Llobregat, which manages the upstream water supply for Barcelona, Spain, for R$317 million.

On October 31, 2017, BW Properties S.A., a subsidiary in which we have a non-controlling interest, through its subsidiary BW1 Morumbi Empreendimento Imobiliário Ltda., completed the sale of the remaining portion of the WT Morumbi project for a total amount of R$231.8 million.

Consolidated Income Statement (Brazilian GAAP)

The following table sets forth the unaudited consolidated income statement of Banco BTG Pactual for the nine months ended September 30, 2018 and 2017 and the audited consolidated income statement for the years ended December 31, 2017, 2016 and 2015 and is derived from the financial statements prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Memorandum

	For the year ended December 31,			**For the nine months ended September 30,**		
	2015	**2016**	**2017**	**2017**	**2018**	**2018**
		(R$ millions)		***(R$ millions)***		***(US$ millions)***[1]
				(Unaudited)		
Financial income	**15,565.0**	**13,451.1**	**9,523.7**	**7,519.3**	**7,208.9**	**1,800.5**
Loans	3,118.7	1,809.4	1,529.7	1,250.5	928.2	231.8
Securities	10,251.5	4,969.8	5,873.3	4,766.5	4,281.1	1,069.2
Derivative financial instruments	2,068.4	4,161.8	1,596.7	1,127.2	1,659.3	414.4
Foreign exchange	–	2,308.0	376.7	252.1	270.9	67.7
Mandatory investments	126.3	202.1	147.4	123.0	69.4	17.3
Financial expenses	**(15,767.4)**	**(6,642.6)**	**(5,633.2)**	**(4,478.3)**	**(5,475.9)**	**(1,367.6)**
Funding operations	(9,236.7)	(7,111.4)	(5,172.7)	(4,084.5)	(3,532.9)	(882.4)
Borrowings and onlending	(5,880.0)	565.8	(567.3)	(187.2)	(1,906.9)	(476.3)
Foreign exchange	(82.9)	–	–	–	–	–
Allowance for loan losses and other receivables	(567.7)	(97.0)	106.8	(206.6)	(36.1)	(9.0)
Net financial income (loss)	**(202.4)**	**6,808.5**	**3,890.5**	**3,041.0**	**1,732.9**	**432.8**
Other operating income (expenses)	**1,302.9**	**(2,554.1)**	**(2,117.4)**	**(2,051.0)**	**117.0**	**29.2**
Income from services rendered	3,505.5	2,697.8	1,597.0	1,080.3	1,539.6	384.5
Personnel expenses	(1,633.9)	(1,676.6)	(648.9)	(480.6)	(574.2)	(143.4)
Other administrative expenses	(2,092.7)	(2,134.8)	(2,679.7)	(2,436.1)	(888.0)	(221.8)
Tax charges	(191.1)	(556.1)	(240.7)	(177.7)	(203.2)	(50.8)
Equity in the earnings of associates and jointly controlled entities	1,506.7	(794.0)	4.8	41.3	(71.5)	(17.9)
Other operating income	2,236.5	1,266.8	895.5	644.5	727.9	181.8
Other operating expenses	(2,028.1)	(1,357.1)	(1,045.4)	(722.7)	(413.6)	(103.3)
Operating income	**1,100.5**	**4,254.4**	**1,773.1**	**990.0**	**1,850.0**	**462.0**
Non-operating income (expenses)	2,737.1	940.1	4.7	(7.0)	141.0	35.2
Income before taxation and profit sharing	**3,837.6**	**5,194.5**	**1,777.9**	**983.0**	**1,991.0**	**497.3**
Income tax and social contribution	**3,159.6**	**(1,112.9)**	**1,287.2**	**1,200.6**	**165.5**	**41.3**
Provision for income tax	(1,293.7)	(190.8)	(160.0)	(42.0)	(719.8)	(179.8)
Provision for social contribution	(453.1)	(157.1)	(42.6)	89.8	(598.5)	(149.5)
Deferred income tax and social contribution	4,906.4	(765.1)	1,489.8	1,152.8	1,483.8	370.6
Statutory profit sharing	**(1,534.5)**	**(721.5)**	**(689.1)**	**(466.1)**	**(338.4)**	**(84.5)**
Non-controlling interest	**160.8**	**48.5**	**7.9**	**6.0**	**(9.8)**	**(2.4)**
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**1,723.5**	**1,808.3**	**451.6**
Interest on equity	**(914.8)**	**(1,390.0)**	**(1,223.7)**	**(623.8)**	**(592.1)**	**(147.9)**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Net Financial Income

Banco BTG Pactual's net financial income consists of financial income less financial expenses.

Banco BTG Pactual's financial income is composed primarily of income derived from: (i) interest charged on loans plus commissions charged in connection with Banco BTG Pactual's credit operations; (ii) interest income, realized gains or losses from transactions involving securities and unrealized gains and losses arising from mark-to-market accounting practices applicable to the securities portfolio, which may include government bonds and private securities as well as repurchase agreements; (iii) net realized and unrealized gains from (a) trading of financial instruments for the purpose of mitigating risk, including swaps, forwards, futures, options and other derivatives, in accordance with the Bank's customers' needs; and (b) mark-to-market accounting practices applicable to such instruments; (iv) net gains from fluctuations of exchange rates related to positions in foreign currencies and commissions obtained from transactions involving the purchase and sale of foreign currencies; and (v) interest on mandatory deposits maintained at the Central Bank.

Furthermore, Banco BTG Pactual's financial income is affected by the realized and unrealized gains/losses of hedging instruments. These instruments are used to offset exchange rate effects on financial income itself and in other lines of the income statement. From January 1, 2017, we adopted net investment hedge of foreign operations. (see "—Critical Accounting Policies—Derivative Financial Instruments" above).

Banco BTG Pactual's financial expenses are composed primarily of expenses derived from: (i) interest expenses in connection with repurchase agreements on open market transactions and deposits; (ii) interest and fees paid on borrowings in Brazil and abroad, including borrowings from Brazilian governmental agencies such as BNDES, in which Banco BTG Pactual acts as agent; (iii) net realized and unrealized losses from (a) its trading of financial instruments for the purpose of mitigating risk, including swaps, forwards, futures, options and other derivatives; and (b) mark-to-market accounting practices applicable to such instruments; (iv) gains or losses on its short position of equities on B3; (v) interest expenses on secured funding obtained from its prime brokers; and (vi) allowance for loan losses made in accordance with its accounting practices and as determined by the requirements of CMN Resolution 2,682/99.

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

Banco BTG Pactual's net financial income decreased 43.0% from R$3,041.0 million for the nine months ended September 30, 2017 to R$1,732.9 million for the nine months ended September 30, 2018, mainly due to a (i) decrease in gains from its loans and foreign exchange portfolio, and (ii) an increase in borrowing and onlending expenses, which was partially offset by increases in revenues from derivative financial instruments as more fully described below.

Financial Income. Banco BTG Pactual's financial income decreased 4.1%, from R$7,519.3 million for the nine months ended September 30, 2017 to R$7,208.9 million for the nine months ended September 30, 2018. This decrease was due to the following factors:

Loans. BTG Pactual's revenues from loans decreased 25.8%, from R$1,250.5 million for the nine months ended September 30, 2017 to R$928.2 million for the nine months ended September 30, 2018, mainly due to a decrease in the CDI rate from an accumulated 8.03% for the nine months ended September 30, 2017 to an accumulated 4.81% for the nine months ended September 30, 2018, partially offset by a 35.5% increase in Banco BTG Pactual's loan portfolio, from an average balance of R$11,741.2 million for the nine months ended September 30, 2017 to an average balance of R$15,910.4 million for the nine months ended September 30, 2018. This increase however, was mostly driven by new loans in Chile, which typically have lower interest rates.

Securities. Banco BTG Pactual's revenues from securities decreased 10.2%, from R$4,766.5 million for the nine months ended September 30, 2017 to R$4,281.1 million for the nine months ended September 30, 2018, mainly due to a decrease in the CDI rate from an accumulated 8.03% for the nine months ended September 30, 2017 to an accumulated 4.81% for the nine months ended September 30, 2018, which led to decreased revenue from our Brazilian government bonds portfolio. Such decrease was partially offset by an increase in revenues from open market investments in Brazil due to the increase in the average balance of such investments from R$22,458.1

million for the nine months ended September 30, 2017 to R$39,209.0 million for the nine months ended September 30, 2018, despite the negative impact of CDI variations on such portfolio, as discussed above.

Derivative Financial Instruments. Banco BTG Pactual's revenues from derivative financial instruments increased 47.2%, from R$1,127.2 million for the nine months ended September 30, 2017 to R$1,659.3 million for the nine months ended September 30, 2018, mainly due to the positive impact of our long positions in forward contracts denominated in U.S. Dollars for the nine months ended September 30, 2018 with no corresponding impact for the nine months ended September 30, 2017.

Foreign Exchange. Banco BTG Pactual's foreign exchange results increased 7.5%, from R$252.1 million for the nine months ended September 30, 2017 to R$270.9 million for the nine months ended September 30, 2018, primarily due to the increase in revenues from U.S. Dollar spot instruments for the nine months ended September 30, 2018.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from its mandatory deposits placed with the Central Bank, decreased 43.6%, from R$123.0 million for the nine months ended September 30, 2017 to R$69.4 million for the nine months ended September 30, 2018, mainly due to a decrease in the CDI rate from an accumulated 8.03% for the nine months ended September 30, 2017 to an accumulated 4.81% for the nine months ended September 30, 2018, coupled with a decrease of 4.1% in the daily average balance of mandatory investments, from R$1,566.8 million for the nine months ended September 30, 2017 to R$1,502.1 million for the nine months ended September 30, 2018.

Financial Expenses. Banco BTG Pactual's financial expenses increased 22.3%, from R$4,478.3 million for the nine months ended September 30, 2017 to R$5,475.9 million for the nine months ended September 30, 2018. This increase was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations decreased 13.5%, from R$4,084.5 million for the nine months ended September 30, 2017 to R$3,532.9 million for the nine months ended September 30, 2018, mainly as a result of the impact of the CDI rate decrease, from an accumulated 8.03% for the nine months ended September 30, 2017 to an accumulated 4.81% for the nine months ended September 30, 2018, thus reducing expenses to the extent indexed to this rate. These decreases were partially offset by (i) an increase of 30.1% in the average balance of our funds from securities issued and accepted, from R$9,046.9 million for the nine months ended September 30, 2017 to R$11,770.4 million for the nine months ended September 30, 2018, (ii) an increase of 114.9% in CDB and CDI average balance portfolios, from R$8,166.4 million for the nine months ended September 30, 2017 to R$17,549.1 million for the nine months ended September 30, 2018, and (iii) an increase of 59.7% in our average repurchase agreement portfolio, from R$$29,273.3 million for the nine months ended September 30, 2017 to R$46,682.9 million for the nine months ended September 30, 2018.

Borrowings and onlending. Banco BTG Pactual's losses from borrowings and onlending increased from a R$187.2 million loss for the nine months ended September 30, 2017 to a R$1,906.9 million loss for the nine months ended September 30, 2018, mainly due to (i) the negative effect from foreign exchange on borrowings denominated in U.S. dollars for the nine months ended September 30, 2018, as a result of the depreciation of the *real* against the US dollar, corresponding to losses of R$1,512.3 million for the nine months ended September 30, 2018 with no corresponding impact for the nine months ended September 30, 2017 and (ii) an increase of 35.3% in Banco BTG Pactual's average borrowings and onlending portfolio, from R$3,810.7 million for the nine months ended September 30, 2017 to R$5,154.8 million for the nine months ended September 30, 2018. These effects were partially offset by the impact of the CDI rate decrease, from an accumulated 8.03% for the nine months ended September 30, 2017 to an accumulated 4.81% for the nine months ended September 30, 2018, thus reducing expenses to the extent indexed to this rate.

Derivative Financial Instruments. See explanation of "Derivative Financial Instruments" under "—Financial Income" above. Pursuant to Brazilian GAAP, when Banco BTG Pactual incurs a loss from its derivative financial instruments, it records such loss as a financial expense, and when Banco BTG Pactual incurs a gain from its derivative financial instruments, Banco BTG Pactual records such gain as financial income.

Allowance for loan losses and other receivables. Banco BTG Pactual's losses from allowance for loan losses and other receivables decreased from a R$206.6 million loss for the nine months ended September 30, 2017 to a R$36.1 million loss for the nine months ended September 30, 2018, mainly due to the reversal of provisions, specifically certain provisions related to energy companies in the amount of R$106.8 million, among other reversals.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's net financial income decreased from R$6,808.5 million in 2016 to R$3,890.5 million in 2017, mainly due to (i) the positive impact of financial income from Engelhart CTP and BSI in 2016, contributing R$853.7 million and R$874.1 million, respectively, in net financial income during the year, while in 2017, Banco BTG Pactual's remaining share of Engelhart CTP (after the spin-off in October 2016) and the results of BSI (after sale to EFG in November 2016) are accounted for solely as equity in the earnings of associates and, therefore, no longer impact our net financial income line items (See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above) and (ii) the positive impact of the hedge instruments related to foreign subsidiaries and associates denominated mainly in U.S. Dollars in 2016 compared to no impact of such instruments in 2017 considering the change in accounting practice for hedge accounting (see "—Critical Accounting Policies—Derivative Financial Instruments" above).

Financial Income. Banco BTG Pactual's financial income decreased 29.2%, from R$13,451.1 million in 2016 to R$9,523.7 million in 2017. This decrease was due to the following factors:

Loans. Banco BTG Pactual's revenues from loans decreased 15.5%, from R$1,809.4 million in 2016 to R$1,529.7 million in 2017, mainly due to a 65.0% decrease in its loan portfolio, from an average balance of R$34,785.9 million in 2016 to an average balance of R$12,160.3 million in 2017, reflecting mainly the impact of the BSI sale. In 2016, BSI contributed R$413.1 million in revenues from loans, with no corresponding impact in 2017. Excluding the effects of BSI, the average balance of Banco BTG Pactual's loan portfolio increased 8.1% in 2017 from R$11,254.1 million in 2016 to R$12,160.3 million in 2017. The BSI loan portfolio had lower spreads than Banco BTG Pactual's Brazilian loan portfolio, in line with Swiss interest rates, and therefore the decrease in total revenues was partially offset by a higher average spread in 2017.

Securities. Banco BTG Pactual's revenues from securities increased 18.2%, from R$4,969.8 million in 2016 to R$5,873.3 million in 2017, mainly due to: (i) the negative impact in 2016 of the foreign exchange effect on our assets denominated in U.S. dollars as a result of the appreciation of the *real* against the US dollar that year compared to no comparable effect on those assets in 2017 reflecting a change in the presentation of our financial statements pursuant to which foreign exchange variations on investments abroad are now distributed in fair value adjustments in shareholders' equity (see Note 3(b) to our audited consolidated financial statements as of and for the year ended December 31, 2017 and 2016 included elsewhere in this Offering Memorandum); (ii) an increase in revenues from open market investments in Brazil, due to the increase in the average balance of such investments from R$19,899.6 million in 2016 to R$23,227.4 million in 2017; and (iii) higher gains in certain equities positions in 2017 compared to 2016. These effects were partially offset by the impact of the BSI sale and commodities spin-off pursuant to which Banco BTG Pactual recorded R$359.6 million in revenues from securities traded via BSI entities and R$318.6 million in revenues from securities traded via Engelhart CTP entities in 2016, with no corresponding revenue during 2017.

Derivative Financial Instruments. Banco BTG Pactual's revenues from derivative financial instruments decreased 61.6%, from R$4,161.8 million in 2016 to R$1,596.7 million in 2017, mainly due to (i) a positive impact from hedge instruments related to foreign associates and subsidiaries denominated mainly in U.S. Dollars in 2016 as a result of the appreciation of the *real* against the US dollar, compared to no such impact in 2017 due to the adoption of net investment hedge of foreign operations and (ii) the positive contribution of R$484.9 million in revenues derived from commodities linked derivatives from Engelhart CTP, with no corresponding effect in 2017 following the commodities spin-off.

Foreign Exchange. Banco BTG Pactual's foreign exchange results decreased 83.7%, from R$2,308.0 million in 2016 to R$376.7 million in 2017, primarily due to (i) a less volatile currency market reducing our revenues from our hedge positions and (ii) the impact of BSI and Engelhart CTP revenues in 2016, which contributed R$203.0 million and R$113.7 million, respectively, in revenues, with no corresponding in 2017.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from its mandatory deposits placed with the Central Bank, decreased 27.1%, from R$202.1 million in 2016 to

R$147.4 million in 2017, mainly due to a decrease in the CDI rate from 14.00% in 2016 to 9.93% in 2017, and a decrease of 1.9% in the daily average balance of the mandatory investments, from R$1,543.2 million in 2016 to R$1,514.6 million in 2017.

Financial Expenses. Banco BTG Pactual's financial expenses decreased 15.2%, from R$6,642.6 million in 2016 to R$5,633.2 million in 2017. This decrease was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations decreased 27.3%, from R$7,111.4 million in 2016 to R$5,172.7 million in 2017, mainly as a result of: (i) a decrease of 35.7% in the average balance of its funds from securities issued and accepted, from R$14,451.9 million in 2016 to R$9,295.5 million in 2017, (ii) a 41.5% decrease in CDB and CDI average balance portfolios from R$14,156.5 million in 2016 to R$8,280.5 million in 2017, (iii) R$24.1 million in expenses from funding operations from BSI in 2016, with no corresponding expense in 2017 and (iv) the impact of the CDI rate decrease, from 14.00% in 2016 to 9.93% in 2017, thus reducing expenses to the extent indexed to this rate. These decreases were partially offset by an increase of 39.7% in our average repurchase agreement portfolio from R$21,595.5 million in 2016 to R$30,167.9 million in 2017 and corresponding expenses in relation thereto.

Borrowings and onlending. Banco BTG Pactual's results from borrowings and onlending varied from a R$565.8 million gain in 2016 to a R$567.3 million loss in 2017 mainly due to the positive effect from foreign exchange on borrowings denominated in U.S. dollars in 2016, as a result of the appreciation of the *real* against the US dollar, corresponding to gains of R$1,414.8 million in 2016 with no corresponding gains in 2017. This effect was partially offset by lower expenses related to negative mark-to-market adjustments of Banco BTG Pactual's equity short positions traded on the B3, which generated losses of R$206.9 million in 2017, compared to losses of R$496.2 million in 2016. To a lesser extent, this variation was also offset by the BSI sale and spin-off of Engelhart CTP, with BSI and Engelhart CTP generating R$86.7 million and R$32.8 million, respectively, in borrowing and onlending expenses in 2016, with no corresponding impact in 2017.

Derivative Financial Instruments. See explanation of "Derivative Financial Instruments" under "—Financial Income" above. Pursuant to Brazilian GAAP, when Banco BTG Pactual incurs a loss from its derivative financial instruments, it records such loss as a financial expense, and when Banco BTG Pactual incurs a gain from its derivative financial instruments, Banco BTG Pactual records such gain as financial income.

Allowance for loan losses and other receivables. Banco BTG Pactual's results from allowance for loan losses and other receivables varied from a R$97.0 million expense in 2016 to a R$106.8 million gain in 2017. Such variation was mainly due to (i) significant gains of R$393.1 million related to credit recovery operations, (ii) higher provisions in 2016 due to an increase in past due payments primarily from certain utility company borrowers, and (iii) to a lesser extent, by the impact the spin-off of Engelhart CTP, which generated expenses from allowance for loan losses of R$36.9 million in 2016, with no similar effect in 2017. These effects were partially offset by the impact of a gain of R$88.1 million related to the reversal of provisions at BSI in 2016, with no corresponding impact in 2017.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's net financial income increased, from a loss of R$202.4 million in 2015 to a gain of R$6,808.5 million in 2016, mainly due to the positive impact of the hedge instruments related to foreign subsidiaries and associates denominated mainly in U.S. Dollars in 2016 compared to a negative impact of such instruments in 2015. This variation was partially offset by a reduction in loans revenues as a result of a reduction of our Brazilian credit portfolio and by a smaller contribution from our commodities division due to the spin-off of Engelhart CTP in October 2016, pursuant to which Banco BTG Pactual's remaining stake in Engelhart CTP is accounted for solely as equity in the earnings of associates and, therefore, no longer impacts our financial results (See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above) and, to a lesser extent, the impact of seven months of results from BSI, following the closing of Banco BTG Pactual acquisition in 2015 compared to results in 2016, prior to Banco BTG Pactual's sale of BSI to EFG.

Financial Income. Banco BTG Pactual's financial income decreased 13.6%, from R$15,565.0 million in 2015 to R$13,451.1 million in 2016. This decrease was due to the following factors:

Loans. Banco BTG Pactual's revenues from loans decreased 42%, from R$3,118.7 million in 2015 to R$1,809.4 million in 2016, mainly due to a 36.8% decrease in our Brazilian corporate lending portfolio from an average balance of R$17,805.6 million in 2015 to an average balance of R$11,254.1 million in 2016. This decrease was a consequence of the sale our credit portfolio in order to generate liquidity as part of management's broader initiatives to preserve capital and liquidity in the aftermath of the arrest of André Esteves in November 2015.

Securities. Banco BTG Pactual's revenues from securities decreased 51.5%, from R$10,251.4 million in 2015 to R$4,969.8 million in 2016, mainly due to: (i) negative impact from the foreign exchange effect on our assets denominated in U.S. dollars as a result of the appreciation of the *real* against the US dollar in 2016, compared to a positive impact on those assets in 2015 when there was a depreciation of the *real* against the U.S. dollar; and (ii) a decrease in revenues from open market investments in Brazil, due to the decrease in the average balance of such investments from R$26,788.8 million in 2015 to R$19,898.6 million in 2016, partially offset by an increase in revenues from securities traded in BSI entities, which results were consolidated into Banco BTG Pactual's results for three quarters of 2016 compared to only one quarter of 2015.

Derivative Financial Instruments. Banco BTG Pactual's results from derivative financial instruments increased 101.2%, from R$2,068.4 million in 2015 to R$4,161.8 million in 2016, mainly due to a positive impact of the hedge instruments related to foreign associates and subsidiaries denominated mainly in U.S. Dollars in 2016 with the appreciation of the *real* against the US dollar, compared to a negative impact of such instruments in 2015 when there was a depreciation of the *real* against the US dollar. These gains were partially offset by a lower contribution from commodities linked derivatives due to the spin-off of Engelhart CTP in October 2016, which generated revenues of R$3,917.9 million in 2015 compared to R$484.9 million in 2016.

Foreign Exchange. Banco BTG Pactual's foreign exchange results varied from a loss of R$82.9 million in 2015 to a gain of R$2,308.0 million in 2016, primarily as a result of the use in 2016 of spot instruments to partially hedge our foreign exchange currency exposure.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from its mandatory deposits placed with the Central Bank, increased 60.0%, from R$126.3 million in 2015 to R$202.1 million in 2016, mainly due to an increase of 52.7% in the daily average balance of mandatory investments, from R$1,010.8 million in 2015 to R$1,543.2 million in 2016, reflecting Banco BTG Pactual's participation in *Depósitos a Prazo com Garantia Especial* program which offers investors extended guarantees provided by the FGC in the case of an intervention, liquidation or insolvency recognized by the competent party of the financial institution.

Financial Expenses. Banco BTG Pactual's financial expenses decreased 57.9%, from R$15,767.4 million in 2015 to R$6,642.6 million in 2016. This decrease was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations decreased 23.0%, from R$9,236.7 million in 2015 to R$7,111.4 million in 2016, mainly as a result of: (i) a decrease of 44.5% in average balance of its open market funding portfolio, from R$38,932 million in 2015 to R$21,595 million in 2016; (ii) a 34.8% decrease in average balance of financial bills, from R$22,169 million in 2015 to R$14,462 million in 2016, and (iii) a 28.3% decrease in CDB and CDI average balance portfolios from R$19,734 million in 2015 to R$14,156 million in 2016.

Borrowings and onlending. Banco BTG Pactual's results from borrowings and onlending varied from a R$5,880 million expense in 2015 to a R$565.8 million gain in 2016, mainly due to: the positive effect from foreign exchange on borrowings denominated in U.S. dollars as a result of the appreciation of the *real* against the US dollar in 2016, which generated a positive result of R$1,414.9 million, as compared to the negative impact of the depreciation of the *real* against the US dollar in 2015 which caused a R$5,426.3 million loss. These effects were partially offset by higher expenses related to negative mark-to-market adjustments of Banco BTG Pactual's equity short positions traded on B3, which generated losses of R$81.4 million in 2015, compared to losses of R$526.8 million in 2016.

Derivative Financial Instruments. See explanation of "Derivative Financial Instruments" under "—Financial Income" above. Pursuant to Brazilian GAAP, when Banco BTG incurs a loss from its derivative financial instruments, it records such loss as a financial expense, and when Banco BTG Pactual incurs a gain from its derivative financial instruments, Banco BTG Pactual records such gain as financial income.

Allowance for loan losses and other receivables. Banco BTG Pactual's expenses related to its allowance for loan losses and other receivables decreased from R$567.7 million in 2015 to R$97.0 million in 2016. The decrease in such expenses in 2016 was mainly due to: (i) contraction of Banco BTG Pactual's credit portfolio in 2016, thereby reducing Banco BTG Pactual's exposure to credit risk and (ii) a decrease in provisions, which we believe demonstrates the resilience of our credit portfolio and our conservative approach in terms of provisioning in prior years, including the increase in allowance for loan losses at the end of 2015 to reflect potential liquidity discount during the period.

Other Operating Income

Banco BTG Pactual's other operating income is primarily affected by revenues from services rendered, compensation, headcount and levels of client activity.

The table below shows the composition of Banco BTG Pactual's other operating income for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,		
	2015	2016	2017	2017	2018	2018
		(R$ millions)		*(R$ millions)*		*(US$ millions)*[1]
					(Unaudited)	
Income from services rendered	3,505.5	2,697.8	1,597.0	1,080.3	1,539.6	384.5
Personnel expenses	(1,633.9)	(1,676.6)	(648.9)	(480.6)	(574.2)	(143.4)
Other administrative expenses	(2,092.7)	(2,134.8)	(2,679.7)	(2,436.1)	(888.0)	(221.8)
Tax charges	(191.1)	(556.1)	(240.7)	(177.7)	(203.2)	(50.8)
Equity in the earnings of associates and jointly controlled entities	1,506.7	(794.0)	4.8	41.3	(71.5)	(17.9)
Other operating income	2,236.5	1,266.8	895.5	644.5	727.9	181.8
Other operating expenses	(2,028.1)	(1,357.1)	(1,045.4)	(722.7)	(413.6)	(103.3)
Other operating income	**1,302.9**	**(2,554.1)**	**(2,117.4)**	**(2,051.0)**	**117.0**	**29.2**

(1) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00.

The table below shows the composition of Banco BTG Pactual's income from services rendered for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,		
	2015	2016	2017	2017	2018	2018
		(R$ millions)		*(R$ millions)*		*(US$ millions)*[3]
					(Unaudited)	
Management and performance fee from investment funds and portfolio	1,823.0	1,157.6	569.0	366.6	525.9	131.3
Underwriting and advisory fees[1]	1,048.5	830.5	610.4	399.5	653.1	163.1
Other services[2]	634.1	709.6	417.6	314.2	360.5	90.0
Income from services rendered	**3,505.5**	**2,697.8**	**1,597.0**	**1,080.3**	**1,539.6**	**384.5**

(1) Underwriting and advisory fees include technical services and commission on the placement of securities.

(2) Other services include fees and commissions in connection with credit instruments issued by Banco BTG Pactual, such as loans and letters of credit guarantees, among others.

(3) Translated for convenience only using the exchange rate as reported by the Central Bank on September 30, 2018 for *reais* into U.S. dollars of R$4.0039 to US$1.00

Banco BTG Pactual's personnel expenses consist of salaries, benefits (such as health insurance) and other payments made to its personnel on its payroll.

Banco BTG Pactual's other administrative expenses include costs for occupancy and rental, communications, information services, travel, presentations, conferences, professional fees, depreciation and other general operating expenses.

Banco BTG Pactual's tax charges include several different taxes. Most of the tax charges are applicable to revenues generated in Brazil. Financial income generated by Banco BTG Pactual's Brazilian entities is subject to the PIS and the COFINS. In addition, Banco BTG Pactual's fee income generated from services rendered is subject to the payment of ISS, at rates that vary in each of the municipalities in which Banco BTG Pactual's Brazilian offices are located and, also, according to type of service rendered. In general, ISS taxes range is from 2% to 5%. The current tax rates of PIS and COFINS applicable to Banco BTG Pactual are, respectively, 0.65% and 4.0% for Brazilian entities that are deemed financial institutions, and 1.65% and 7.6% for Brazilian entities that are deemed non-financial institutions.

Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities consists of its proportional share of net income or net losses from companies in which it holds a minority or a co-controlling equity stake, including (i) Banco Pan, (ii) Pan Seguros, (iii) Pan Corretora, (iv) Maybrooke (from 2015 and through February 2017), (v) Engelhart CTP (from September 2016, reflecting Banco BTG Pactual's remaining interest in its spun-off commodities operations) and (vi) EFG (from September 2016, reflecting Banco BTG Pactual's stake in the entity to which it sold BSI) and (vii) BTG Pactual Holding S.à r.l., Banco BTG Pactual's investment vehicle through which it operates a joint venture with Petrobras for oil and gas exploration in Africa, including, in the case of investments denominated in currencies other than the *real,* the foreign exchange effects of such investments.

Banco BTG Pactual's other operating income consists of: (i) adjustments for inflation on judicial deposits, (ii) the reversal of certain of its provisions, including for contingencies and employees' profit-sharing, (iii) fair value of investment properties for sale from its real estate operations which are consolidated companies, (iv) gains of exchange rate variations on certain of its assets and liabilities denominated in U.S. dollars, including management and performance fees that it receives from its funds abroad and amounts receivable or payable, and (v) monetary adjustments on receivables.

Banco BTG Pactual's other operating expenses are primarily composed of: (i) the effect of exchange rate variations on certain of its assets and liabilities denominated in U.S. dollars, including management and performance fees that it receives from its funds abroad and amounts receivable or payable; (ii) goodwill amortization; (iii) interest charges in connection with deferred payment obligations from the acquisition of certain investments, primarily Banco Pan, the outstanding balance of which shall be paid by July 31, 2028; and (iv) interest expenses on adjustment of inflation on tax liabilities.

Nine Months Ended September 30, 2018 versus Nine Months ended September 30, 2017

Banco BTG Pactual's other operating expenses varied from an expense of R$2,051.0 million for the nine months ended September 30, 2017, to income of R$117.1 million for the nine months ended September 30, 2018.

Income from services rendered. The table below shows the composition of Banco BTG Pactual's income from services rendered for the periods indicated:

	For the nine months ended September 30,				
	2017	**% of total**	**2018**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Management and performance fee from investment funds and portfolio	366.6	33.9%	525.9	34.2%	43.5%
Underwriting and advisory fees[1]	399.5	37.0%	653.1	42.4%	63.5%
Other services[2]	314.2	29.1%	360.5	23.4%	14.7%
Income from services rendered	**1,080.3**	**100.0%**	**1,539.6**	**100.0%**	**42.5%**

(1) Underwriting and advisory fees include technical services and commission on the placement of securities.

(2) Other services include brokerage fees and other fees and commissions in connection with credit instruments issued by us, such as loans and letters of credit, among others.

Banco BTG Pactual's income from services rendered increased from R$1,080.3 million for the nine months ended September 30, 2017 to R$1,539.6 million for the nine months ended September 30, 2018, driven primarily by the increase in underwriting and advisory fees and in management and performance fees from investment funds and portfolio, as more fully described below.

Management and performance fee from investment funds and portfolio. Banco BTG Pactual's income from management and performance fee from investment funds and portfolio increased 43.5%, from R$366.6 million for the nine months ended September 30, 2017 to R$525.9 million for the nine months ended September 30, 2018. This increase was mainly due to an increase of 34.7% in AUM and AUA, from R$136.8 billion as of September 30, 2017 to R$184.2 billion as of September 30, 2018.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees increased 63.5%, from R$399.5 million for the nine months ended September 30, 2017 to R$653.1 million for the nine months ended September 30, 2018 mainly due to stronger activity in financial advisory transactions, with higher volume of transactions being closed in the period. In addition, there was an increase in fees collected with respect to equity and debt capital market transactions.

Other services. Banco BTG Pactual's revenue from other services increased 14.7%, from R$314.2 million for the nine months ended September 30, 2017 to R$360.5 million for the nine months ended September 30, 2018. This increase was mainly due to an increase in brokerage revenues.

Personnel expenses. Banco BTG Pactual's personnel expenses increased 19.5%, from R$480.6 million for the nine months ended September 30, 2017 to R$574.2 million for the nine months ended September 30, 2018, mainly due to: (i) an increase of 2.7% in the average annual salary adjustment for employees pursuant to the terms of the annual union agreement that is renegotiated annually and (ii) an increase of 10.3% in total number of employees, from 2,027 as of September 30, 2017 to 2,237 as of September 30, 2018.

Other administrative expenses. Banco BTG Pactual's other administrative expenses decreased 63.5%, from R$2,436.1 million for the nine months ended September 30, 2017 to R$888.0 million for the nine months ended September 30, 2018 mainly due to a R$1,632.4 million expense for the nine months ended September 30, 2017 related to Banco BTG Pactual's participation in a special tax regularization program (PERT) corresponding mainly to fines and interest payments in relation to tax disputes settled through the program, which expense was offset in the "Income tax and social contribution" line item reflecting gains recorded in relation to the recognition of off-balance tax loss carryforwards, which we were able to apply in settling tax debt through the PERT program. For more information regarding our participation in the PERT program, see "Business—Legal Matters—Tax Proceedings." Eliminating the effect of the PERT, other administrative expenses would have increased R$84.2 million mainly due to a R$32.4 million isolated expense for the nine months ended September 30, 2018 related to fund revenue sharing. One of our alternative assets funds had an increase of precatory revenues and was fully recognized in our revenue accounts. A portion of this was passed through to the fund's minority investors creating a one-off expense.

Tax charges. Banco BTG Pactual's tax charges increased 14.3%, from R$177.7 million for the nine months ended September 30, 2017 to R$203.2 million for the nine months ended September 30, 2018. The increase in tax charges was mainly due to a tax amnesty agreement with Rio de Janeiro Municipality regarding tax over services which we settled in the nine months ended September 30, 2018 with a R$85.6 million negative impact.

Equity in the earnings of associates and jointly controlled entities. Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities varied from a gain of R$41.3 million for the nine months ended September 30, 2017 to a loss of R$71.5 million for the nine months ended September 30, 2018.

For the nine months ended September 30, 2018, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly affected by: (i) the negative impact of equity pick-up and goodwill amortization from EFG, corresponding to losses of R$29.4 million and R$98.8 million, respectively, and (ii) the negative impact of equity pick-up from Engelhart CTP, corresponding to a loss of R$37.3 million. Such losses were partially offset by: (x) the R$75.1 million impact of equity pick-up gains from Banco Pan, which recorded a profit due to stable financial margins and cost reductions, (y) the R$17.8 million impact of equity pick-up gains from Pan Seguros and (z) the R$4.1 million impact of equity pick-up gains from Pan Corretora.

For the nine months ended September 30, 2017, Banco BTG Pactual's equity in earnings of associates and jointly controlled entities was mainly affected by: (i) the positive impact of the results of the Petrobras Joint Venture ("PetroAfrica"), corresponding to a gain of R$78.9 million, (ii) the R$19.2 million in equity pick-up gains from EFG, (iii) the R$11.7 million in equity pick-up gains from Maybrooke; and (iv) the R$63.1 million in equity pick-up gains from Banco Pan. These positive impacts were partially offset by: (x) the negative impact of goodwill amortization of EFG, corresponding to a loss of R$78.9 million and (y) the negative impact of equity pick-up from Engelhart CTP, corresponding to a loss of R$ 70.5 million.

Other operating income. Banco BTG Pactual's other operating income increased 12.9%, from R$644.5 million for the nine months ended September 30, 2017 to R$727.9 million for the nine months ended September 30, 2018, due to stronger results in our NPL (non-performing loans) division, which was partially offset by a lower adjustment for inflation in relation to inflation-indexed judicial deposits as a result of the decrease in the inflation rate.

Other operating expenses. Banco BTG Pactual's other operating expenses decreased 42.8%, from R$722.7 million for the nine months ended September 30, 2017 to R$413.6 million for the nine months ended September 30, 2018, mainly due to the negative impact of certain events occurring in the nine months ended September 30, 2017, with no corresponding effect for the nine months ended September 30, 2018, namely: (i) R$63.7 million of impairment charges from Petro Africa in the nine months ended September 30, 2017 and (ii) R$143.2 million regarding Celfin's goodwill amortization for the nine months ended September 30, 2017 with no corresponding value for the nine months ended September 30, 2018 marking the passage of five years since the Celfin acquisition with no more goodwill amortization after the fifth year.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's other operating expenses decreased from R$2,554.1 million in 2016, to R$2,117.4 million in 2017.

Income from services rendered. The table below shows the composition of Banco BTG Pactual's income from services rendered for the periods indicated:

	For the year ended December 31,				
	2016	% of total	2017	% of total	Variation (%)
	(R$ millions, except percentages)				
Management and performance fee from investment funds and portfolio	1,157.6	42.9%	569.0	35.6%	(50.8%)
Underwriting and advisory fees[(1)]	830.5	30.8%	610.4	38.2%	(26.5%)
Other services[(2)]	709.6	26.3%	417.6	26.1%	(41.1%)
Income from services rendered	**2,697.8**	**100.0%**	**1,597.0**	**100.0%**	**(40.8%)**

(1) Underwriting and advisory fees include technical services and commission on the placement of securities.

(2) Other services include brokerage fees and other fees and commissions in connection with credit instruments issued by us, such as loans and letters of credit, among others.

Banco BTG Pactual's income from services rendered decreased from R$2,697.8 million in 2016 to R$1,597.0 million in 2017, driven primarily by the sale of BSI which contributed R$1,145.5 million in income from services rendered in 2016, with no corresponding income in 2017.

Management and performance fee from investment funds and portfolio. Banco BTG Pactual's income from management and performance fee from investment funds and portfolio decreased 50.8%, from R$1.157.6 million in 2016 to R$569.0 million in 2017. This decrease was mainly due to the sale of BSI. BSI contributed R$490.4 million in revenues from management and performance fees in 2016, with no corresponding revenue in 2017 as a result of the sale of BSI to EFG. In addition, the performance of certain Banco BTG Pactual's funds against market benchmarks in 2017 were worse than in 2016, with a consequent negative impact on performance fee revenues.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees decreased 26.5%, from R$830.5 million in 2016 to R$610.4 million in 2017 mainly due to the sale of BSI. BSI contributed R$355.2 million in revenues in underwriting and advisory fees in 2016, with no corresponding revenue in 2017 as a result of the sale of BSI to EFG. Excluding the impact of BSI, underwriting and advisory fees slightly increased due to an acceleration in investment activities.

Other services. Banco BTG Pactual's revenue from other services decreased 41.1%, from R$709.6 million in 2016 to R$417.6 million in 2017. This decrease was mainly due to lower revenues from brokerage transactions in 2017 compared to 2016 as a direct effect of the sale of BSI. Excluding the impact of BSI, other service fees increased 12.9%, from R$370.0 million in 2016 to R$417.6 million in 2017.

Personnel expenses. Banco BTG Pactual's personnel expenses decreased 61.3%, from R$1,676.6 million in 2016 to R$648.9 million in 2017, mainly due to (i) the impact of the BSI sale and commodities spin-off, given that BSI generated personnel expenses of R$730.4 million and the commodities business generated personnel expenses of R$242.8 million in 2016, with no corresponding costs and expenses during 2017 and (ii) the impact of Banco BTG Pactual's cost reduction program, which was fully implemented at the end of 2016. These effects were partially offset by average annual salary adjustment of 8% in September 2016 and 2.73% in September 2017 for employees pursuant to the terms of the union agreement that is renegotiated annually.

Other administrative expenses. Banco BTG Pactual's other administrative expenses increased 25.5%, from R$2,134.8 million in 2016 to R$2,679.7 million in 2017, mainly due to a R$1,632.4 million expense related to Banco BTG Pactual's participation in a special tax regularization program (PERT), corresponding mainly to fines and interest payments in relation to tax disputes settled through the program, which expense was offset in the "Income tax and social contribution" line reflecting gains recorded in relation to the recognition of off-balance tax loss carryforwards, which we were able to apply in settling tax debt through the PERT program. For more information regarding our participation in the PERT program, see "Business—Legal Matters—Tax Proceedings." Eliminating this effect, other administrative expenses otherwise decreased mainly due the impact of the BSI sale and commodities spin-off and corresponding reduction of outsourced, consulting and financial services and depreciation and amortization costs. In 2016, BSI and the commodities business generated other administrative expenses of R$890.8 million and R$334.0 million, respectively, with no corresponding costs and expenses in 2017.

Tax charges. Banco BTG Pactual's tax charges decreased 56.7%, from R$556.1 million in 2016 to R$240.7 million in 2017. The decrease in tax charges was mainly due to the impact of the gains in the hedge instruments that are subject to taxation in 2016, compared to no similar impact in 2017 when we adopted hedge accounting. The decrease in Banco BTG Pactual's tax charges was impacted to a lesser extent by the sale of BSI and the spin-off of its commodities business, which generated tax charges of R$24.4 million and R$3.7 million, respectively, in 2016 with no corresponding costs and expenses in 2017.

Equity in the earnings of associates and jointly controlled entities. Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities varied from a loss of R$794.0 million in 2016 to a gain of R$4.8 million in 2017.

In 2017, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly affected by: (i) the positive impact of equity pick-up from BTG Pactual Holding S.à r.l investment, corresponding to a gain of R$79.0 million, reflecting results from PetroAfrica, (ii) the R$19.2 million positive impact of equity pick-up from EFG, (iii) the R$32.0 million positive impact of equity pick-up from Pan Corretora and Pan Seguros, (iv) the R$11.7 million positive impact of equity pick-up from Maybrooke; and (v) the R$85.2 million positive impact of equity pick-up from Banco Pan, which recorded profits due to stable financial margins, cost reductions and recognition of deferred tax assets. These effects were partially offset by losses of R$116.4 million from Engelhart CTP and the R$107.6 million goodwill amortization of EFG.

In 2016, Banco BTG Pactual's equity in earnings of associates and jointly controlled entities was mainly affected by: (i) the R$797.4 million negative impact of appreciation of the *real* against the US dollar in the BTG Pactual Holding S.à r.l investment, which was denominated in US dollars, (ii) R$95.7 million in equity pick-up losses from Banco Pan and (iii) R$101.3 million in equity pick-up losses from Maybrooke. These impacts were partially offset by the positive impact of the results of PetroAfrica, despite the negative foreign exchange impact, corresponding to gains of R$277.8 million.

Other operating income. Banco BTG Pactual's other operating income decreased 29.3%, from R$1,266.8 million in 2016 to R$895.5 million in 2017, due to: (i) a lower adjustment to inflation of judicial deposits in line with the decrease in the inflation rate, (ii) the elimination of income from our commodities business, which had generated other operating income of R$120.6 million in 2016 and, to a lesser extent, (iii) the elimination of income from BSI, which had generated other operating income of R$90.2 million in 2016.

Other operating expenses. Banco BTG Pactual's other operating expenses decreased 23.0%, from R$1,357.1 million in 2016 to R$1,045.4 million in 2017, mainly due to: (i) the elimination of expenses from our commodities business, which had generated other operating expenses of R$233.7 million in 2016 and (ii) to a lesser extent, the impact of the exchange rate variation that generated expenses of R$458.1 million in 2016 compared with R$193.5 million in 2017.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's other operating income decreased from a gain of R$1,302.9 million in 2015 to a loss of R$2.554.1 million in 2016.

Income from services rendered. The table below shows the composition of Banco BTG Pactual's income from services rendered for the periods indicated:

	For the year ended December 31,				
	2015	**% of total**	**2016**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Management and performance fee from investment funds and portfolio	1,823.0	52.0%	1,157.6	42.9%	(36.5%)
Underwriting and advisory fees[(1)]	1,048.5	29.9%	830.5	30.8%	(20.8%)
Other services[(2)]	634.1	18.1%	709.6	26.3%	11.9%
Income from services rendered	**3,505.5**	**100.0%**	**2,697.8**	**100.0%**	**(23.0%)**

(1) Underwriting and advisory fees include technical services and commission on the placement of securities.

(2) Other services include brokerage fees and other fees and commissions in connection with credit instruments issued by us, such as loans and letters of credit, among others.

Banco BTG Pactual's income from services rendered decreased from a gain of R$3,505.5 million in 2015 to a loss of R$2,697.8 million in 2016, driven primarily by the following:

Management and performance fee from investment funds and portfolio. Banco BTG Pactual's income from management and performance fee from investment funds and portfolio decreased 36.5%, from R$1,823.0 million in 2015 to R$1,157.6 million in 2016. This decrease was mainly due to a decrease of 39.9% in AUM and AUA, excluding BSI, from R$192.5 billion as of December 31, 2015 to R$115.7 billion as of December 31, 2016 and to lower recognition of performance fees during 2016 mainly due to the poorer performance of the Brazilian fixed income and equities funds managed by Banco BTG Pactual's asset management teams.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees decreased 20.8%, from R$1,048.5 million in 2015 to R$830.5 million in 2016 mainly due to: (i) the impact of a decrease in credit recovery service revenues following the sale of Recovery in 2015 (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations—Loans Recovery Activity" above) and (ii) lower financial advisory and equity underwriting revenues, due to deteriorating market condition in Brazil that affected investment banking activities, which were partially offset by an increase in debt underwriting revenues in line with the increase in debt issuance volumes in the market.

Other services. Banco BTG Pactual's revenue from other services increased 11.9%, from R$634.1 million in 2015 to R$709.6 million in 2016. This increase was mainly due to higher revenues from brokerage transactions in 2016 compared to 2015.

Personnel expenses. Banco BTG Pactual's personnel expenses remained relatively stable with a 2.6% increase, from R$1,633.9 million in 2015 to R$1,676.6 million in 2016. The increase in personnel expenses was due to: (i) an average annual salary adjustment of 10% in 2016 for employees pursuant to the terms of the annual union agreement that is renegotiated annually; (ii) one-off severance costs related to Banco BTG Pactual's cost reduction program; and (iii) the full impact of personnel costs of BSI in 2016 against only three months in 2015 (considering that the acquisition of BSI was only finalized in the fourth quarter of 2015). These impacts were offset by a decrease in the number of employees from 2,542 as of December 31, 2015 to 1,941 as of December 31, 2016, excluding the commodities division and BSI.

Other administrative expenses. Banco BTG Pactual's other administrative expenses remained relatively stable with a 2% increase, from R$2,092.7 million in 2015 to R$2,134.8 million in 2016. The administrative expenses increased due to higher costs of outsourced and consulting services related to the hiring of independent consultants to conduct an internal review of certain of Banco BTG Pactual's control functions. These costs were offset by a decrease in: (i) travel and lodging cost and (ii) financials services expenses.

Tax charges. Banco BTG Pactual's tax charges increased from R$191.1 million in 2015 to R$556.1 million in 2016. The increase in tax charges was mainly due to the impact of gains in hedge instruments subject to taxation, while the foreign exchange variation of most of the hedged asset is not subject to tax.

Equity in the earnings of associates and jointly controlled entities. Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities varied from a gain of R$1,506.7 million in 2015 to loss of R$794.0 million in 2016.

In 2016, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly affected by: (i) the R$797.4 million negative impact of appreciation of the *real* against the US dollar in translating the results from BTG Pactual Holding S.à r.l investment, which maintains its books and records in US dollars and (ii) the negative equity pick-up from Banco Pan, corresponding to a loss of R$95.7 million, and Maybrooke corresponding to a loss of R$101.3 million.

Other operating income. Banco BTG Pactual's other operating income decreased 43.4%, from R$2,236.5 million in 2015 to R$1,266.8 million in 2016, mainly due to gains of R$560 million recorded in 2015 related to the sale of Recovery (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations—Loans Recovery Activity" above), with no corresponding gains in 2016.

Other operating expenses. Banco BTG Pactual's other operating expenses decreased 33.1%, from R$2,208.1 million in 2015 to R$1,357.1 million in 2016, mainly due to (i) a decrease in expenses from our commodities division; (ii) lower operational expenses related to our energy desk following our sale of Thor Comercializadora; and (iii) lower expenses from our credit operations, reflecting an expense of R$126 million in 2015 related to Eneva.

Non-operating Income

Banco BTG Pactual's non-operating income consists of income (expenses) resulting from non-recurring items or transactions not related to its core business.

Nine Months Ended September 30, 2018 versus Nine Months ended September 30, 2017

Banco BTG Pactual's non-operating income varied from a loss of R$7.0 million for the nine months ended September 30, 2017 to a gain of R$141.0 million for the nine months ended September 30, 2018.

For the nine months ended September 30, 2017, there were no relevant items accounted as non-operating income. For the nine months ended September 30, 2018, non-operating income was mostly impacted by revenues recorded in connection with the recovery of a credit warranty in relation to our non-performing loans business.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's non-operating income varied from a gain of R$940.1 million in 2016 to a loss of R$4.7 million in 2017.

In 2016, non-operating income was mostly impacted by R$300.9 million in gains related to the sale of BSI's remaining equity interest, in B-Source, a business process outsourcer, with no relevant results accounted as non-operating income in 2017.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's non-operating income decreased 65.7%, from R$2,737.1 million in 2015 to R$940.1 million in 2016.

In 2015, Banco BTG Pactual's non-operating income consisted mainly of gains of R$2,705 million on the sale of its stake in Rede D'Or. In 2016, non-operating income was mostly impacted by (i) a reversal of R$570.9 million on fair value adjustments of the receivable from the sale of Thor Comercializadora after its repurchase and (ii) R$300.9 million in gains related to the sale of BSI's remaining equity interest in B-Source, a business process outsourcer.

Income Before Taxation and Profit Sharing

As a result of the foregoing, Banco BTG Pactual's income before taxation and profit sharing: (i) increased 102.5% from R$983.0 million for the nine months ended September 30, 2017 to R$1,991.0 million for the nine months ended September 30, 2018; (ii) decreased 65.8% from R$5,194.5 million in 2016 to R$1,777.9 million in 2017; and (iii) increased 35.4% from R$3,837.6 million in 2015 to R$5,194.5 million in 2016.

Income Tax and Social Contribution

Banco BTG Pactual's income tax and social contribution are recorded under current or deferred liabilities. Banco BTG Pactual's effective tax rate was (72.4%), 21.4% and (82.3%) in 2017, 2016 and 2015, respectively, and (8.3%) and (122.1%) for the nine months ended September 30, 2018 and 2017, respectively. Banco BTG Pactual's effective tax rate is calculated as its total income tax and social contribution divided by income before taxation and profit sharing. The variations in Banco BTG Pactual's effective tax rate result mainly from changes in the amount of interest on equity, which can be treated as a tax deductible expense. See "—Critical Accounting Policies—Income Tax and Social Contribution" above and "—Interest on Equity" below.

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

Banco BTG Pactual's income tax and social contribution decreased from a gain of R$1,200.6 million for the nine months ended September 30, 2017 to a gain of R$165.5 million for the nine months ended September 30, 2018. This decrease was mainly due to the recognition of off-balance deferred tax assets in the amount of R$1,009.7 million in connection with Banco BTG Pactual's participation in the PERT tax regularization program in the nine months ended September 30, 2017, pursuant to which we were able to apply tax loss carryforwards in the settlement of federal tax disputes, with no corresponding impact in the nine months ended September 30, 2018. For more information regarding our participation in the PERT program, see "Business—Legal Matters—Tax Proceedings."

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's income tax and social contribution varied from an expense of R$1,112.9 million in 2016 to a gain of R$1,287.2 million in 2017. This increase was mainly due to the recognition of off-balance deferred tax assets in the amount of R$1,009.7 million in connection with Banco BTG Pactual's participation in the PERT tax regularization program. These effects were partially offset by the spin-off of Banco BTG Pactual's commodities business which generated a gain of R$46.4 million in income tax and social contribution in 2016.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's income tax and social contribution varied from a gain of R$3,159.6 million in 2015 to a loss of R$1,112.9 million in 2016. This variation was mainly due to a 561.3% increase in Banco BTG Pactual's income before tax adjusted by its profit-sharing expenses and equity in the earnings of associates and jointly controlled entities. The effects were partially offset by an increase in interest on shareholders' equity from R$914.7 million in 2015 to R$1,390 million in 2016.

Statutory Profit Sharing

Statutory profit sharing consists mainly of the discretionary cash bonuses that Banco BTG Pactual distributes to all of its employees, and that are calculated as a percentage of its annual revenues, net of costs and expenses incurred. Banco BTG Pactual's bonus expenses are directly correlated to, among other factors, Banco BTG Pactual's overall performance, the performance of its individual business units and its cost efficiency. Banco BTG Pactual determines bonuses in accordance with its profit-sharing program and has calculated such bonuses consistently for the nine months ended September 30, 2018 and the years ended 2017, 2016 and 2015, subject only to slight variations.

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

Banco BTG Pactual's statutory profit sharing decreased 27.4%, from R$466.1 million for the nine months ended September 30, 2017 to R$338.4 million for the nine months ended September 30, 2018, as a result of lower revenues subject to bonus payment.

See "Presentation of Financial and Other Information—Financial Statements—Our Unaudited Adjusted Income Statement."

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's statutory profit sharing decreased 4.5%, from R$721.5 million in 2016 to R$689.1 million in 2017, impacted by the sale of BSI and the spin-off of Banco BTG Pactual's commodities business which generated R$153.3 million and R$134.9 million in statutory profit sharing in 2016 with no corresponding impact for 2017. Such decrease was partially offset by the fact that a significant portion of our total revenues were not subject to bonus payment, including debt repurchases and overhedge adjustments, in 2016.

See "Presentation of Financial and Other Information—Financial Statements—Our Unaudited Adjusted Income Statement."

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's statutory profit sharing decreased 52.9%, from R$1,534.5 million in 2015 to R$721.5 million in 2016, as a result of a 52.2% lower operating and non-operating income.

Non-Controlling Interest

Banco BTG Pactual's non-controlling interest consists mainly of the equity not attributable, directly or indirectly, to Banco BTG Pactual, from the following subsidiaries: (i) BW Properties, (ii) prior to its sale at the end of 2015, Recovery, and (iii) certain investment funds consolidated into its financial statements, including FIP Saúde, FIP Warehouse and FIDC NPL.

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

Banco BTG Pactual's gains from non-controlling interest varied from a gain of R$6.0 million for the nine months ended September 30, 2017 to a loss of R$9.8 million for the nine months ended September 30, 2018. This decrease was due to the impact of the non-controlling interest (48.5%) in FIM CP Energy, a fund in which Banco BTG Pactual holds a 51.5% controlling interest.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

Banco BTG Pactual's gains from non-controlling interest decreased from R$48.5 million in 2016 to R$7.9 million in 2017. This decrease was mainly due to less gains derived from the reversal of losses at BW Properties, which generated R$48.9 million in gains from non-controlling interest in 2016, with no corresponding impact in 2017.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

Banco BTG Pactual's non-controlling interest decreased from a gain of R$160.8 million in 2015 to a gain of R$48.5 million in 2016. This decrease was due to losses from the FIA Caravelas fund in 2015, while in 2016 we liquidated the fund. This effect was partially offset by losses from the FIP Warehouse fund and BW Properties in 2016.

Net Income

As a result of the foregoing, Banco BTG Pactual's net income: (i) increased 4.9% from R$1,723.5 million for the nine months ended September 30, 2017 to R$1,808.3 million for the nine months ended September 30, 2018; (ii) decreased 30.1%, from R$3,408.6 million in 2016 to R$2,383.9 million in 2017 and (iii) decreased 39.4%, from R$5,623.5 million in 2015 to R$3,408.6 million in 2016.

Interest on Equity

Interest on equity is a substitute dividend payment, which can be treated as a tax deductible expense. It is determined on an annual basis, subject to a 15% withholding tax, and is limited to a maximum of the TJLP as applicable to Banco BTG Pactual's shareholders equity. The amount of interest on Banco BTG Pactual's shareholders' equity is calculated to minimize income tax expenses, by substituting non-tax-deductible dividends payments for tax-deductible interest on equity payments. Although interest on equity reduces income taxes, it is not recorded as an expense and, therefore, is not computed as part of Banco BTG Pactual's net income. Interest on equity is presented on Banco BTG Pactual's income statement below the net income line item. As a result of such substitution, Banco BTG Pactual is able to reduce its income tax and social contribution expense for the year by decreasing its taxable income.

Banco BTG Pactual's interest on equity totaled R$592.1 million for the nine months ended September 30, 2018, R$1,223.7 million in 2017, R$1,390.0 million in 2016 and R$914.8 million in 2015. Banco BTG Pactual's interest on equity is presented in its statement of shareholders' equity and is reflected in its income statement, both of which are included in the financial statements included in this Offering Memorandum.

Consolidated Balance Sheet of Banco BTG Pactual (Brazilian GAAP)

The following table sets forth the balance sheets of Banco BTG Pactual as of the nine months ended September 30, 2018 and December 31, 2017, 2016 and 2015, and is derived from the respective consolidated financial statements prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Memorandum:

	As of December 31,			As of September 30,
	2015	**2016**	**2017**	**2018**
		(R$ millions)		*(R$ millions)*
				(Unaudited)
Assets				
Cash at banks	20,490.9	674.1	4,347.2	931.9
Interbank investments	32,586.5	20,752.7	27,792.3	61,326.4
Securities and derivative financial instruments	77,669.0	37,486.2	42,288.0	40,510.3
Interbank transactions	1,921.3	2,235.3	1,703.6	2,640.5
Loans	55,665.1	9,513.4	13,026.2	16,963.8
Securities trading and brokerage	12,906.1	2,790.9	3,598.4	7,471.7
Other receivables	44,740.1	29,524.5	28,171.3	27,753.7
Other assets	252.6	153.5	127.2	234.8
Permanent assets	8,317.1	8,640.9	5,537.4	6,022.5
Total assets	**254,548.7**	**111,771.6**	**126,591.6**	**163,855.7**
Liabilities and Shareholders' equity				
Deposits	86,743.5	7,690.8	9,178.3	25,612.6
Open market funding	20,308.2	24,904.0	33,890.2	56,135.7
Funds from securities issued and accepted	19,559.2	10,335.7	10,289.5	14,233.7
Interbank transactions	7.2	5.1	5.4	7.4
Interdependencies transactions	–	82.6	24.4	82.1
Loans and onlending	8,097.6	3,544.8	4,729.9	5,372.8
Derivative financial instruments	42,327.0	9,644.9	14,161.8	4,234.6
Securities trading and brokerage	12,655.3	4,102.0	4,232.6	6,860.8
Subordinated debts	8,297.2	7,283.0	6,317.2	5,932.6
Debt instrument eligible to equity	5,160.4	4,305.2	3,043.3	3,618.9
Other liabilities	31,140.0	21,961.7	21,942.3	22,310.3
Deferred income	310.4	141.8	120.6	136.7
Non-controlling interest	229.4	125.5	132.4	137.3
Shareholders' equity	19,713.3	17,727.2	18,523.7	19,180.2

	As of December 31,			As of September 30,
	2015	2016	2017	2018
		(R$ millions)		(R$ millions)
				(Unaudited)
Total liabilities and shareholders' equity	**254,548.7**	**111,771.6**	**126,591.6**	**163,855.7**

As of September 30, 2018 versus as of December 31, 2017

As of September 30, 2018, Banco BTG Pactual's assets totaled R$163,855.7 million, representing a 29.4% increase as compared to R$126,591.6 million as of December 31, 2017. This increase in assets was mainly a result of: (i) an increase in our open market investments from R$26,568.6 million as of December 31, 2017 to R$58,497.1 million as of September 30, 2018, accounted for under interbank investments and (ii) an increase in loans from R$13,026.2 million as of December 31, 2017 to R$16,963.8 million as of September 30, 2018.

In addition to the increase in our assets, we also had an increase in our liabilities over the same period, which was mainly attributable to increases in our (i) open market funding from R$33,890.2 million as of December 31, 2017 to R$56,135.7 million as of September 30, 2018 and (ii) deposits from R$9,178.3 million as of December 31, 2017 to R$25,612.6 million as of September 30, 2018. The increase in these liabilities was partially offset by a decrease in our derivative financial instruments, from R$14,161.8 million as of December 31, 2017 to R$4,234.6 million as of September 30, 2018.

Banco BTG Pactual shareholders' equity reached R$19,180.2 million as of September 30, 2018, representing a 3.5% increase as compared to R$18,523.7 million as of December 31, 2017. This increase reflects an increase in net income in the amount of R$1,808.3 million for the nine months ended September 30, 2018, which was partially offset by: (i) a loss in interest on equity of R$592.1 million and (ii) a loss in other comprehensive income in the amount of R$371.7 million primarily as a result of adjustments in EFG's equity due to a change in their accounting policy as well as the purchase of R$187.6 million under our stock repurchase program. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—BSI/EFG" above.

As of December 31, 2017 versus as of December 31, 2016

As of December 31, 2017, Banco BTG Pactual's assets totaled R$126,591.6 million, representing a 13.3% increase as compared to R$111,771.6 million as of December 31, 2016. The increase in assets was mainly a result of: (i) an increase in our open market investments from R$18,810.1 million as of December 31, 2016 to R$26,568.6 million as of December 31, 2017; (ii) an increase in pending settlement accounts from R$1,875.9 million as of December 31, 2016 to R$3,023.6 million as of December 31, 2017, accounted for under securities trading and brokerage balance; and (iii) an increase in our long derivatives portfolio from R$11,910.3 million as of December 31, 2016 to R$14,444.8 million as of December 31, 2017, mostly related to deliverable forward contracts. Such increase was partially offset by a decrease in our foreign exchange portfolio assets as reflected under the line item "other receivables", from R$14,695.5 million in December 31, 2016 to R$12,007.7 million in December 31, 2017. In addition to the increase in our assets, we had an increase in our liabilities over the same period, which was mainly attributable to increases in our (i) open market funding from R$24,904.0 million as of December 31, 2016 to R$33,890.2 million as of December 31, 2017 and (ii) derivatives portfolio from R$9,644.9 million as December 31, 2016 to R$14,161.8 million as of December 31, 2017, mostly related to deliverable forward contracts. Furthermore, the increase in these liabilities was partially offset by a decrease in our foreign exchange portfolio liabilities, as reflected under the line item "other liabilities", from R$14,341.8 million as of December 31, 2016 to R$11,773.8 million as of December 31, 2017.

Banco BTG Pactual shareholders' equity reached R$18,523.7 million as of December 31, 2017, representing a 4.5% increase compared to R$17,727.2 million as of December 31, 2016.

As of December 31, 2016 versus as of December 31, 2015

As of December 31, 2016, Banco BTG Pactual's assets totaled R$111,771.6 million, representing a 56.1% decrease as compared to R$254,548.7 million as of December 31, 2015, while its liabilities totaled R$94,044.4 million as of December 31, 2016, representing a 40.0% decrease as compared to December 31, 2015. The decrease in assets and liabilities was a result of: (i) the commodities operations spin-off and the sale of BSI, which reduced our total assets and liabilities by R$79,469.9 million, (ii) the sale and early redemption of the credit portfolio that reduced our corporate lending portfolio by 41.5%; (iii) the sale of non-core assets, particularly in our merchant banking portfolio; and (iv) the decrease in our unsecured funding in line with the deleveraging on our assets.

Banco BTG Pactual shareholders' equity reached R$17,727.2 million as of December 31, 2016, representing a 10.1% decrease compared to R$19,713.3 million as of December 31, 2015. This decrease reflects the commodities spin-off and the dividends and interest on equity declared in 2016. Such decrease in shareholders' equity was partially offset by net income in the amount of R$3,408.6 million in 2016.

Unaudited Adjusted Income Statement

The following table sets forth Banco BTG Pactual's unaudited adjusted income statement, which was not prepared in accordance with Brazilian GAAP and materially differs from its income statement. The unaudited adjusted income statement has not been audited nor reviewed by Banco BTG Pactual's independent auditors.

	For the year ended December 31,			**For the nine months ended September 30,**	
(Unaudited)	**2015**	**2016**	**2017**	**2017**	**2018**
		(R$ millions)		*(R$ millions)*	
Investment banking	382.8	367.1	366.6	222.4	378.0
Corporate lending	983.4	876.6	790.1	627.6	715.4
Sales and trading	4,806.0	2,816.5	2,389.0	1,680.0	1,042.3
Asset management	1,252.2	539.6	486.3	317.1	438.2
Wealth management	1,454.5	2,407.9	368.7	270.3	352.4
Principal investments	548.2	(29.8)	15.1	104.0	362.7
Participations	6.0	(112.8)	(15.5)	(9.0)	30.3
Interest and other	1,647.8	1,932.1	1,127.2	926.8	483.8
Total revenues	**11,080.9**	**8,797.1**	**5,527.5**	**4,157.3**	**3,803.2**
Bonus	(1,598.9)	(805.8)	(745.5)	(504.3)	(386.8)
Salaries and benefits	(1,385.7)	(1,637.4)	(529.4)	(397.8)	(458.6)
Administrative and others	(1,429.7)	(1,707.9)	(852.6)	(602.3)	(611.3)
Goodwill amortization	(209.1)	(243.8)	(279.8)	(226.0)	(106.8)
Tax charges, other than income tax	(430.4)	(370.7)	(244.0)	(174.9)	(187.5)
Total operating expenses	**(5,053.8)**	**(4,765.6)**	**(2,651.3)**	**(1,905.3)**	**(1,751.0)**
Income before taxes	**6,027.1**	**4,031.6**	**2,876.2**	**2,252.0**	**2,052.2**
Income tax and social contribution expense	(403.6)	(623.0)	(492.3)	(528.5)	(243.9)
Net income	**5,623.5**	**3,408.6**	**2,383.9**	**1,723.5**	**1,808.3**

Banco BTG Pactual's revenues from investment banking activities consist of financial advisory and underwriting fees directly based on the number and size of the transactions in which it participates.

Banco BTG Pactual's revenues from corporate lending consist of interest it charges on its loans net of (i) provisions for loan losses and (ii) the opportunity cost for funding the corporate lending inventory. Revenues from its corporate lending book comprise revenues from its broader credit portfolio considering only the loans originated by its corporate lending business. Revenues from its broader credit portfolio is composed by revenues from loans, receivables, advances in foreign exchange contracts, letters of credit and marketable securities bearing credit exposures (including debentures, promissory notes, real estate bonds, and investments in FIDCs).

Banco BTG Pactual's revenues from sales and trading include revenues from FICC and equity sales and trading. Its FICC sales and trading revenues consist mainly of: (i) fees and commissions charged for products and services that are linked to fixed income, currency and commodities instruments and securities that Banco BTG Pactual offers to its clients; and (ii) gains or losses from its trading in such instruments and securities, which are net of the opportunity cost for funding the sales and trading inventory. Its revenues from equity sales and trading consists mainly of fees and commissions charged for products and services linked to equity securities that Banco BTG Pactual offers to its clients, as well as gains or losses from its trading in these securities, which are net of the cost for funding the sales and trading inventory.

Banco BTG Pactual's revenues from asset management consist of management and performance fees. Management fees are generally calculated as a percentage of asset value which may vary by asset class, committed capital, invested capital or total gross acquisition cost with respect to the funds and investment vehicles that it manages. Asset value is affected by investment performance, inflows and redemptions. In some cases, Banco BTG Pactual may also receive performance fees when returns exceed specified benchmarks or other performance targets; however, these performance fees are only recognized when the specific performance period ends and is no longer subject to adjustment. Substantially all AUM are marked-to-market on a daily basis. In addition, Banco BTG Pactual receives fixed or variable fees for fund administration services to third parties.

Banco BTG Pactual's revenues from wealth management consist of a portion of management and performance fees originated by its private wealth clients and commissions with respect to brokerage and other FICC and equities products it sells to its private wealth clients, and custody fees. BSI's results following its acquisition in 2015 and prior to its sale in 2016 are considered under the wealth management business unit, as opposed to the asset management business unit.

Banco BTG Pactual's revenues from Participations consist of Banco BTG Pactual's share of profits and losses of its interests in (i) Banco Pan, (ii) Pan Seguros, (iii) Pan Corretora, (iv) Maybrooke (prior to its sale in February 2017), (v) EFG (since November 2016), (vi) BSI (in the last quarter of 2016, prior to its sale) and (vii) Engelhart CTP (starting in October 2016, after the spin-off of most of our commodities business, see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above). All investments are accounted for using the equity pick-up method and the results are gross of the funding costs applied. Starting in the fourth quarter of 2016, Banco BTG Pactual began to present certain of our strategic investments under the separate Participations business unit and, for purposes of comparability, we are presenting our adjusted income statement for all periods giving effect to this reclassification.

Banco BTG Pactual's revenues from principal investments are composed of revenues from the global markets, merchant banking and real estate segments.

Global Markets: Revenues from global markets consisted of the returns from its proprietary investments in a diversified range of financial instruments across multiple asset classes and geographic regions. Its global markets teams are located in São Paulo, Rio de Janeiro, New York, London and Hong Kong. These teams focus on both developed and emerging markets, allocating capital across various underlying strategies that include a mix of emerging markets and global macro themes. Financial instruments held under this category are marked-to-market and generate gains or losses on a daily basis.

Merchant Banking: Revenues from merchant banking investments consist mainly of the returns from capital gains on the sale, dividends received, or equity pick-up from its shares of the profits, of its stakes held directly or through investment vehicles in the portfolio companies in its merchant banking portfolio. Following a strategic shift in business and investment focus beginning in 2014, we sold the majority of our merchant banking and private equity investments, with our portfolio consisting now only of legacy investments in the Petrobras Joint Venture, Eneva and Infrastructure Fund II, through which Banco BTG Pactual hold stakes in Globonet and Latin America Power (LAP). We do not consolidate the results of any of our portfolio companies in our financial statements.

Real Estate: Revenues from real estate investments consists mainly of returns of Banco BTG Pactual's remaining investments in real estate funds, and of capital gains on the sale, and dividends received or equity pick-up from its shares of the profits, of its proprietary, non-controlling stakes held in the investment vehicles in its real estate portfolio, such as BW Properties and FIP Warehouse. Revenues from its principal investments are presented net of funding costs, including the cost of funding its net equity, and of trading losses, including losses from derivatives and from foreign exchange variation. Revenues may also be reduced by associated transaction costs, and by management and performance fees paid to asset managers and other fund service providers, including Banco BTG Pactual's own asset management unit.

Given the nature of its assets and the structure of its business, Banco BTG Pactual's merchant banking and real estate investments are generally not measured at fair value unless such assets are publicly traded. Banco BTG Pactual's results from these businesses typically reflect: (i) its share of profits or losses from its portfolio companies; (ii) dividends received from investments not subject to the equity pick-up method of accounting; (iii) allowances for valuation of properties, impairment of goodwill or for losses in investments, (iv) its internal funding costs applied to the merchant banking and real estate portfolios; and (v) gains on the divestiture of its investments.

Banco BTG Pactual's revenues recorded under "interest and other" include the interest on its capital, which is the internal opportunity cost for remunerating its net equity, typically determined based on the CDI rate. The interest on its capital, credited to "interest and other," is in turn deducted as a funding cost directly from the respective revenues of Banco BTG Pactual's various business units. The units primarily affected by such deductions are those which carry inventories of financial instruments and investments, i.e., sales and trading, commercial lending, and principal investments units, as their results are presented in Banco BTG Pactual's adjusted income statement net of the interest on its capital, as well as all other costs for obtaining external funding to finance their portfolios. Banco BTG Pactual believes that its discipline of charging internal and external funding costs directly to these business units is one of the most critical components of its risk and liquidity management disciplines, as it allows Banco BTG Pactual to more appropriately monitor and evaluate the financial performance of its various units. Interest and other revenues also include gains and losses resulting from the exchange rate variation, and the corresponding results from hedging (as applicable), of certain assets and liabilities denominated in currencies other than the *real*, including its investments in foreign subsidiaries.

For additional information on the revenues or expenses recorded in Banco BTG Pactual's adjusted income statement, see "—Our Adjusted Income Statement."

The following table sets forth Banco BTG Pactual's revenue composition and evolution by business unit for the periods indicated:

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

	For the nine months ended September 30,				
(Unaudited)	**2017**	**% of total**	**2018**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Investment banking	222.4	5.3%	378.0	9.9%	70.0%
Corporate lending	627.6	15.1%	715.4	18.8%	14.0%
Sales and trading	1,698.0	40.8%	1,042.3	27.4%	(38.6%)
Asset management	317.1	7.6%	438.2	11.5%	38.2%
Wealth management	270.3	6.5%	352.4	9.3%	30.4%
Principal investments	104.0	2.5%	362.7	9.5%	284.7%
Participations	(9.0)	(0.2)%	30.3	0.8%	n.a.
Interest and other	926.8	22.3%	483.8	12.7%	(47.8%)
Total revenues	**4,157.3**	**100.0%**	**3,803.2**	**100.0%**	**(8.5%)**

Investment Banking: Revenues from investment banking increased 70.0% for the nine months ended September 30, 2018 when compared to the same period in 2017. This increase was mainly due to stronger activity in the debt capital markets and stronger M&A activities.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the period indicated:

	For the nine months ended September 30,			
(Unaudited)	**2017**	**2018**	**2017**	**2018**
	(number of transactions)[(1)]		***(US$ billions)***[(2)(3)]	
Financial advisory (M&A)[(4)]	23	34	16.8	8.7
Equity underwriting (ECM)	20	15	3.5	2.0
Debt underwriting (DCM)	22	29	7.2	2.5

Sources: Dealogic for ECM, M&A and international DCM and Anbima for local Brazilian DCM

(1) Equity underwriting and debt underwriting represent closed transactions. Financial advisory represents announced M&A deals, which typically generate fees upon their subsequent closing.

(2) Local debt capital market transactions were converted to U.S. dollars using the end of quarter exchange rates.

(3) Market data from previous periods might vary in all products, due to potential inclusion and exclusions.

(4) M&A market data for previous periods may vary because: (i) deal inclusions might be delayed at any moment, (ii) canceled transactions will be withdrawn from the rankings, (iii) transaction value might be revised and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs some weeks after the transaction is announced (mainly for non-listed targets).

Corporate Lending: Revenues from corporate lending increased 14.0%, from R$627.6 million for the nine months ended September 30, 2017 to R$715.4 million for the nine months ended September 30, 2018. The increase in revenues was mainly due to an increase in our total corporate lending portfolio from R$21.6 billion as of September 30, 2017 to R$26.1 billion as of September 30, 2018. Spreads remained stable for the nine months ended September 30, 2018 when compared to the same period of 2017.

Sales and Trading: Revenues from sales and trading decreased 38.6%, from R$1,698.0 million for the nine months ended September 30, 2017 to R$1,402.3 million for the nine months ended September 30, 2018, mainly as a result of a significant decrease in the revenues from our interest rates and energy desks, partially offset by a significant increase in our exchange rate desk performance.

Asset Management: Revenues from asset management increased 38.2%, from R$317.1 million for the nine months ended September 30, 2017 to R$438.2 million for the nine months ended September 30, 2018 mainly as a result of a 34.6% increase in combined AUM and AUA from R$136.8 billion as of September 30, 2017 to R$184.2 billion as of September 30, 2018.

Wealth Management: Revenues from wealth management increased 30.4%, from R$270.3 million for the nine months ended September 30, 2017 to R$352.4 million for the nine months ended September 30, 2018 mainly due to the increase in total WUM from R$83.7 billion as of September 30, 2017 to R$115.5 billion as of September 30, 2018.

Principal Investments: Gains from Principal Investments increased from R$104.0 million for the nine months ended September 30, 2017 to R$362.7 million for the nine months ended September 30, 2018. Such increase was mainly due to profits from our private equity investments driven by positive contributions from our investments in Petro Africa and Globonet. These gains were partially offset by: (i) the negative impact of our Eneva equity position and (ii) internal funding cost allocation.

Participations: Banco BTG Pactual's gains of R$30.3 million for the nine months ended September 30, 2018 under Participations reflect mainly its share of profits/losses from its stake in Banco Pan, which generated gains of R$75.1 million, and also from its stake in Pan Seguros and Pan Corretora which generated aggregate gains of R$21.4 million. These effects were partially offset by losses from: (i) Engelhart CTP in the amount of R37.3 million and (ii) EFG in the amount of R$28.6 million

Interest and Other: Revenues from interest and other decreased 47.8%, from R$926.8 million for the nine months ended September 30, 2017 to R$483.8 million for the nine months ended September 30, 2018 mainly due to the decrease in the average interest rate from 8.03% to 4.81%, which was partially offset by a 3.5% increase in shareholder's equity.

Operating Expenses: The following table sets forth the composition and evolution of Banco BTG Pactual's costs and expenses for the period indicated:

	For the nine months ended September 30,				
(Unaudited)	**2017**	**% of total**	**2018**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Bonus	(504.3)	26.5%	(386.8)	22.1%	(23.3%)
Salaries and benefits	(397.8)	20.9%	(458.6)	26.2%	15.3%
Administrative and others	(602.3)	31.6%	(611.3)	34.9%	1.5%
Goodwill amortization	(226.0)	11.9%	(106.8)	6.1%	(52.7%)
Tax charges, other than income tax	(174.9)	9.2%	(187.5)	10.7%	7.2%
Total operating expenses	**(1,905.3)**	**100.0%**	**(1,751.0)**	**100.0%**	**(8.1%)**

Banco BTG Pactual's total operating expenses decreased 8.1%, from R$1,905.3 million for the nine months ended September 30, 2017 to R$1,751.0 million for the nine months ended September 30, 2018. This decrease was mainly due to the following factors:

Bonus: Bonus expenses decreased 23.3%, from R$504.3 million for the nine months ended September 30, 2017 to R$386.8 million for the nine months ended September 30, 2018. Banco BTG Pactual's bonuses are determined in accordance with its profit-sharing program, and are calculated as a percentage of its adjusted revenues.

Goodwill amortization: Goodwill amortization decreased 52.7%, from R$226.0 million for the nine months ended September 30, 2017 to R$106.8 million for the nine months ended September 30, 2018. Such decrease was mainly due to the end of the amortization of Celfin and Bolsa y Renta given the passage of time since we acquired these assets.

Tax charges, other than income tax: Tax charges, other than income tax increased 7.2%, from R$174.9 million for the nine months ended September 30, 2017 to R$187.5 million for the nine months ended September 30, 2018. This increase was mainly due to (i) an increase in revenues subject to tax charges, such as financial advisory fees, for the period, and (ii) our participation in a tax amnesty agreement with Rio de Janeiro Municipality regarding tax on services, which generated a one-off expense of R$85.6 million in the third quarter of 2018. Tax charges, other than income tax, consist mainly of PIS/COFINS of 4.65% and ISS, which varies from 2.0% to 5.0% depending on the services provided and locations.

Income before taxes: As a result of the foregoing, Banco BTG Pactual's income before taxes decreased 8.9%, from R$2,252.0 million for the nine months ended September 30, 2017 to R$2,052.2 million for the nine months ended September 30, 2018.

Income tax and social contribution expense: Income tax and social contribution consist of current and deferred taxes. Banco BTG Pactual's income tax and social contribution expenses decreased 53.9%, from R$528.5 million for the nine months ended September 30, 2017 to R$243.9 million for the nine months ended September 30, 2018. The effective income tax and social contribution rate decreased to 11.9% from 23.5% due to a more favorable income mix.

Banco BTG Pactual's decrease in total operating expenses for the nine months ended September 30, 2018 when compared to the corresponding period of 2017 was offset by the following factors:

Salaries and Benefits: Expenses related to salaries and benefits increased 15.3%, from R$397.8 million for the nine months ended September 30, 2017 to R$458.6 million for the nine months ended September 30, 2018 mainly due to (i) an increase of 2.7% in the average annual salary adjustment for employees pursuant to the terms of the annual collective bargaining agreement that is renegotiated annually and (ii) an increase of 10.3% in total number of employees, from 2,027 as of September 30, 2017 to 2,237 as of September 30, 2018.

Administrative and Others: Total administrative expenses increased 1.5%, from R$602.3 million for the nine months ended September 30, 2017 to R$611.3 million for the nine months ended September 30, 2018.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

	For the year ended December 31,				
(Unaudited)	**2016**	**% of total**	**2017**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Investment banking	367.1	4.2%	366.6	6.6%	(0.1%)
Corporate lending	876.6	10.0%	790.1	14.3%	(9.9%)
Sales and trading	2,816.5	32.0%	2,389.0	43.2%	(15.2%)
Asset management	539.6	6.1%	486.3	8.8%	(9.9%)
Wealth management	2,407.9	27.4%	368.7	6.7%	(84.7%)
Principal investments	(29.8)	(0.3%)	15.1	0.3%	(150.9%)
Participations	(112.8)	(1.3%)	(15.5)	(0.3%)	(86.3%)
Interest and other	1,932.1	22.0%	1,127.2	20.4%	(41.7%)
Total revenues	**8,797.1**	**100.0%**	**5,527.5**	**100.0%**	**(37.2%)**

Investment Banking: Revenues from investment banking remained relatively flat in 2017 when compared to 2016. Notwithstanding this result, activity levels increased significantly. Revenue performance in 2017 was impacted by (i) the one-off fee devolution that occurred in the second quarter of 2017 in connection with a transaction proposed in 2016 that was not approved by the Brazilian antitrust authorities and (ii) a backlog of unannounced transactions for which we provided financial advisory services that generated significant activity during the period but have not yet closed and, therefore, have not yet generated corresponding revenues.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the period indicated:

	For the year ended December 31,			
(Unaudited)	**2016**	**2017**	**2016**	**2017**
	(number of transactions)[1]		*(US$ billions)*[2][3]	
Financial advisory (M&A)[4]	30	35	17.3	21.4
Equity underwriting (ECM)	10	31	2.0	4.1
Debt underwriting (DCM)	27	38	2.4	11.8

Sources: Dealogic for ECM, M&A and international DCM and Anbima for local Brazilian DCM

(1) Equity underwriting and debt underwriting represent closed transactions. Financial advisory represents announced M&A deals, which typically generate fees upon their subsequent closing.

(2) Local debt capital market transactions were converted to U.S. dollars using the end of quarter exchange rates.

(3) Market data from previous periods might vary in all products, due to potential inclusion and exclusions.

(4) M&A market data for previous periods may vary because: (i) deal inclusions might be delayed at any moment, (ii) canceled transactions will be withdrawn from the rankings, (iii) transaction value might be revised and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs some weeks after the transaction is announced (mainly for non-listed targets).

Corporate Lending: Revenues from corporate lending decreased 9.9%, from R$876.6 million in 2016 to R$790.1 million in 2017. The decrease in revenues was mainly due to (i) higher provisioning during 2017 driven by infrastructure projects, (ii) lower revenues from our non-performing loans strategies and (iii) a slight reduction in the average portfolio size. Spreads remained stable in 2017 as compared to 2016.

Sales and Trading: Revenues from sales and trading decreased 15.2%, from R$2,816.5 million in 2016 to R$2,389.0 million in 2017, mainly due to R$797.3 million loss of revenues following the spin-off of our commodities business, with our remaining take being reported under the Participations business unit in the fourth quarter of 2016 (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above). When excluding Engelhart CTP's results for both periods, revenues would have increased 18% mainly as a result of an increase in revenues in the interest rates and equities desks, offset by a decrease in revenues from the energy desk.

Asset Management: Revenues from asset management decreased 9.9%, from R$539.6 million in 2016 to R$486.3 million in 2017. The decrease is mainly attributable to the reduction in the average AUM/AUA from 2016 to 2017. Management fees as a percentage of AUM remained stable.

Wealth Management: Revenues from wealth management decreased 84.7%, from R$2,407.9 million in 2016 to R$368.7 million in 2017. This decrease reflects the impact of BSI revenues on our results, which, during 2016, generated revenues for our wealth management unit of R$2,073.5 million, with no corresponding revenue during 2017. In the fourth quarter of 2016, we started to present our share of profits and losses in EFG (after the sale of BSI to EFG in November 2016) under the Participations business unit (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above). Excluding BSI revenues, revenues from wealth management would have increased 10.2%, from R$334.4 million in 2016 to R$368.7 million in 2017, mainly attributable to the 17.9% increase in the average WUM (from R$73.7 billion in 2016 to R$86.9 billion in 2017).

Principal Investments: Principal Investments had gains of R$15.1 million in 2017 compared to losses of R$29.8 million in 2016 mainly due to our share of profits from investments, gains in our global market strategies and lower internal funding cost allocation. In addition, real estate revenues in 2017 reflect mainly internal funding cost allocations, while real estate revenues in 2016 were negatively impacted by an asset sale in the first quarter of 2016. Global markets, merchant banking and real estate results all incorporate internal funding cost allocation, dividend income and equity pick up from subsidiaries, as customary practice.

Participations: Banco BTG Pactual's losses of R$112.8 in 2016 million reflects (i) a loss of R$99.4 million from our share of profits/losses from our stakes in Banco Pan, Pan Seguros and Pan Corretora; (ii) a loss of R$8.2 million from our share of profits/losses from our stake in Engelhart CTP.

The loss of R$15.5 million in 2017 reflects a loss of R$37.3 million, mainly related to our write-off in relation to the sale of our stake in Maybrooke and a loss of R$116.4 million from our share of profits/losses from our stake in Engelhart CTP due to a decline in performance, which were offset by gains of R$115.8 million from our share of profits/losses from our stakes in Banco Pan, Pan Seguros and Pan Corretora and by the gain of R$22.4 million from our share of profits from our stake in EFG (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above).

Interest and Other: Revenues from interest and other decreased 41.7% from R$1,932.1 million in 2016 to R$1,127.2 million in 2017 mainly due to the decrease in the average interest rate from 14.16% to 9.84%, which was partially offset by the 4% increase in shareholder's equity.

Operating Expenses: The following table sets forth the composition and evolution of Banco BTG Pactual's costs and expenses for the period indicated:

	For the year ended December 31,				
(Unaudited)	**2016**	**% of total**	**2017**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Bonus	(805.8)	16.9%	(745.5)	28.1%	(7.5%)
Salaries and benefits	(1,637.4)	34.4%	(529.4)	20.0%	(67.7%)
Administrative and others	(1,707.9)	35.8%	(852.6)	32.2%	(50.1%)
Goodwill amortization	(243.8)	5.1%	(279.8)	10.6%	14.8%
Tax charges, other than income tax	(370.7)	7.8%	(244.0)	9.2%	(34.2%)
Total operating expenses	**(4,765.6)**	**100.0%**	**(2,651.3)**	**100.0%**	**(44.4%)**

Banco BTG Pactual's total operating expenses decreased 44.4%, from R$4,765.6 million in 2016 to R$2,651.3 million in 2017. This decrease was mainly due to the following factors:

Bonus: Bonus expenses decreased 7.5%, from R$805.8 million for 2016 to R$745.5 million in 2017. Excluding the effects of BSI and Engelhart CTP in both years, bonus expenses would have increased 59.1%, from R$468.6 million in 2016 to R$745.5 million in 2017, reflecting higher adjusted revenues (excluding interest and other revenues, reduced by its operating expenses). Banco BTG Pactual's bonuses are determined in accordance with its profit-sharing program, and are calculated as a percentage of its adjusted revenues.

Salaries and Benefits: Expenses related to salaries and benefits decreased 67.7%, from R$1,637.4 million in 2016 to R$529.4 million in 2017. Excluding the effects of BSI and Engelhart CTP in both years, salaries and benefits would have decreased 12.7% from 2016 to 2017, mostly due to the effects of our cost reduction program.

Administrative and Others: Total administrative expenses decreased 50.1%, from R$1,707.9 million in 2016 to R$852.6 million in 2017. Excluding the effects of BSI and Engelhart CTP in both years, total administrative expenses would have increased 14.5% as a result of consulting and legal fees incurred in connection with certain transactions.

Goodwill Amortization: Goodwill amortization increased 14.8%, from R$243.8 million in 2016 to R$279.8 million in 2017. Such increase was mainly in connection with the EFG / BSI transaction.

Tax charges, other than income tax: Tax charges, other than income tax decreased 34.2%, from R$370.7 million in 2016 to R$244.0 million in 2017. This decrease was mainly due to (i) lower revenues in the period, and (ii) a more favorable revenue mix in 2017, with a proportionally lower portion of revenues subject to tax charges or subject to a lower tax rate. Tax charges, other than income tax, consist mainly of PIS/COFINS of 4.65% and ISS, which varies from 2.0% to 5.0% depending on the services provided and locations.

Income Before Taxes: As a result of the foregoing, Banco BTG Pactual's income before taxes decreased 28.7%, from R$4,031.6 million in 2016 to R$2,876.2 million in 2017.

Income tax and social contribution expense: Income tax and social contribution consist of current and deferred taxes. Banco BTG Pactual's income tax and social contribution expenses decreased 21.0%, from R$623.0 million in 2016 to R$492.3 million in 2017, with the effective income tax and social contribution rate remaining stable.

Net Income: As a result of the foregoing, Banco BTG Pactual's net income decreased 30.1%, from R$3,408.6 million in 2016 to R$2,383.9 million in 2017, representing a net margin of 38.7% and 43.1%, respectively.

Year Ended December 31, 2016 versus Year Ended December 31, 2015

	For the year ended December 31,				
(Unaudited)	**2015**	**% of total**	**2016**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Investment banking	382.8	3.5%	367.1	4.2%	(4.1%)
Corporate lending	983.4	8.9%	876.6	10.0%	(10.9%)
Sales and trading	4,806.0	43.4%	2,816.5	32.0%	(41.4%)
Asset management	1,252.2	11.3%	539.6	6.1%	(56.9%)
Wealth management	1,454.5	13.1%	2,407.9	27.4%	65.5%
Principal investments	548.2	4.9%	(29.8)	(0.3%)	n/a
Participations	6.0	0.1%	(112.8)	(1.3%)	n/a
Interest and other	1,647.8	14.9%	1,932.1	22.0%	17.2%
Total revenues	**11,080.9**	**100.0%**	**8,797.1**	**100.0%**	**(20.6%)**

Investment Banking: Revenues from investment banking activities decreased 4.1% in 2016, from R$382.8 million in 2015 to R$367.1 million in 2016 mainly due to a decrease in financial advisory activities and, to a lesser extent, a decrease in equity underwriting activities, which were partially offset by an increase in debt capital markets activities.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the years indicated:

	For the year ended December 31,			
(Unaudited)	**2015**	**2016**	**2015**	**2016**
	(number of transactions)[(1)]		*(US$ billions)[(2)(3)]*	
Financial advisory (M&A)[(4)]	47	30	18.1	17.3
Equity underwriting (ECM)	4	10	0.4	2.0
Debt underwriting (DCM)	24	27	3.4	2.4

Sources: Dealogic for ECM, M&A and international DCM and Anbima for local Brazilian DCM

(1) Equity underwriting and debt underwriting represent closed transactions. Financial advisory represents announced M&A deals, which typically generate fees upon their subsequent closing.

(2) Local debt capital market transactions were converted to U.S. dollars using the end of quarter exchange rates.

(3) Market data from previous periods might vary in all products, due to potential inclusion and exclusions.

(4) M&A market data for previous periods may vary because: (i) deal inclusions may be delayed, (ii) canceled transactions are withdrawn from the rankings, (iii) transaction value might be revised and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs some weeks after the transaction is announced (mainly for non-listed targets).

Corporate Lending: Revenues from corporate lending decreased 10.9%, from R$983.4 million in 2015 to R$876.6 million in 2016. The decrease in revenues is mainly due to the 44.4% decrease in the average balance of our corporate lending portfolio, from R$39.3 billion in 2015 to R$21.8 billion in 2016 following the sale of part of our credit portfolio to various counterparties, maturity of a portion of our portfolio and no further disbursements, which was partially offset by (i) a higher allowance for loan losses towards the end of 2015 to reflect the potential liquidity discount in the period, with no corresponding loss in 2016 and (ii) the sale of Recovery in 2015, which resulted in gains of R$560 million (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations—Loans Recovery Activity" above).

Sales and Trading: Revenues from sales and trading decreased 41.4% from R$4,806.0 million in 2015 to R$2,816.5 million in 2016, mainly due to a decrease in revenues from our commodities business, which, after the Engelhart CTP spin-off in the fourth quarter of 2016, began to be reported under the Participations business unit (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above). When excluding Engelhart CTP's impact for both periods, revenues would have remained stable, with higher revenues from our equities desks in 2016, partially offset by weaker revenues from the foreign exchange desk.

Asset Management: Revenues from asset management decreased 56.9%, from R$1,252.2 million in 2015 to R$539.6 million in 2016. The decrease is mainly attributable to the 43.1% decrease in the average AUM/AUA (from R$213.3 billion in 2015 to R$121.4 billion in 2016) and to lower recognition of performance fees during 2016.

Wealth Management: Revenues from wealth management increased 65.5% from R$1,454.5 million in 2015 to R$2,407.9 million in 2016. This increase reflects the impact of BSI revenues from September 2015 (when BSI started being consolidated in Banco BTG Pactual's financial statements) to September 2016, after which BSI's results began to be reported under the Participations business unit (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above). Excluding BSI revenues, revenues from wealth management unit would have decreased 27.3% from R$464.2 million in 2015 to R$337.5 million in 2016, mainly attributable to the 21.3% decrease in the average WUM (from R$90.9 billion in 2015 to R$71.5 billion in 2016).

Principal Investments: Revenues from principal investments varied from a gain of R$548.2 million in 2015 to a loss of R$29.8 million in 2016, mainly driven by the negative results from our Global Markets activities, primarily driven by our emerging market credit strategies, where we closed positions in order to fulfill the redemption schedule of certain of our investment vehicles. In merchant banking, we recorded positive contributions mainly driven by positive results due to our investments in PetroAfrica. Real estate posted negative results mainly due to losses related to BW Properties. Global markets, merchant banking and real estate results also incorporate internal funding cost allocation, which gradually reduced as we decreased our exposure, dividend income and equity pick-up from subsidiaries in the ordinary course of business.

Participations: In 2015, our R$6.0 million in revenues from Participations reflect our share of profits/losses of our stakes in: Banco Pan, Pan Seguros and Pan Corretora. The 2016 loss of R$112.8 million reflects (i) a loss of R$99.4 million from our share of profits/losses from our stakes in Banco Pan, Pan Seguros and Pan Corretora; (ii) a loss of R$8.2 million from our share of profits/losses from our stake in Engelhart CTP.

Interest and Other: Revenues from interest and other increased 17.2% from R$1,647.8 million in 2015 to R$1,932.1 million in 2016 mainly due to (i) the 14.0% increase in the average shareholders' equity for the period and (ii) the increase in the average interest rate applied.

The following table sets forth the composition and evolution of Banco BTG Pactual's costs and expenses for the years indicated:

	For the year ended December 31,				
(Unaudited)	**2015**	**% of total**	**2016**	**% of total**	**Variation (%)**
	(R$ millions, except percentages)				
Bonus	(1,598.9)	31.6%	(805.8)	16.9%	(49.6%)
Salaries and benefits	(1,385.7)	27.4%	(1,637.4)	34.4%	18.2%
Administrative and others	(1,429.7)	28.3%	(1,707.9)	35.8%	19.5%
Goodwill amortization	(209.1)	4.1%	(243.8)	5.1%	16.6%
Tax charges, other than income tax	(430.4)	8.5%	(370.7)	7.8%	(13.9%)
Total operating expenses	**(5,053.8)**	**100.0%**	**(4,765.6)**	**100.0%**	**(5.7%)**

Banco BTG Pactual's total operating expenses decreased 5.7%, from R$5,053.8 million in 2015 to R$4,765.6 million in 2016. This increase was mainly due to the following factors:

Bonus: Bonus expense decreased 49.6%, from R$1,598.9 million in 2015 to R$805.8 million in 2016. Excluding the effects of BSI and Engelhart CTP in both years, bonus expense would have decreased reflecting lower adjusted revenues (excluding interest and other revenues, reduced by its operating expenses) in 2016 when compared to 2015. Banco BTG Pactual's bonuses are determined in accordance with its profit-sharing program, and are calculated as a percentage of its adjusted revenues.

Salaries and Benefits: Expenses related to salaries and benefits increased 18.2%, from R$1,385.7 million in 2015 to R$1,637.4 million in 2016. Excluding the effects of BSI and Engelhart CTP in both years, staff costs would have decreased 13.5% from 2015 to 2016, reflecting a decrease in the total number of employees.

Administrative and Others: Total administrative expenses increased 19.5%, from R$1,429.7 million in 2015 to R$1,707.9 million in 2016. Excluding the effects of BSI and Engelhart CTP in both years, administrative expenses would have remained stable from 2015 to 2016.

Goodwill Amortization: Goodwill amortization increased 16.6%, from R$209.1 million in 2015 to R$243.8 million in 2016. Banco BTG Pactual's goodwill amortization for 2016 was derived mainly from its acquisitions of Celfin and Bolsa y Renta and its interest in EFG.

Tax charges, other than income tax: Tax charges, other than income tax decreased 13.9%, from R$430.4 million in 2015 to R$370.7 million in 2016. This decrease was mainly due to a smaller portion of Banco BTG Pactual's revenues from services generated in Brazil that were subject to ISS charges. Tax charges, other than income tax, consist mainly of PIS/COFINS of 4.65% and ISS, which varies from 2.0% to 5.0% depending on the services provided and locations.

Income Before Taxes: As a result of the foregoing, Banco BTG Pactual's income before taxes decreased 33.1%, from R$6,027.1 million in 2015 to R$4,031.6 million in 2016.

Income tax and social contribution expense: Income tax and social contribution consist of current and deferred taxes. Banco BTG Pactual's income tax and social contribution expenses increased 54.4%, from R$403.6 million in 2015 to R$623.0 million in 2016, with the effective income tax and social contribution rate increasing from 6.7% to 15.5%, respectively.

Net Income: As a result of the foregoing, Banco BTG Pactual's net income decreased 39.4%, from R$5,623.5 million in 2015 to R$3,408.6 million in 2016, representing a net margin of 50.7% and 38.7%, respectively.

Regulatory Capital Requirements

Banco BTG Pactual maintains a level and composition of equity capital that it considers sufficient to conduct its operations under well-capitalized bank standards. Banco BTG Pactual manages its capital requirements by establishing limits to its business units on the capital it deploys in its operations. Its definition of capital generally follows the principles and guidelines established by the Basel Committee, as they have been adopted from time to time by the Central Bank. As of December 31, 2017 Banco BTG Pactual's total shareholders' equity was R$18,523.7 million compared to R$17,727.2 million and R$19,713.3 million as of December 31, 2016 and 2015, respectively. As of September 30, 2018, Banco BTG Pactual's total shareholders' equity was R$19,180.2 million.

Banco BTG Pactual's capital levels have changed significantly over the past three years. In October 2014, the perpetual notes that Banco BTG Pactual issued on September 11, 2014 were approved by the Brazilian Central Bank to qualify as Tier 1 Capital, in compliance with Basel III rules, in the amount of R$3,172 million, reinforcing Banco BTG Pactual's Tier I and regulatory capital.

In February 2015, the Central Bank, in accordance with the Bank of International Settlements ("BIS") guidance, issued a new regulatory framework for the leverage ratio, determining that banks maintain a leverage ratio above 3%.

In January 2017, the CMN and the Central Bank issued a new regulatory framework implementing a segmentation of financial institutions based on their systematic importance. Accordingly, under the terms of CMN

Resolution No. 4,553 issued on January 30, 2017 ("CMN Resolution No. 4,553"), depending on the group in which the financial institutions were classified, the requirements would vary proportionally. Banco BTG Pactual was classified in the first group, meaning that it should be compliant with the full regulatory and supervisory package. See "Regulatory Overview—Banking Regulation—Capital Adequacy and Leverage."

On October 31, 2017, in connection with a cash tender offer to repurchase a portion of our 8.750% Perpetual Non-Cumulative Junior Subordinated Notes issued in October 2014, the Central Bank authorized the disqualification of US$390 million in aggregate principal of our outstanding as regulatory capital. As a result and because there was no relevant increase or decrease in the RWA, Banco BTG Pactual's Basel Ratio decreased from 21.5% to 18.0% at the end of 2017.

In addition, the Basel Total Capital ratio slightly decreased to 17.8% at the end of the third quarter of 2018, primarily as a result of (i) the capital increase in the amount of R$381.2 million in Banco Pan, (ii) the additional phase of Basel III deductions and (iii) the impact of the foreign exchange variation on total deferred tax assets. These effects were partially offset by a reduction in risk-weighted assets.

In January 2019, according to the Basel III implementation schedule in Brazil, the phase-out of Tier 2 debt issued prior to March 1, 2013 reached 70% for Tier 2 debt that does not fully comply with the requirements of CMN Resolution 4,192 to be considered as regulatory capital (i.e., only 30% of the balance of such Tier 2 debt could be included in the calculation of the regulatory capital of any relevant institution).

Regulatory Capital Adequacy

Banco BTG Pactual believes that its working capital is sufficient for its present requirements and for the 12 months following the date of this Offering Memorandum.

Banco BTG Pactual must comply with capital requirements established by the Central Bank and CMN that follow principles recommended by the Basel Committee. The Basel Capital Accord is a risk-based guideline that establishes capital requirements for financial institutions. The main principle of the recommendation of the Basel Committee is that financial institutions should maintain a sufficient amount of capital to support the principal risks, including credit, market and operational risks, associated with the level of assets held in their balance sheets, calculated on a consolidated basis.

The regulations imposed by the Central Bank typically follow the guidance proposed by the Basel Committee. Brazilian financial institutions are still required to comply with standardized capital requirements with respect to their market, credit and operational risks.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders' summit in December 2010. The Basel III Accord recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth.

In March 2013, the CMN and the Central Bank issued a regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution 4,192, determined, among other things, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the PR. The PR is used to determine the capital adequacy of Brazilian financial institutions, and is represented by the sum of the Tier 1 capital and Tier 2 capital.

Beginning in October 2013, the Tier 1 capital and Tier 2 started to be calculated as follows under the Basel III Accord:

Tier 1 Capital. Tier 1 capital corresponds to the sum of Common Equity Tier 1 Capital (*Capital Principal* ("Principal Capital")) and Additional Tier 1 Capital (*Capital Complementar* ("Additional Capital")).

The Common Equity Tier 1 Capital generally corresponds to the sum of: (i) capital stock; (ii) reserves; (iii) unrealized gains; (iv) retained earnings; (v) creditor profit and loss account balances; (vi) deposits in escrow accounts to cover capital shortages (pursuant to the terms of CMN Resolution No. 4,019 of September 29, 2011); and (vii) balance of positive adjustment in a market value of derivative financial instruments used for cash flow hedge, minus: (i) unrealized losses; (ii) treasury stocks eligible for Common Equity Tier 1 Capital; (iii) retained losses; (iv) debtors profit and loss account balances; (v) balance of negative adjustment at a market value of derivative financial instruments used for cash flow hedge; and (vi) prudential adjustments corresponding to: (a) goodwill paid in the acquisition of investments based on the expectation of future profits, net of deferred tax liabilities related to such assets; (b) intangible assets; (c) actuarial assets related to defined benefit pension funds, net of deferred tax liabilities related to such assets, to which the financial institution does not have full access; (d) the aggregate value of direct or indirect shareholding interests representing less than 10% of the capital stock of entities compared to financial institutions, not consolidated, plus insurance companies, reinsurers, capitalization companies and open-ended private pension entities; (e) direct or indirect shareholding interests exceeding 10% of the capital stock of entities compared to financial institutions, not consolidated, plus insurance companies, reinsurers, capitalization companies and open-ended private pension entities; (f) non-controlling shareholder interest in banking-licensed subsidiaries and foreign subsidiaries located abroad and which exercise activities equivalent to a financial institution in Brazil; (g) tax credits resulting from temporary differences that depend on the generation of future taxable profits or revenues for their realization; (h) tax credits resulting from tax losses and a negative base of social contribution on net profits and those originated from such contribution related to calculation periods ended until December 31, 1998; (i) deferred permanent assets; (j) investments greater than 10% of Common Equity Tier 1 Capital of an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil (except for those belonging to the same financial conglomerate); (k) the amount corresponding to investment in premises, controlled financial institution abroad or non-financial entity that is part of the conglomerate, in relation to which the Central Bank does not have access to sufficient information, data and documents for purposes of consolidated global supervision; (l) the negative difference between the amount provisioned and the expected loss from exposures covered by internal systems of credit risk classification (IRB approach); (m) non-controlling shareholding interest in non-banking licensed institutions, locally or abroad; (n) the negative difference between the amount provisioned and the adjustments made in connection with market-value assessment of financial instruments.

Pursuant to CMN Resolution 4,193, from January 1, 2016 onwards, financial institutions licensed by the Central Bank are required to present their Additional Principal Capital or ACP (*Adicional de Capital Principal*), which is an additional rate of Common Equity Tier 1 Capital (*Capital Principal*). ACP is calculated by applying certain percentage rates to Risk Weighted Assets (*Ativos Ponderados pelo Risco*, "RWA"). According to CMN Resolution 4,193, the calculation of ACP corresponds to the sum of the following: Preserved ACP (*Adicional de Conservação de Capital Principal*) + Countercyclical ACP (*Adicional Contracíclico de Capital Principal*) + ACP of Systemic Importance (*Adicional de Importância Sistêmica de Capital Principal*). The Preserved ACP installment has a fixed value, resulting from the application of the following percentage rates to the RWA amount: (i) zero until 2015; (ii) 0.625% in 2016; (iii) 1.25% in 2017; (iv) 1.875% in 2018; and (v) 2.5% from 2019. The Countercyclical ACP and the ACP of Systemic Importance, in contrast, depend on calculation methodologies that consider variable factors. The value of the Countercyclical ACP depends on the phase of the economic-financial cycle, being, however, limited by the following maximum percentage amounts in regards to the RWA amount: (i) zero until 2015; (ii) 0.625% in 2016; (iii) 1.25% in 2017; (iv) 1.875% in 2018; and (v) 2.5% from 2019. The value of the ACP of Systemic Importance is bound to the systemic importance of each institution, being limited by the following maximum percentage amounts in regards to the RWA amount: (i) zero until 2016; (ii) 0.5% in 2017; (iii) 1% in 2018; and (iv) 2% from 2019. Also, it should be mentioned that the introduction of the ACP of Systemic Importance aims to reduce the odds of insolvency of a systemically important institution in the domestic sphere and the consequent impact on the stability of the financial system and the real economy. Non-compliance with Additional Principal Capital limits, as long as the insufficiency of ACP is verified, restricts: (i) the payment of variable remuneration to officers and administrators of the respective financial institution; (ii) the payment of dividends and interest on shareholder' equity; (iii) the payment of net surplus and annual compensation to shareholders of credit cooperatives; (iv) the repurchase of shares, in any amount; and (v) any possible capital decrease.

Additional Tier 1 Capital. Additional Tier 1 Capital (*Capital Complementar*) corresponds to the sum of all amounts under instruments that adhere to all the following conditions: (i) being in registered form, when issued in Brazil and, when issued abroad, whenever local legislation so permits; (ii) being paid in cash; (iii) having a perpetual nature; (iv) having their payment subordinated to the payment of other liabilities of the respective issuer, except for the payment of the elements that make up the Common Equity Tier 1 Capital, in case of dissolution of the issuing institution; (v) providing that the payment of their compensation shall only be made with funds resulting from profits and profits reserves subject to distribution in the last period of determination; (vi) providing for the suspension of payment of compensation that exceeds the funds available for this purpose; (vii) providing for the suspension of payment of compensation on a *pro rata* basis to the restriction imposed by the Central Bank to the distribution of dividends or other results regarding stocks, quotas or *quotas-partes*, eligible for Common Equity Tier 1 Capital; (viii) providing for the suspension of payment of compensation in case the issuing institution presents insufficient compliance with the Additional Principal Capital (*Adicional de Capital Principal*) (in this case the suspension will be on a *pro rata basis*) or the payment results in noncompliance with the minimum requirements of Common Equity Tier 1 Capital, Tier 1 Capital and PR; (ix) having their redemption or repurchase subject to Central Bank's approval; (x) being only redeemable upon the issuer's initiative; (xi) not being subject of any guarantee, insurance or other similar mechanism; (xii) not presenting any provision that directly or indirectly reduces the amount to be authorized to make up the Additional Tier 1 Capital; (xiii) not providing for changes to the terms or payment conditions agreed; (xiv) not having their purchase directly or indirectly financed by the issuing institution; (xv) providing for a write-off event (a) in case the Common Equity Tier 1 Capital of the issuer becomes lower than 5.125% of its RWA; (b) upon the occurrence of the exception provided for in the *caput* of article 28 of the Supplementary Law No. 101, of May 4, 2000, with an executed commitment of contribution to the issuing institution; (c) upon the imposition of intervention or RAET by the Central Bank on the financial institution; or (d) upon Central Bank's decision; (xvi) providing that the occurrence of the situations in items (v), (vi), (vii), (viii), (xv) and (xviii) shall not be deemed as an event of default; (xvii) providing that compensation unpaid due to the provision of item (v) and the compensation related to the suspension period described in items (vi), (vii) and (viii) shall be deemed extinguished; and (xviii) providing that write-off or conversion of the debt will not occur in case of ongoing review or republication of documents used for purposes of calculation of the ratio between Common Equity Tier 1 Capital and RWA. From this amount, the following must be excluded: (i) fund-raising instruments issued by an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil (except for those belonging to the same financial conglomerate); and (ii) treasury stocks that would be eligible for Additional Tier 1 Capital.

Tier 2 Capital. Tier 2 capital corresponds to the sum of the amounts corresponding to: (i) the positive difference between the amount provisioned and the expected loss from exposures covered by internal systems of credit risk classification (IRB approach); and (ii) instruments that comply with the following conditions: (a) being in registered form, when issued in Brazil and, when issued abroad, whenever local legislation so permits; (b) being paid in cash; (c) for a minimum period of five years between the date of issuance and maturity date, and no repayment is permitted; (d) having their payment subordinated to the payment of other liabilities of the respective issuer, except for the payment of the elements that make up the Common Equity Tier 1 Capital and the Additional Tier 1 Capital, in case of dissolution of the issuing institution; (e) having their early redemption or repurchase subject to Central Bank's approval; (f) being only redeemable upon the issuer's initiative; (g) not being subject to any guarantee, insurance or other similar mechanism; (h) not providing for changes to the terms or payment conditions agreed; (i) not having their purchase directly or indirectly financed by the issuing institution; (j) providing for a write-off event (1) in case the Common Equity Tier 1 Capital of the issuer becomes lower than 4.5% of its RWA; (2) upon the occurrence of the exception provided for in the *caput* of article 28 of the Supplementary Law No. 101, of May 4, 2000, with an executed commitment of contribution to the issuing institution; (3) upon the imposition of intervention or RAET by the Central Bank on the financial institution; or (4) upon Central Bank's decision; (k) providing that the occurrence of the situations in items (j) and (l) shall not be deemed as an event of default; (l) providing that write-off or conversion of the debt will not occur in case of ongoing review or republication of documents used for purposes of calculation of the ratio between Common Equity Tier 1 Capital and RWA. From this amount, the following must be excluded: (i) fund-raising instruments issued by an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil (except for those belonging to the same financial conglomerate); and (ii) treasury stocks that would be eligible for Tier 2 Capital.

In addition to the changes above relating to the calculation of the PR, this set of rules introduced the concept of quasi-financial institutions (*instituições assemelhadas*) and required consolidation of such quasi-financial institutions into the financial statements of financial institutions.

The Basel III Accord regulatory capital requirements will be gradually increased by the Central Bank until 2019 and may require Banco BTG Pactual to increase its capital basis, which could negatively impact its results and adversely affect its ratios mentioned above. In addition, due to changes in the rules concerning capital adequacy or due to changes in the performance of the Brazilian economy as a whole, Banco BTG Pactual may be unable to meet the minimum capital adequacy requirements required by the Central Bank. Banco BTG Pactual may also be compelled to limit its credit operations, dispose its assets and/or take other measures that may adversely affect.

Please see "Regulatory Overview" for more information on Regulatory Capital Adequacy.

Banco BTG Pactual's Consolidated Capital Ratios

On February 23, 2017, CMN enacted Resolution No. 4,557, which unifies and expands the Brazilian regulation on risk and capital management for Brazilian financial institutions and other institutions authorized to operate by the Central Bank. The new rule is also an effort to incorporate into Brazilian regulation new recommendations from the Basel Committee on Banking Supervision. The rule provides that risk management must be conducted through an integrated effort by the relevant entity (i.e., not only must risks be analyzed on an individual basis, but financial institutions and other institutions authorized to operate by the Central Bank must also control and mitigate the adverse effects caused by the interaction between different risks). It also expands the rules and requirements on risk management governance and the competence and duties of the risk management officer.

The rule sets out different structures for risk and capital management which are applicable for different risk profiles, based on the risks profiles set out in the applicable regulation. This means a financial institution of smaller systemic importance can have a simplified structure of management, while institutions of larger complexity have to follow stricter protocols and implement the new rules until a closer deadline (180 days).

The following table sets forth additional information on Banco BTG Pactual's capital ratios as of September 30, 2018 and 2017 and December 31, 2017, 2016 and 2015 according to CMN Resolution 4,192:

	As of December 31,			**As of September 30,**	
	2015	**2016**	**2017**	**2017**	**2018**
	(R$ millions, except percentages)				
Regulatory Capital (a)	**26,326.1**	**19,637.4**	**17,142.7**	**19,022.6**	**14,878.2**
Tier 1 capital	22,348.8	16,216.3	14,773.2	16,389.6	12,778.8
Common Equity Tier 1 Capital	19,713.3	11,924.5	11,752.6	12,306.9	9,184.8
Additional Tier 1 Capital	5,142.7	4,291.8	3,020.6	4,082.8	3,593.9
Deductions	2,507.2	-	-	-	-
Tier 2 capital	3,977.3	3,421.2	2,369.4	2,632.9	2,099.3
Total Risk Weighted Assets (b)	**170,388.2**	**91,156.4**	**94,998.4**	**110,100.0**	**83,791.0**
Credit risk	125,148.5	55,813.6	56,089.4	54,329.8	56,119.4
Operational risk	758.5	3,386.0	4,615.9	4,615.9	4,370.6
Market risk	44,481.1	31,956.9	34,293.1	51,154.4	23,301.0
Basel ratio - (a/b)	**15.5%**	**21.5%**	**18.0%**	**17.3%**	**17.8%**
Tier 1 capital	13.1%	17.8%	15.6%	14.9%	15.3%
Tier 2 capital	2.3%	3.8%	2.5%	2.4%	2.5%

Subsidiary Capital Requirements

Banco BTG Pactual is subject to banking supervision and regulation on a global consolidated basis in Brazil under the Central Bank framework. Regulatory capital requirements are determined on a consolidated basis, including assets and liabilities of consolidated subsidiaries, even if such subsidiary is subject to the banking supervision of other regulators on an individual basis. In the case of Banco Pan, due to the fact that Banco BTG Pactual exercises joint control ownership, together with CaixaPar, the Central Bank determined that capital requirements and banking supervision will be exercised on a stand-alone basis. Banco Pan is recognized as an independent bank conglomerate by the Central Bank, and its capital requirements must be satisfied with Banco Pan's own capital. As mentioned above, Banco BTG Pactual purchased a co-controlling interest in Banco Pan. The effect of the transaction on the calculation of Banco BTG Pactual's regulatory capital is discussed above. See "Business—Significant Recent Developments."

Through Banco BTG Pactual's subsidiaries in the United States, it is also subject to extensive regulation under U.S. law and regulations, including oversight by FINRA and the SEC. Through BTG Pactual Europe LLP, one of Banco BTG Pactual's operating entities authorized by the FCA to provide investment services in the United Kingdom, Banco BTG Pactual is additionally subject to the supervision of the FCA and related regulatory requirements in the United Kingdom. Through the Luxembourg Branch and its subsidiary, Banco BTG Pactual is subject to Luxembourg regulatory law and the supervision of the CSSF. See "Risk Factors—Risks Relating to the Regulatory Environment—The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject our investment adviser and broker-dealer in the U.S. to substantial additional regulation, and we cannot predict the effect of such regulation on our business," "Regulatory Overview—Regulation in the United States" and "Regulatory Overview—Regulation in the United Kingdom." Banco BTG Pactual's Chilean, Colombian, Peruvian, Mexican and Luxembourg operations are subject to regulatory capital requirements determined by the laws of such countries and their regulators, respectively, calculated based on their own capital considered individually.

Liquidity

Liquidity is essential to Banco BTG Pactual's business. Liquidity management is the set of policies and procedures Banco BTG Pactual put in place to ensure that it always has access to sufficient cash to meet its obligations, under normal circumstances and under severe market stress.

The most important principle of Banco BTG Pactual's liquidity management framework is the maintenance of a strong cash position – its liquidity buffer – at all times. Banco BTG Pactual's liquidity buffer is calculated in order to fulfill several potential scenarios of cash outflows, including expected and unexpected liquidity needs. Therefore, it established a minimum liquidity value with the objective of monitoring and anticipating a potential liquidity deterioration, as to survive a combined idiosyncratic and systemic stress test and ensure a Liquidity Coverage Ratio ("LCR") above the regulatory limit. The minimum survival horizon to the stress test, as well as the minimum horizon to ensure a LCR above the regulatory limit are parameters of the risk appetite of the BTG Pactual liquidity risk management structure and are reviewed periodically.

In November 2017, the CMN, through Resolution No, 4,616, established the minimum value of the Net Stable Funding Ratio ("NSFR") and the terms for its compliance. Additionally, in December 2017, the CMN issued Circular No. 3,869 detailing the methodology for calculating the NSFR and its disclosure requirements. The NSFR corresponds to the ratio of the Available Stable Funding (ASF), which calculation is based on the financial institution's liabilities and shareholders' equity, and the amount of Required Stable Funding (RFS), which calculation is based on the financial institution's assets and non-recorded exposures. The NSFR is complementary to the Liquidity Coverage Ratio (LCR) and its main purpose is to encourage financial institutions to obtain stable financing for their investments in order to mitigate their long-term liquidity risks. In addition, the NSFR creates incentives to limit the financial institutions' overreliance on short-term wholesale funding and encourages a better assessment of their long-term liquidity risk. So far, no Brazilian bank has disclosed their NSFR ratio. As of the date of this Offering Memorandum, Banco BTG Pactual is in compliance with the NSFR ratio.

Banco BTG Pactual's balance sheet is in a large part composed of very liquid financial instruments, and it obtains funding from a diversified range of unsecured instruments from a broad range of sources. Also, Banco BTG Pactual maintains a contingency plan to manage its liquidity under severely adverse market conditions based on the imposition of constraints on its lending operations and on the reduction of its exposure to illiquid assets and the sell-off of liquid instruments.

In September 2014, Banco BTG Pactual issued US$1.3 billion of perpetual non-cumulative junior subordinated notes with a fixed coupon of 8.750% per annum, callable on September 2019 or thereafter semiannually, which qualifies as Additional Tier 1 Capital (*Capital Complementar*). These notes were the target of a tender offer that concluded on December 6, 2017, pursuant to which Banco BTG Pactual repurchased US$390.0 million in aggregate principal amount of these notes. Following the closing of the tender offer, US$910 million in aggregate principal amount of our 8.750% perpetual non-cumulative junior subordinated notes remained available for trading on the Luxembourg Stock Exchange's Euro MTF, of which US$678.1 million were held by our affiliates. On January 23, 2019, Banco BTG Pactual completed a successful consent solicitation to facilitate the substitution of the branch through which it acts as issuer of the notes, from its Luxembourg Branch to its Cayman Islands Branch. Such substitution was proposed in the context of management's reevaluation of the activities currently undertaken by each branch and remains subject to Central Bank approval.

Under the terms of the notes eligible as regulatory capital, Banco BTG Pactual may, among other things, defer payment of any amounts due to Noteholders if it is not in compliance with, or such payment would cause it to not be in compliance with, operational limits applicable to Brazilian banks then in effect.

In the aftermath of challenges following the arrest of Mr. Esteves in November 2015, Banco BTG Pactual's management adopted a series of actions to maintain a conservative liquidity position and preserve capital. As part of these efforts, on December 4, 2015, Banco BTG Pactual executed a Memorandum of Understanding with FGC pursuant to which Banco BTG Pactual received a financial assistance line up to the amount of R$6.0 billion, guaranteed by part of Banco BTG Pactual's loan portfolio and personally guaranteed by its Controlling Partners at a rate of Brazilian interest rate (SELIC) + 2% per annum, with maturity in December 2017. As of December 31, 2015, a total of R$5.0 billion had been drawn under this credit line. In October 2016, Banco BTG Pactual announced that it had paid off the outstanding balance of the financial assistance loan obtained from FGC with the primary impact being the overall reduction in Banco BTG Pactual's unsecured funding base.

Also in December 2015, Banco BTG Pactual entered into the *Depósitos a Prazo com Garantia Especial* ("DPGE") program. This is a fixed income financial product, with no partial or anticipated maturity, that offers investors extended guarantees, in value terms, provided by the FGC in the case of an intervention, liquidation or insolvency recognized by the competent party of the financial institution. The program limit was approximately R$2.5 billion, available until December 30, 2015, which is essentially related to the value of shareholders' equity and outstanding deposits. As of December 31, 2015, BTG Pactual had issued approximately R$1.7 billion under the DPGE program.

In addition, from November 25, 2015 to December 31, 2016, Banco BTG Pactual sold assets and stakes in investments in the total amount of approximately R$6 billion. Other measures to improve our liquidity following the challenges emanating from the allegations against Mr. Esteves include divestments in certain assets mentioned above, as well as selling positions from our credit portfolio, which is described elsewhere in this Offering Memorandum. In 2016, there were no material liquidity events other than renewal of certain lines of credit and funding.

In December 2017, Banco BTG Pactual issued US$500 million non-cumulative senior notes under its medium-term notes program with a fixed coupon of 5.50% per annum maturing in January 2023.

In July 2018, Banco BTG Pactual issued through its subsidiary in Chile US$63.0 million in bonds with the interest rate UF plus 1.6% per annum maturing in June 2021.

Banco BTG Pactual intends to continue its funding activities by accessing funding from diversified sources in Brazil and abroad and issuing debt instruments and deposits in different markets, currencies and tenors. Banco BTG Pactual is subject to liquidity regulatory requirements imposed by the Central Bank, which include the monitoring of its liquidity position, liquidity stress scenarios and liquidity contingency plan.

In the process of aligning domestic regulation to the new Basel recommendations, starting in October 2015, Brazilian banks with total assets above R$100 billion are required to report their liquidity coverage ratio ("LCR") to the Central Bank on a daily basis. In order to comply with LCR regulation, financial institutions must maintain enough high-quality liquid assets to withstand cash outflows for 30 days, in a stress scenario defined by the local banking supervisor. In accordance with the schedule set forth by Resolution 4,401, from February 27, 2015, the minimum required LCR went into effect starting at 60% and rising 10% per year until reaching and plateauing at 100% by January 2019.

The LCR corresponds to the ratio between the high quality liquid assets ("HQLA") and the total net outflows of cash in 30 days (Net Outflows), both calculated according to the Brazilian Central Bank standard stress test scenario. According to CMN Resolution No. 4,401 and Central Bank Circular No. 3,749, 3,761 and 3,762, BTG Pactual was eligible for the LCR calculation and reporting starting from October 2015.

The LCR standard stress test scenario considers a combined idiosyncratic and market-wide shock that would result to the bank in a period of 30 days, among other:

- a partial loss of unsecured wholesale funding capacity;
- a partial loss of short-term financing;
- additional contractual outflows that would arise from a downgrade in the bank's public credit rating by up to and including three notches, including collateral posting requirements;
- increases in market volatility that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity shortfalls;
- unscheduled draws on committed but unused credit and liquidity facilities that the bank has provided to its clients; and
- the potential need for the bank to buy back debt or honor non-contractual obligations in the interest of mitigating reputational risk.

BTG Pactual holds stock in HQLA in order to have a ratio between this stock and the total net outflows and be in compliance with the Central Bank limits.

Our Indebtedness

The following table shows the composition of Banco BTG Pactual's funding as of the dates indicated:

	As of December 31,			**As of September 30,**
	2015	**2016**	**2017**	**2018**
		(R$ millions)		***(R$ millions)***
Deposits	86,743.5	7,690.8	9,178.3	25,612.6
Demand deposits	64,196.9	128.6	441.3	343.8
Interbank deposits	1,475.4	226.1	136.8	269.4
Time deposits	21,071.2	7,336.1	8,600.2	24,999.5
Open market funding	20,308.2	24,904.0	33,890.2	56,135.7
Funds from securities issued and accepted	19,559.2	10,335.7	10,289.5	14,233.7
Interbank transactions	7.2	5.1	5.4	7.4
Loans and onlending	8,097.6	3,544.8	4,729.9	5,372.8
Subordinated debt	8,297.2	7,283.0	6,317.2	5,932.6
Debt instrument eligible to equity	5,160.4	4,305.2	3,043.3	3,618.9
Total	**148,173.4**	**58,068.6**	**67,453.9**	**110,913.8**

Demand Deposits

Banco BTG Pactual does not provide commercial banking services to its clients other than through its Banco Pan business unit. The cash balances maintained by its clients in demand deposits are seasonal, and typically result from the settlement of securities in connection with Banco BTG Pactual's sales and trading businesses. The volume of Banco BTG Pactual's demand deposits tend to vary, and are generally linked to the volume of transactions it settles for its clients. They can also be impacted by regulatory measures, or by certain taxes imposed on financial transactions, such as the IOF tax, that can cause Banco BTG Pactual's clients to delay certain cash transferences abroad. Demand deposits also include balances of money market deposits maintained by its clients with the Cayman Islands Branch.

As of September 30, 2018 and December 31, 2017, the balance of demand deposits from local and international clients totaled R$343.8 million and R$441.3 million, respectively. As of December 31, 2016, the balance of demand deposits totaled R$128.6 million as compared to R$64,196.9 million as of December 31, 2015, mainly reflecting the loss of demand deposits from BSI.

Interbank Deposits

Banco BTG Pactual receives interbank loans from Brazilian financial institutions in open market operations. The balance of Banco BTG Pactual's interbank deposits was R$269.4 million as of September 30, 2018, R$136.8 million as of December 31, 2017, R$226.1 million as of December 31, 2016 and R$1,475.4 million as of December 31, 2015. As of December 31, 2015, the balance of interbank deposits included interbank deposits from BSI, which was consolidated into Banco BTG Pactual in 2015 and deconsolidated in 2016 (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above).

Time Deposits

A significant portion of Banco BTG Pactual's funding is in the form of time deposits. Usually, Banco BTG Pactual's depositors are Brazilian companies, pension funds and HNWI. Most of its CDBs bear an interest rate equivalent to the CDI plus a spread. Banco BTG Pactual's balance of time deposits was R$21,071.2 million as of December 31, 2015, R$7,336.1 million as of December 31, 2016, R$8,600.2 million as of December 31, 2017 and R$24,999.5 million as of September 30, 2018. The amount of time deposits issued by Banco BTG Pactual increased significantly as a result of our strategy to focus on short-term deposits in connection with specific market operations. As of December 31, 2015, the balance of time deposits included interbank deposits from BSI, which was consolidated in Banco BTG Pactual in 2015 and deconsolidated in 2016.

The table below shows the composition of Banco BTG Pactual's time deposits issued by maturity as of the dates indicated:

	As of December 31,			As of September 30,
	2015	**2016**	**2017**	**2018**
	(R$ millions)			
Up to 90 days	11,312.0	3,174.3	4,344.1	8,741.6
From 91 to 365 days	5,078.1	4,054.5	3,406.8	14,718.1
From 1 to 3 years	3,824.1	31.0	111.6	756.9
Over 3 years	857.0	76.4	737.7	783.0
Total	**21,071.2**	**7,336.1**	**8,600.2**	**24,999.5**

The table below shows the concentration of Banco BTG Pactual's time deposits issued by depositors by economic group as of the dates indicated:

	As of December 31,			As of September 30,
(Unaudited)	**2015**	**2016**	**2017**	**2018**
	(R$ millions, except Total Number of Depositors)			
Largest depositor	5,013.9	631.3	752.1	8,608.3
10 largest depositors	8,676.5	3,104.0	3,922.3	16,061.6
20 largest depositors	10,612.5	4,002.0	4,907.6	18,280.4
50 largest depositors	12,181.7	4,879.7	5,985.0	20,789.1
100 largest depositors	12,993.9	5,275.8	6,650.4	21,880.2
Total number depositors	**418**	**361**	**1,503**	**2,345**

Open market funding

Banco BTG Pactual funds a significant portion of its portfolio through secured funding arrangements, such as repurchase agreements. Banco BTG Pactual maintains relationships with several market counterparties, such as financial institutions, prime brokers, institutional investors, asset managers, clearing agents, depositaries, central banks or other monetary authorities, through which it may obtain secured funding by placing significant portions of its portfolio of securities, especially government bonds, as collateral. Banco BTG Pactual's secured funding transactions are an important component of its overall funding strategy in the context of liquidity management. The total balance of repurchase transactions vary in line with changes in the amount of Banco BTG Pactual's total assets, and especially of its securities portfolio.

Banco BTG Pactual also maintains a balance of repurchase agreements in connection with reverse repurchase transactions (i.e., Banco BTG Pactual's match portfolio), through which it allows clients, such as its investment funds, to access money markets for overnight or term investments collateralized by prime, highly liquid government securities. As of September 30, 2018, December 31, 2017, 2016 and 2015 Banco BTG Pactual's own portfolio of repurchase transactions totaled R$56,135.7 million, R$33,890.2 million, R$24,904.0 million and R$20,308.2 million, respectively. Our open market funding decreased in December 2015 and remained at lower levels during 2016 as a result of our strategy to deleverage our balance sheet in connection with the events of November 25, 2015. In 2017 and 2018, our open market funding levels increased, reaching 2014 levels.

Funds from securities issued and accepted

Banco BTG Pactual's balance from securities issued and accepted was R$19,559.2 million as of December 31, 2015, R$10,335.7 million as of December 31, 2016, R$10,289.5 million as of December 31, 2017 and R$14,233.7 million as of September 30, 2018. The decrease in securities issued and accepted in December 31, 2016 compared to December 31, 2015 was mainly due to: (i) the maturity of US$500 million of senior notes issued by the Cayman Islands Branch in July 8, 2016; (ii) the maturity of CNY1.0 billion in senior notes issued by the Cayman Islands Branch under its medium-term notes program in March 2016; and (iii) our strategy to deleverage our balance sheet following allegations against André Esteves. See "Business—Legal Matters." Our securities issued and accepted remained stable as of December 31, 2017 compared to December 31, 2016 as Banco BTG Pactual issued US$500.0 million in Senior Notes under its medium-term notes program and repurchased US$390.0 million of its perpetual non-cumulative junior subordinated notes.

Banco BTG Pactual has notes outstanding both in Brazil and abroad, as follows:

- In December 2011, Banco BTG Pactual issued a series of notes in the total principal amount of R$600 million. The notes will be amortized on a semi-annual basis from July 2017 to December 2021;
- In January 2013, Banco BTG Pactual issued, through its Cayman Islands Branch, US$1.0 billion in senior notes under its medium-term notes program at a fixed coupon of 4.00% and maturing in January 2020;
- In September 2014, Banco BTG Pactual issued, through its Luxembourg Branch, US$1.3 billion in perpetual non-cumulative junior subordinated notes at a fixed coupon of 8.75%, priced at 100.0%, and callable in 5 years. On December 6, 2017, we concluded a cash tender offer to repurchase US$390.0 million in aggregate principal amount of these notes. Following the closing of the tender offer, US$910 million in aggregate principal amount of our 8.750% perpetual non-cumulative junior subordinated notes remained available for trading on the Luxembourg Stock Exchange's Euro MTF, of which US$678.1 million were held by our affiliates. On January 23, 2019, Banco BTG Pactual completed a successful consent solicitation to facilitate the substitution of the branch through which it acts as issuer of the notes, from its Luxembourg Branch to its Cayman Islands Branch. Such substitution was proposed in the context of management's reevaluation of the activities currently undertaken by each branch and remains subject to Central Bank approval;
- In December 2017, Banco BTG Pactual issued US$500.0 million in senior notes under its medium-term notes program at a fixed coupon of 5.500% and maturing in January 2023; and
- In July 2018, Banco BTG Pactual issued, through its bank in Chile, US$63.0 million in notes. The interest rate is UF + 1.6% and the notes mature in June 2021.

The table below shows the composition of Banco BTG Pactual's funds from securities issued and accepted by type as of the dates indicated:

	As of December 31,			As of September 30,
	2015	2016	2017	2018
		(R$ millions)		
Financial bills	3,174.3	6,865.3	4,772.1	5,940.6
Mortgage bonds/letters of credit for agribusiness	4,054.5	964.7	1,575.5	2,880.2
Medium term notes and credit-linked notes	31.0	2,494.1	3,865.7	5,257.0

	As of December 31,			As of September 30,
	2015	2016	2017	2018
	(R$ millions)			
Certificates of structured transactions - COE	76.4	11.7	76.2	156.0
Debentures	7,336.1	-	-	-
Total	**14,672.3**	**10,335.7**	**10,289.5**	**14,233.7**

As of September 30, 2018, securities in Brazil were indexed to interest referenced rates (CDI) between 86.5% and 115.0% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a. On September 30, 2018, securities abroad had rates between 0.5% p.a. and 8.75% p.a.

As of December 31, 2017, securities in Brazil were indexed to interest referenced rates (CDI) between 87% and 115% or inflation indexes (IPCA and IGPM) plus 5.8% p.a. to 8.1% p.a. On December 31, 2017, securities abroad had rates between 0.15% p.a. and 6.35% p.a.

As of December 31, 2016, securities in Brazil were indexed to interest referenced rates (CDI) between 88% and 112% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.2% p.a. On December 31, 2016, securities abroad had rates between 1.45% p.a. and 8.0% p.a.

As of December 31, 2015, securities in Brazil were indexed to interest referenced rates (CDI) between 86% and 113% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 7.8% p.a. On December 31, 2015, securities abroad had rates between 1.2% p.a. and 7% p.a.

Loans and onlendings

The funding from loans and onlending consists of funding facilities, such as revolving credit facilities, trade finance and BNDES lines of credit, among others. As of September 30, 2018, the outstanding balance of these facilities was R$5,372.8 million compared to R$4,729.9 million as of December 31, 2017, R$3,544.8 million as of December 31, 2016 and R$8,097.6 million as of December 31, 2015. The increase as of September 30, 2018 when compared to December 31, 2017 was due to the exchange rate variation over total stock of loans and prime broker leverage. The increase in December 31, 2017 when compared to December 31, 2016 was mainly due to increased loans from abroad. The decrease in December 31, 2016 when compared to December 31, 2015 was mainly due to the commodities business spin-off in October 2016. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations" above.

Certain Indebtedness of the Issuer

On May 31, 2017, Banco BTG Pactual, acting through its Cayman Islands branch, entered into a margin loan agreement, for an aggregate total amount of CHF60.0 million with Deutsche Bank AG, London Branch as the lender, administrative agent and calculation agent and BTGP-BSI as the pledgor, bearing interest at 3.75% per annum plus the LIBOR rate and maturing in May 2020. As part of this transaction, shares of EFG were pledged as collateral.

On December 14, 2017, Banco BTG Pactual, acting through its Cayman Islands branch entered into a margin loan agreement for an aggregate total amount of US$145.0 million with Deutsche Bank AG, London Branch as the lender, administrative and calculation agent and BTGP-BSI as the pledgor, bearing interest at 3.25% per annum plus the LIBOR rate and maturing in December 2019. As part of this transaction, shares of EFG were pledged as collateral. In connection with this margin loan agreement, our Cayman Islands branch, executed a note transfer agreement with Deutsche Bank AG, London Branch, under which its 4.00% senior unsecured notes due 2020 were transferred to each creditor, on a pro rata basis, as stipulated in the margin loan agreement.

On August 31, 2018, Banco BTG Pactual, acting through its Cayman Islands branch, entered into a margin loan agreement, which was amended on January 11, 2019, for an aggregate total amount of US$42.2 million with Deutsche Bank AG, London Branch as the lender, administrative and calculation agent, and Deutsche Bank S.A. – Banco Alemão as the collateral agent, bearing interest at 2.60% per annum plus the LIBOR rate and maturing in August 2022. Concurrently, our Cayman Islands branch entered into a collateral agreement under which real estate receivable certificates of the 26th series of the 5th issuance by GAIA Securitizadora S.A. was pledged as collateral to the creditors of the margin loan agreement.

Subordinated debt and debt instrument eligible as equity

Banco BTG Pactual's subordinated debt and debt instruments held as equity was R$13,457.6 million as of December 31, 2015, R$11,588.2 million as of December 31, 2016, R$9,360.5 million as of December 31, 2017 and R$9,551.5 million as of September 30, 2018. Under the terms of the subordinated notes, Banco BTG Pactual may, among other things, defer payment of any amounts due to Noteholders if it is not in compliance with, or such payment would cause it to not be in compliance with, operational limits applicable to Brazilian banks then in effect.

Debt eligible to equity

In September 2014, Banco BTG Pactual completed a milestone with the issuance of US$1.3 billion of perpetual non-cumulative junior subordinated notes, through its Luxembourg Branch, at a fixed coupon of 8.750% per annum, qualifying as additional Tier 1 Capital. This was the first issuance of perpetual notes from a private Brazilian bank following the new regulatory capital rules (Basel III). The interest is payable semi-annually and is unsecured and subordinated. The notes are callable on September 2019 or thereafter semiannually. The issuance of the notes has enhanced Banco BTG Pactual's capital structure in connection with the acquisition of BSI in 2015 and for general corporate purposes. On November 1, 2017, we commenced a cash tender offer to repurchase up to US$390.0 million in aggregate principal amount of these notes that was concluded on December 6, 2017. Following the closing of the tender offer, US$910 million in aggregate principal amount of our 8.750% perpetual non-cumulative junior subordinated notes remained available for trading on the Luxembourg Stock Exchange's Euro MTF, of which US$678.1 million were held by our affiliates. On January 23, 2019, Banco BTG Pactual completed a successful consent solicitation to facilitate the substitution of the branch through which it acts as issuer of the notes, from its Luxembourg Branch to its Cayman Islands Branch. Such substitution was proposed in the context of management's reevaluation of the activities currently undertaken by each branch and remains subject to Central Bank approval.

Dividends and other distributions

On June 30, 2015 Banco BTG Pactual recorded R$422.0 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on June 30, 2015. The payment of the interests occurred in August 2015.

On August 5, 2015 Banco BTG Pactual recorded R$47.3 million as dividends. This amount was approved in the special shareholders' meeting held on April 28, 2016. This amount was paid in August 2015.

On December 28, 2015, Banco BTG Pactual recorded R$492.8 million as interest on shareholders' equity, which was approved at the board of directors' meeting held on December 28, 2015. Due to the events of November 25, 2015, the payment of interests was approved and occurred on June 2016.

On June 30, 2016, Banco BTG Pactual recorded R$500.0 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on June 30, 2016. The payment of the interests occurred on November, 2016.

On December 29, 2016, Banco BTG Pactual recorded R$890 million as interest on shareholders' equity, which was approved at the special shareholders' meeting held on April 28, 2017. This amount was paid in January 2017.

On June 30, 2017, Banco BTG Pactual recorded R$630.0 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on June 30, 2017 and the payment occurred in August 2017.

On December 28, 2017, Banco BTG Pactual recorded R$609.0 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on December 28, 2017 and paid in March 2018.

On August 7, 2018, Banco BTG Pactual recorded R$592.5 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on August 7, 2018 and paid in August 2018.

On December 27, 2018, Banco BTG Pactual recorded R$604.5 million as interest on shareholders' equity. This amount was approved at the board of directors' meeting held on December 27, 2018 and is to be paid by February 2019.

Use of Funds

Banco BTG Pactual mainly uses its funds to carry out the activities of its sales and trading, corporate lending and principal investments business units, which provide, among other things, structured and other loans and take proprietary positions through market-making in, and trading of, fixed income and equity products, currencies, commodities, and swaps and other derivatives. The majority of its portfolio is comprised of highly liquid instruments. See "—Liquidity—Open market funding" above.

The following table presents Banco BTG Pactual's asset allocation in its consolidated balance sheet as of the dates indicated:

	As of December 31,						As of September 30,	
	2015	% of total assets	2016	% of total assets	2017	% of total assets	2018	% of total assets
Assets				(R$ millions)				
Cash at banks	20,491	8.0%	674	0.6%	4,347	3.4%	932	0.6%
Interbank investments	32,587	12.8%	20,753	18.6%	27,792	22.0%	61,326	37.4%
Securities and derivative financial instruments	77,669	30.5%	37,486	33.5%	42,288	33.4%	40,510	24.7%
Interbank transactions	1,921	0.8%	2,235	2.0%	1,704	1.3%	2,641	1.6%
Loans	55,665	21.9%	9,513	8.5%	13,026	10.3%	16,964	10.4%
Securities trading and brokerage	12,906	5.1%	2,791	2.5%	3,598	2.8%	7,472	4.6%
Other receivables	44,740	17.6%	29,525	26.4%	28,171	22.3%	27,754	16.9%
Other assets	253	0.1%	154	0.1%	127	0.1%	235	0.1%
Permanent assets	8,317	3.3%	8,641	7.7%	5,537	4.4%	6,023	3.7%
Total assets	**254,549**	**100.0%**	**111,772**	**100.0%**	**126,592**	**100.0%**	**163,856**	**100.0%**

Mandatory Deposits with the Central Bank

Mandatory deposit requirements are an integral part of the monetary policy framework of the Central Bank which requires financial institutions to deposit a certain amount of cash, or place Brazilian government bonds as collateral, in proportion the balances of demand or term deposits obtained from clients and counterparties.

Mandatory deposit requirements are generally calculated based on the moving averages of demand or time deposits. Banco BTG Pactual complies with the requirements above by holding cash deposits which amounted to an average of R$1,502.1 million for the nine months ended September 30, 2018.

Contractual Obligations

The tables below present the maturity and balances of Banco BTG Pactual's significant contractual financial obligations as of September 30, 2018:

	As of September 30,					
Unaudited	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
			(R$ millions)			
Deposit	9,160,343	14,822,078	767,259	782,970	79,998	25,612,648
Open market funding	49,380,064	6,588,672	13,129	43,610	110,206	56,135,681
Funds from securities issued and accepted	1,011,560	2,404,441	5,136,454	4,793,538	887,755	14,233,748
Loans and onlending	3,773,490	102,744	1,165,415	169,238	161,955	5,372,842

Unaudited	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
	As of September 30,					
	(R$ millions)					
Subordinated debts and subordinated debts eligible to equity…………………...	672,252	977,596	2,705,863	1,596,738	3,599,008	9,551,457
Total……………………………………..	**63,997,709**	**24,895,531**	**9,788,120**	**7,386,094**	**4,838,922**	**110,906,376**

In addition, the table below presents the maturity and balance of Banco BTG Pactual's additional contractual obligations with respect to derivative financial instruments:

	Up to 6 months	6 to 12 months	Over 1 year	Total
	(R$ millions)			
Derivative financial instruments...	2,773.5	356.8	1,104.3	4,234.6

Commitments

Banco BTG Pactual has entered into agreements related to investment opportunities, mainly in the private equity sector, pursuant to which it has provided unfunded commitments in its capacity as limited partner in private equity funds. Banco BTG Pactual manages and invests in these entities as part of its investment portfolio. As of September 30, 2018 and December 31, 2017, 2016 and 2015, the total amount of its undrawn commitment was R$994 million, R$1,045 million, R$1,024 million and R$1,088 million, respectively, consisting mainly of its investments in BTG Pactual Brazil Infrastructure Fund II LP (FIP Infrastructure fund) and Timberland funds. The drawdown notice for these investments is subject to investment opportunities identified and agreed upon in the ordinary course of business and, therefore, it is difficult to estimate precisely the cash outflows relating to these commitments. Banco BTG Pactual did not record any amounts relating to commitments on its balance sheets for any period.

Capital Expenditures

Banco BTG Pactual's main capital investments for the nine months ended September 30, 2018 and in 2017, 2016, 2015 and amounted to R$15.2 million, R$33.8 million, R$21.9 million and R$56.6 million, respectively. For the nine months ended September 30, 2018, the expenditures were related to investments in premises (25.0%), software (25.0%) and hardware (50.0%). In 2017, the expenditures were related to investments in premises (27.7%), software (29.2%) and hardware (43.1%). In 2016, the expenditures were related to investments in premises (32.5%), software (27.5%) and hardware (40.1%). In 2015, the expenditures were related to investments in premises (48.4%), software (22.3%) and hardware (29.2%).

Off-Balance Sheet and Other Transactions

Except for the co-obligation and bank guarantees that Banco BTG Pactual provides to clients for a fee and credit assignments in which it retains the credit risk in the ordinary course of its business via its FIDC, Banco BTG Pactual does not have any other transaction where there is exposure to credit risk. In addition, Banco BTG Pactual does not control any company that is not consolidated or whose results are not otherwise reflected in its financial statements. Its total amount of bank guarantees outstanding was R$51,079.7 million, R$29,531.5 million, R$35,969.5 million and R$47,235.7 million as of September 30, 2018 and December 31, 2017, 2016 and 2015, respectively.

Risk Management

In the ordinary course of its business, Banco BTG Pactual is exposed to various risks inherent to investment banking activities. The way it manages these risks directly affect its activities and operations and, consequently, its results.

Some of the most significant risks to which it is exposed to are the following:

- market risk;

- credit risk and counterparty risk;
- liquidity risk;
- operational risk;
- reputational risk;
- tax risk; and
- legal and regulatory risk.

See "Risk Factors—Risks Relating to Our Business and Industry." The manner in which we manage and identify these risks is essential for its profitability. Banco BTG Pactual's management of these risks involves different levels of its management team and encompasses a series of policies and strategies.

Banco BTG Pactual seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance, tax and legal reporting systems. In addition, a number of its committees are responsible for monitoring risk exposures and for general oversight of its risk management process, as described further below. Banco BTG Pactual believes that the close involvement of its various committees (including their subcommittees) with the ongoing management and monitoring of its risks helps it foster its culture of rigorous risk control throughout the organization. Banco BTG Pactual's committees consist of senior members of its business units and senior members of its control departments.

Banco BTG Pactual believes that the structure of its committees allows it to engage the whole organization and ensure decisions are readily and effectively implemented. The main committees involved in risk management activities are: (i) Management Committee, which approves policies, sets overall limits and is the ultimate responsible for the management of its risks; (ii) New Business Committee, which assesses the viability and oversees the implementation of proposed new businesses and products; (iii) Risk Committee which is generally responsible for overseeing and assessing our risk tolerance, managing our financial, capital and operational risks, including market, credit, liquidity and social-environmental risks, and maintenance of the quality and adequacy of our capital management, and its subcommittees; (a) Credit Risk Committee, which is responsible for approving new credit transactions according to the guidelines set by the Risk Committee; (b) Market Risk Committee, which is responsible for monitoring market risk, including utilization of its risk limits, and for approving exceptions to such limits; (c) Operational Risk Committee, which assesses main operational risks in light of the established policies and regulatory framework; (iv) Compliance Committee, which is responsible for establishing AML rules, and for reporting potential issues involving money laundering or compliance matters; (v) CFO Committee, which is responsible for monitoring its liquidity risk, including its cash position and balance sheet usage, and for managing its capital structure; (vi) Audit Committee, a statutory and independent body established to comply with the CMN and CVM requirements, which is responsible for supervising the activities of the internal and independent auditors, evaluating the adequacy of the internal controls and governance practices, and assessing whether our books and records are handled appropriately; and (vii) Capital and Risk Committee, an independent body established to comply with the CMN requirement, responsible for supervising the chief risk officer's activities and for assessing our risk management functions, including capital risk.

Market Risk

Banco BTG Pactual identifies market risk by assessing the impact on the value of its assets and liabilities of variations in market risk factors such as interest rates, exchange rates, underlying prices and indexes. Since most of its assets and liabilities are subject to market risk, Banco BTG Pactual has developed its own tools to make it possible to carry out real-time analysis of the exposures on its portfolio. These tools enable it to perform analysis of the impact of different scenarios in its portfolio, taking into consideration severe market movements observed in distressed markets in the past, or its projected stress scenarios. These analyses are integral to its risk management. Banco BTG Pactual measures its market risk exposure using several methodologies of VaR, Stress Test and sensitivity analysis, which are consistently applied to all positions in its inventory, allowing the comprehensive assessment of market risks across its different portfolios. The risk reports are tailored to better support the management of its risk exposure within each of its various business units and to allow proper senior management awareness of all relevant risk to which Banco BTG Pactual may be exposed. Banco BTG Pactual uses a rigorous set of risk limits to manage its overall risks and to control the risk levels for each business unit by implementing portfolio limits (VaR and Stress Test), concentration limits (risk factor, regional, issuer) and operational limits (control or liquidity restrictions). These limits are periodically reviewed by Banco BTG Pactual's Risk Committee and usage is tracked and reported on a daily basis.

Market risk exposure can arise as a result of market-making, proprietary trading, underwriting, specialist and investing activities. Categories of market risk include exposures to interest rates, equity prices, currency rates and commodity prices. A description of each market risk category is set forth below:

- interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads;

- equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices;

- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates; and

- commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Control

The management of market risk is primarily the responsibility of Banco BTG Pactual's business units. If a business unit lacks specific power to manage a material market risk, it must transfer this market risk to a business unit permitted to hold such positions. In addition, Banco BTG Pactual's organizational structure also includes an area devoted to market risk control, which reports directly to its management and is independent from its business units.

The main responsibilities of the market risk area include the following:

- identifying and measuring market risks through the calculation of VaR, stress tests, the calculation of portfolio exposures and sensitivity analyses, which can be analyzed in real-time using the systems we have developed;

- producing daily reports on risk values for senior management, including the senior management of each of its business units, which Banco BTG Pactual believes provide the necessary support for proper risk management;

- establishing, controlling and reviewing the risk policies in effect, including risk limits;

- establishing and reviewing the risk calculation models Banco BTG Pactual uses;

- establishing and reviewing the stress test hypothetical scenarios;

- generating backtesting analyses, on a monthly or more frequent basis, with input of the actual results, in order to verify the risk estimates generated by Banco BTG Pactual's internal system, as well as the parameters used in the calculations; and

- regularly monitoring incurred risks and investigating any apparent anomaly, including: (i) inconsistencies between reported risks and effective results (which, in addition to backtesting exceptions, include any situation involving a significant divergence between them); (ii) inconsistencies between incurred risks and business unit strategies; and (iii) positions that are not being actively managed.

Limits

In order to align the risks incurred by Banco BTG Pactual's business units with anticipated results, and taking into consideration its capital basis, each business unit is required to comply with established market risk limits. The market risk limits are managed pursuant to the following risk measures:

- portfolio limits, which include: (i) VaR limits of 95% (1 day) per portfolio and per business unit; and (ii) hypothetical stress test limits per regional business unit;

- concentration limits, which include exposure limits, such as the concentration of risk factors per countries, regions and issuers; and

- operational limits, which include limits used to cover occasional material risks that are not adequately captured by traditional metrics, including exposure to unexpected and unperceivable risk factors. They may also be defined when required by specific market conditions, including liquidity, or control deficiencies.

VaR, stress test and exposure limits are disclosed daily in the consolidated risk report issued by the market risk area, which includes the observations of each of Banco BTG Pactual's business units. The report is sent to the individuals responsible for each business unit and is the main tool for monitoring the limits.

Limits are reviewed on a quarterly or more frequent basis, taking into consideration both the historical risk use and the average and maximum expected exposure of each business unit. The market risk area proposes a limit, mainly considering Banco BTG Pactual's current capital base, and submits the document for the risk committee's approval.

Loss Control

All positions have a stop loss level that is set forth by each business unit and monitored by the market risk area.

VaR

VaR is a measure of the potential loss in value of trading positions due to adverse market movements over a defined time horizon with a specified confidence level. Along with Stress Testing, VaR is used to measure the exposure of Banco BTG Pactual's positions to market risk. Banco BTG Pactual uses historical simulation with full re-pricing of positions for the VaR computation, preserving real distributions and correlation between assets, not making use of Greek approximations and normal distributions. Banco BTG Pactual's VaR can be measured and reported according to different time horizons, historical look-back windows and confidence levels. The accuracy of the risk system is tested through daily back-testing procedure that compares the adherence between VaR estimations and realized profits and losses.

For the VaR numbers reported below, a one-day time horizon, a 95.0% confidence level and a one-year look-back window were used. A 95.0% confidence level means that there is a 1 in 20 chance that daily trading net revenues will fall below the VaR estimated. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts and they can also occur more frequently or accumulate over a longer time horizon, such as a number of consecutive trading days. Given its reliance on historical data, the accuracy of VaR is limited in its ability to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions can produce materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. As previously stated, Banco BTG Pactual uses "Stress Test" modeling as a complement of VaR in its daily risk management activities.

The following table sets forth Banco BTG Pactual's average daily VaR for the years and the period indicated:

	For the year ended December 31,			For the nine months ended September 30,	
	2015	2016	2017	2017	2018
	(R$ millions, except percentages)				
Total average daily VaR	125.6	184.8	117.6	116.7	79.5
Average daily VaR as % of average equity	0.73%	0.99%	0.65%	0.64%	0.42%

In 2016, Banco BTG Pactual's total average daily VaR increased from R$125.6 million in 2015 to R$184.8 million in 2016. This increase was mainly due to an increase in exposure to Latin American fixed income markets as well as general exchange rate risk exposure. In 2017, Banco BTG Pactual's total average daily VaR decreased from R$184.8 million in 2016 to R$117.6 million in 2017 as a result of a decrease in the exposure to the foreign exchange rate markets. For the nine months ended September 30, 2018, Banco BTG Pactual's total average daily VaR decreased from R$116.7 million for the nine months ended September 30, 2017 to R$79.5 million for the same period of 2018 mainly driven by a risk reduction on our Brazilian equities desk, together with the impact of volatility in the market coinciding with the Brazilian elections. As Banco BTG Pactual has outlined in the past, such variations are a characteristic of its business model, in which its average VaR may vary, from time to time, due to its perceptions concerning capital deployment opportunities in the various markets in which Banco BTG Pactual operates.

Credit Risk

Credit risk represents the loss that Banco BTG Pactual would incur if a counterparty or an issuer of securities or other instruments it holds fails to perform under its contractual obligations, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including over-the-counter derivatives, Banco BTG Pactual holds. Banco BTG Pactual's exposure to credit risk principally arises through its trading, investing activity and financing activities. It attempts to manage the risk exposure by: (i) entering into agreements that enable it to obtain collateral from a counterparty on an upfront or contingent basis; (ii) seeking third-party guarantees of the counterparty's obligations; and/or (iii) transferring its credit risk to third parties using options, swaps and other derivatives contracts on the exchanges, particularly on B3. The following table sets forth the distribution, by credit rating, of Banco BTG Pactual's credit exposures as of September 30, 2018 to financial instruments, excluding derivatives and securities under trading activities.

The ratings shown below reflect Banco BTG Pactual's internal ratings assessment, consistently applied in accordance with the Central Bank standard ratings scale:

(Unaudited)	**As of September 30, 2018**
Rating	***(R$ millions)***
AA	16,105
A	7,112
B	3,836
C	1,804
D	2,683
E	382
F	406
G	337
H	183
Total	**32,847**

Liquidity and Funding Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity resulting from adverse circumstances. Accordingly, Banco BTG Pactual has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both specific and broader industry or market liquidity events.

Its principal objective is to be able to fund Banco BTG Pactual and to enable its core businesses to continue to generate revenues, even under adverse circumstances. For additional information, see "—Liquidity" above.

Reputational Risk

Banco BTG Pactual is also subject to reputational risks. For a description of such risk, see "—Principal Factors Affecting Banco BTG Pactual's Financial Condition and Results of Operations—Reputational Risk" and "Risk Factors."

Operational Risk

Operational risk is defined by the Basel II committee as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Legal risks include, but are not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. Operational risk is relevant to every aspect of the business and covers a wide spectrum of issues, such as, losses arising through fraud, unauthorized activities, errors, omission, inefficiency, systems failure or from external events.

The management of operational risk comprises the identification, assessment, monitoring and control of operational risk in order to maintain exposure to losses within acceptable level and to protect Banco BTG Pactual from foreseeable future losses. The Operational Risk Framework ("ORF") illustrates the management process of operational risks, which must be followed by all stakeholders within the company's activities.

The application of the ORF and its associated processes, as the effective implementation of the Operational Risk Management and Control Principles, is a governance requirement for Banco BTG Pactual according to international standards and subject to regulatory demands. As a general guideline, this requirement applies to all activities and entities related to the core banking and finance business of Banco BTG Pactual Group. As new activities are undertaken or new entities are formed, operational risk should be involved to determine the applicability of the Operational Risk Framework and its organizational elements.

As the first line of defense, operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies. Operational management is responsible for maintaining effective primary internal controls and for executing risk and control procedures on a day-to-day basis. Operational risk and internal control is the responsibility of all employees and business management, supported by the ORF and functional areas. Effective operational risk management and control is fundamental to the interests of stakeholders. Regulators and rating agencies assess the approach to operational risk and expect a high level of management and control. Thus, operational risk management and control is critical to avoid reputational issues.

The second line of defense includes the global risk functions, such as operational risk. It is responsible for ensuring that the risk level is within the risk appetite and includes a risk management function that facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization.

Tax Risk

Tax risk includes the risk of exposure to fines, penalties, judgments, damages and/or settlements in connection with regulatory assessment as a result of non-compliance with applicable legal and regulatory requirements. See "—Principal Factors Affecting Banco BTG Pactual's Financial Condition and Results of Operations—Tax Risk."

Legal and Regulatory Risk

Banco BTG Pactual is subject to significant legal and regulatory risks. See "Risk Factors—Risks Relating to Our Business and Industry" and "Risk Factors—Risks Relating to the Regulatory Environment." Its legal and compliance departments are responsible for mapping, controlling and preventing these risks by supporting all of its business units and administrative areas. Banco BTG Pactual's legal department is divided into groups specialized in investment banking, asset management, principal investments, trading, wealth management, litigation and corporate affairs. Its compliance department is responsible for the development and maintenance of its internal controls regarding regulatory matters such as anti-money laundering, information barriers and securities trading restrictions, as well as conducting training on regulatory matters. The most important risks that Banco BTG Pactual potentially faces are managed with the involvement of two or more members of its Senior Management Team.

BUSINESS

Overview

We are a Latin American multi-service investment bank, asset manager and wealth manager. In addition, we have established a successful global asset management platform, along with strong international investment and distribution capabilities. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have local coverage offices across Latin America, including in Brazil, Chile, Colombia, Mexico and Argentina, and have an international presence focused on distribution of a wide variety of banking products in Latin America and managing global clients' funds in New York and London. Through this platform, we provide a comprehensive range of financial services to a Latin American and global client base that includes corporations, institutional investors, governments and high net worth individuals ("HNWI").

Our Business Units

Our operational strategy is focused on five main business units consisting of:

- **Investment Banking**, which provides financial advisory and capital markets services to companies;
- **Corporate Lending**, which offers financing and loan guarantees to companies;
- **Sales and Trading**, which offers financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and equities, derivatives, interest rate and foreign exchange transactions, as well as energy, insurance and reinsurance products and services;
- **Asset Management**, which offers asset management services with a broad range of products across several international asset classes, especially in Latin America, to local and international clients; and
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI and institutions. We also offer investment products through BTG Pactual Digital, our recently launched online retail platform.

We continue to also hold ownership interests in companies as part of our Principal Investments business unit and, separately, hold strategic investments in certain other companies both in Brazil and abroad as part of our Participations business unit, each as described below:

- **Principal Investments**, consisting of, as of September 30, 2018: (i) seed capital in certain of our investment products as a minority investor, with the objective that any such investments usually represent less than 10% of our total investments, (ii) a 17.4% stake in our infrastructure fund; (iii) small investments in real estate funds; and (iv) certain other legacy assets.
- **Participations**, consisting of, as of September 30, 2018: (i) a co-controlling interest (with 50.6% ownership) in Banco Pan, a commercial and consumer bank, focused on loans, consumer credit, payment-deducted loans and middle market loans; (ii) a 30.00% ownership interest in EFG, following our sale of BSI to EFG; (iii) a 50.99% ownership interest in Pan Seguros, a Brazilian insurance company providing personal property insurance to individuals; (iv) a 51.00% ownership interest in Pan Corretora, a Brazilian insurance broker with activities in diverse insurance segments; and (v) an approximately 19.01% ownership interest in Engelhart CTP, a global commodities trading platform, which we spun-off but in which we continue to hold a minority interest.

We are committed to expanding our platform to further strengthen our presence and product offering across Latin America. Following our successful completion of the acquisitions of Celfin, a leading broker dealer in Chile (with operations in Peru and Colombia), and Bolsa y Renta, a leading broker dealer in Colombia in 2012, we have consolidated and expanded our Latin American franchise, including the opening of a bank in Chile in December of 2014 and the opening of our local offices in Bogota and Medellin, Colombia, Mexico City, Mexico and Buenos Aires, Argentina, each focusing on advisory, asset management and wealth management services, as well as providing a broad range of sales and trade offerings through local broker-dealers. Beyond our initiatives in Latin America, we are focused on continuing to strengthen our broad global asset management capabilities, where we have reestablished our teams and capabilities, grown our AUM, and presented benchmark performance.

We are focused on offering innovative products and services to meet our clients' evolving demands, including through expanding our presence and product offerings in Latin America; and capturing banking disintermediation opportunities arising from technological developments in Brazil and the increasing maturity of Brazilian investors. With these objectives in mind, we recently developed an on-line business platform, BTG Pactual Digital, which is focused primarily on offering several products similar to those products offered to our wealth management clients, including access to our or third party's investment funds, fixed income products and private pension plans.

Subsidiaries

As of September 30, 2018, our principal subsidiaries were the following:

	Share (%) of total capital	Activity	Jurisdiction
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	99.99	Asset Management Services	Brazil
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	99.99	Broker-Dealer	Brazil
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	99.99	Financial Services	Brazil
BTG Pactual Holding Participações S.A.	99.99	Holding Company	Brazil
BTG Pactual Holding Internacional S.A.	99.99	Holding Company	Brazil
BTG Pactual Overseas Corporation	100.00	Holding Company	Cayman
BW Properties S.A.	75.54	Real Estate Business	Brazil
BTG Pactual Holding de Seguros Ltda	99.99	Holding Company	Brazil
BTG Pactual S.A. Comisionista de Bolsa	99.70	Broker-dealer	Colombia
BTG Pactual Chile International Ltd.	100.00	Holding Company	Cayman
Banco BTG Pactual Luxembourg S.A.	100.00	Holding Company	Luxembourg
BTG Pactual Corretora de Seguros Ltda.	100.00	Insurance	Brazil
Banco Sistema S.A.	99.84	Bank	Brazil
BTGP-BSI Limited	100.00	Holding Company	UK
Enforce Gestão de Ativos S.A.	70.00	Asset Management	Brazil
BTG Pactual Corretora de Resseguros Ltda.	100.00	Broker Dealer	Brazil
ZB Consultoria Ltda.	99.99	Service Provider	Brazil
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	99.98	Private Equity Asset Management Services	Brazil
BTG Pactual WM Gestão de Recursos Ltda	99.99	Wealth Management Asset Management Services	Brazil
BTG Pactual Gestora de Recursos Ltda	99.99	Private Equity Asset Management Services	Brazil
BTG Pactual Corporate Services Ltda.	99.99	Financial Services Advisory	Brazil
BTG Pactual NY Corporation	100.00	Holding Company	USA
BTG Pactual Global Asset Management Limited	100.00	Asset Management	Bermuda
BTG Pactual Europe LLP	100.00	Asset Management	UK
BTG Pactual Asset Management US, LLC	100.00	Asset Management	USA
BTG Pactual US Capital, LLC	100.00	Brokerage and Clearing Services	USA
BTG Pactual Asia Limited	100.00	Asset Management	Hong Kong
BTG Global Asset Management (UK) Limited	100.00	Holding Company	UK
BTG Pactual Resseguradora S.A.	100.00	Insurance	Brazil
BTG Pactual Vida e Previdência S.A.	100.00	Insurance	Brazil
Infra IX Empreendimentos e Participações S.A.	100.00	Energy Trading	Brazil
Banco BTG Pactual Chile S.A.	100.00	Bank	Chile
BTG Pactual Chile SpA	100.00	Holding Company	Chile

	Share (%) of total capital	Activity	Jurisdiction
BTG Pactual Chile Capital S.A.	100.00	Holding Company	Chile
BTG Pactual Chile Capital S.A. Corredores de Bolsa	100.00	Broker-Dealer	Chile
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A.	100.00	Asset Management	Chile
BTG Pactual Chile Capital S.A. Administradora General de Fondos	100.00	Fund Administration	Chile
BTG Pactual Chile Servicios Financieros S.A.	100.00	Advisory Services	Chile
Inmobiliaria BTG Pactual Chile Limitada	100.00	Real Estate	Chile
BTG Pactual Chile S.A. Administración de Activos	100.00	Fund Administration Services	Chile
BTG Pactual Seguros de Vida	100.00	Insurance	Chile
BTG Pactual Holding Delaware LLC	100.00	Holding Company	Delaware
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	100.00	Broker-Dealer	Peru
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	100.00	Asset Management	Peru
BTG Pactual Perú S.A.C.	100.00	Broker-Dealer	Peru
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	94.50	Asset Management	Colombia
Laurel Sociedad Gestora Profissional S.A.S	100.00	Asset Management	Colombia
BTG Pactual E&P S.à r.l.	100.00	Holding Company	Luxembourg
BTG Pactual Oil & Gas S.à r.l.	100.00	Holding Company	Luxembourg
TTG Brasil Investimentos Florestais Ltda.	100.00	Timber Asset Management	Brazil
BTG Pactual Timberland Investments Group LLC	100.00	Timber Management	USA
BTG Pactual Casa de Bolsa, S.A. de C.V.	100.00	Broker-Dealer	México
BSPEParticipações e Empreendimentos S.A.	99.84	Service provider	Brazil
Bastec Tecnologia e Serviços Ltda.	99.84	Service provider	Brazil
BTG Pactual UK Holdco Limited	100.00	Holding Company	UK
BTG Pactual Family Office S.A. de C.V.	100.00	Asset Management	México
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	100.00	Asset Management	México
Newco SEG Holding S.A.	100.00	Holding Company	Brazil
TTG Forestry Services LLC	100.00	Timber Management	USA
N.A.S.S.P.E. Empreendimentos e Participacoes S.A.	100.00	Holding Company	Brazil
BTG Pactual Argentina S.A.	100.00	Equities Broker-Dealer	Argentina
BTG Pactual Real Estate Luxembourg Holding S.A.	100.00	Holding Company	Luxembourg
BTG Pactual RE Income S.A.	100.00	Real Estate	Colombia
BTG Pactual Chile Asesorias Financieras	100.00	Broker-Dealer	Chile
PFC Consultoria e Assessoria Empresarial Eireli	100.00	Service Provider	Brazil
BTG Pactual Absolute Return Limited	100.00	Commodities Trading	Cayman
Investment funds			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	100.00	Investment fund	Brazil
BTG Pactual International Portfolio Fund SPC - CLASS C	100.00	Investment fund	Cayman
BTG Pactual Global Fund LP	100.00	Investment fund	Cayman
BTGP Latam Fund LLC	100.00	Investment fund	Cayman
BTG Pactual Oil & Gas FIQ FIP	100.00	Investment fund	Brazil
BTG Pactual Fundo de Investimento Imobiliário Ametista	100.00	Investment fund	Brazil
Warehouse Fundo de Investimento em Participação	100.00	Investment fund	Brazil
BTG Pactual Absolute Return Master Fund	100.00	Investment fund	Cayman
FIDC NP Alternative Assets I	100.00	Investment fund	Brazil
BTG Pactual ARF Equities Brasi FIA IE	100.00	Investment fund	Brazil
BTGP Int Fund II SPC - BTGPH Corp Hedge	100.00	Investment fund	Brazil
BTG PACTUAL RED FIP - Multimercado Investimento no Exterior	100.00	Investment fund	Brazil
FIM CP Energy	51.48	Investment fund	Brazil
FIM CP Vitória Fidelis	100.00	Investment fund	Brazil
FIDC NP Alternative Assets II	100.00	Investment fund	Brazil

Business Units

Information about our business units should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto included elsewhere in this Offering Memorandum.

Investment Banking

General

We are among the leading providers of investment banking services in Latin America. We provide a wide range of investment banking services, such as acting as underwriters or placement agents in capital raising transactions in the public and private debt and equity markets, providing finance advisory services, and sophisticated financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals. Although these services are primarily rendered to clients based in Latin America, we also serve non-Latin American clients, including entities and individuals seeking to engage in M&A and other transactions in Latin America or involving Latin American securities or other financial instruments, including services to non-Brazilian clients seeking to list their securities on B3.

Our investment banking activities are divided into two categories:

- **Capital Markets**, which includes acting as underwriters, placement agents or advisors in public offerings and private placements of equity and debt securities; and

- **M&A and Advisory**, which includes advisory assignments with respect to mergers and acquisitions, divestitures, restructurings, spin-offs, reorganizations and other significant corporate transactions.

We believe that we provide our clients with high quality and straightforward advice and effective transaction execution, which has developed and fostered long-term relationships with our clients and has provided us with a strong competitive advantage both in Brazil and throughout Latin America, ahead of retail banks in the region with larger capital bases or foreign banks lacking scale and penetration in the Latin American market.

For the nine months ended September 30, 2018 and for the years ended December 31, 2017 and 2016, our revenues from our investment banking business unit were R$378.0 million, R$366.6 million and R$367.1 million, respectively, representing 10.0%, 6.6% and 4.2% respectively, of our total revenues.

Organization

Our investment banking unit has continuously adapted its organizational structure to meet changing market dynamics and our clients' needs. Our current structure, which is organized along execution and industry groups, seeks to combine our client-focused investment bankers with execution and industry expertise.

We believe having a group of professionals who focus on developing and maintaining strong client relationships (coverage bankers) is the principal competitive advantage in our marketing effort. These professionals work with senior executives of our clients to identify areas where we can provide capital raising, financial advisory or other financial products and services. Our coverage bankers are organized by industry specific groups, which include Aerospace, Agribusiness, Automotive, Basic Materials, Chemical and Petrochemical, Education, Energy and Power, Financial Institutions, Healthcare, Industrials, Infrastructure, Metals and Mining, Pulp and Paper, Real Estate and Construction Companies, Retail, Transportation, Telecom and Media, Travel and Leisure and Utilities. The broad base of experience and knowledge of our professionals, coupled with their long-term commitment to us, enables us to analyze our clients' objectives and to allocate the resources that we believe appropriate to satisfy our long-term objectives. Through our commitment to teamwork, we believe that we provide integrated services that benefit our clients.

Our capital markets group, which is divided into equity capital markets and debt capital markets, and our M&A and advisory group are responsible for the execution of specific client transactions as well as the building of client relationships. These industry and product groups provide a full range of investment banking products and services to our clients relying on specialized knowledge of industry-specific trends.

In line with the expansion of our global alternative asset management operations (excluding the effects of the acquisition of BSI in September 2015 and its subsequent sale in September 2016), we have built a global investment banking capability focused on emerging markets. Based in Europe, this capability seeks to leverage corporate and sovereign capital market and advisory opportunities across our global emerging market franchise.

Capital Markets

From January 1, 2014 through September 30, 2018, we acted as lead manager or bookrunner in transactions that have raised approximately R$31.2 billion of capital for our clients in Brazil. We underwrite a wide range of equity and debt securities, including convertible securities.

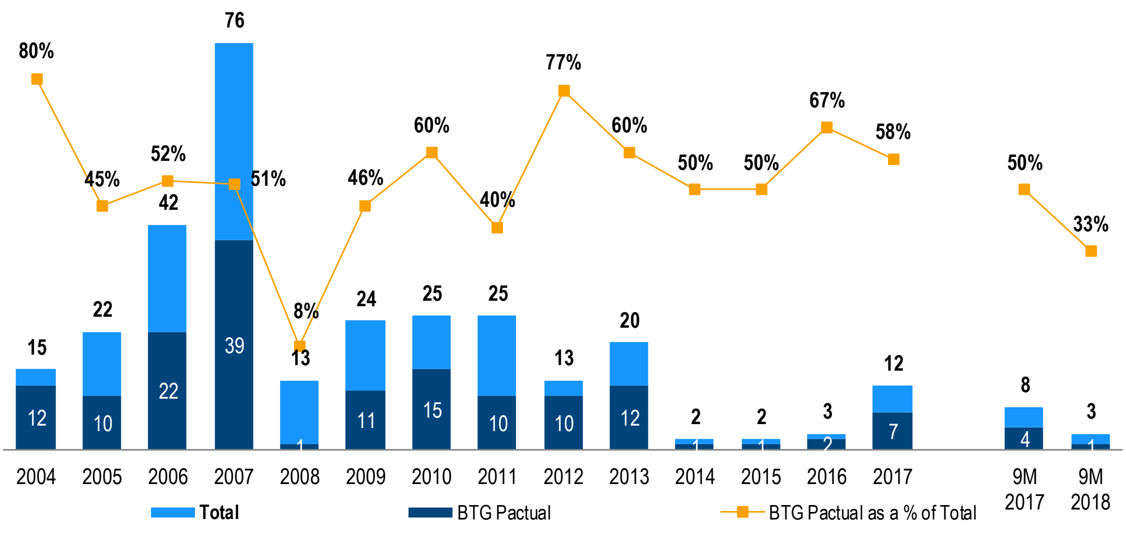
We believe that we are able to leverage opportunities with our corporate relationships through our equity and debt underwriting operations and the close working relationship between our investment banking and capital markets professionals and our sales team. We believe that we have relationships with a large and diverse group of Brazilian and other Latin American issuers as well as Brazilian, other Latin American and global investors.

Following the strengthening of our investment banking platforms in Chile and Colombia in 2012 and the commencement of operations in Mexico in 2013, we have consolidated our leadership position in equity capital markets in Latin America, principally in Chile, Peru, Colombia and Mexico. BTG Pactual's historical strength and our expanded local presence have bolstered our position as a leader in the region.

Equity Capital Markets

Equity underwriting has been one of our long-term core strengths and remains so in terms of market share despite challenging conditions in Brazil since 2014. Despite the challenging conditions over the last several years, we experienced a positive resurgence in the equity capital markets in Brazil in 2017. The following graphs show our position in equity underwriting in Brazil for the periods indicated:

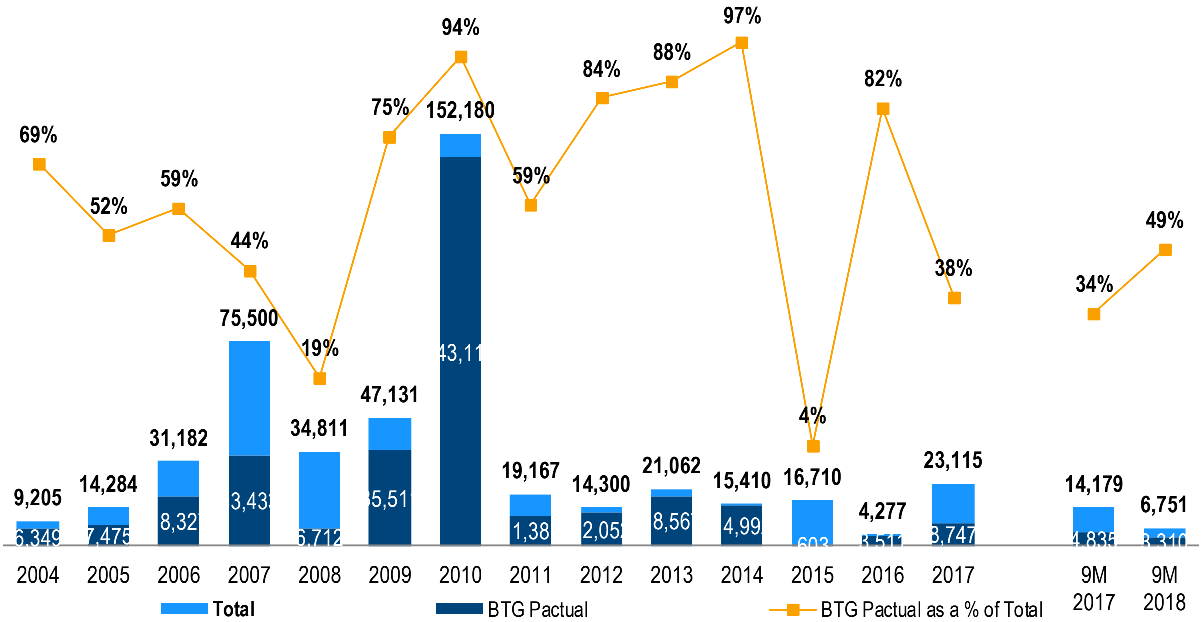
Number of Transactions (Brazil)[(1)]



Source: CVM

(1) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

Volume (Brazil) (R$ millions)(1)(2)(3)



Source: CVM

(1) Represents the total aggregate transaction value, with the full deal amount allocated to each participating bookrunner.

(2) Represents companies listed on B3 which are registered with the CVM.

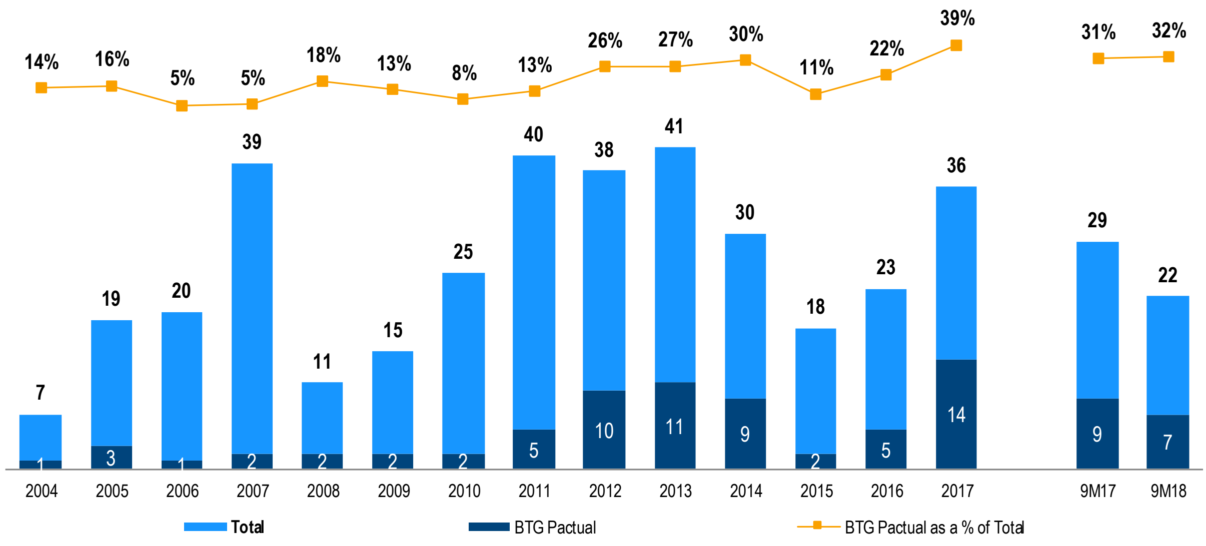
(3) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

Following our Latin American initiatives in Chile, Colombia, Peru and Mexico, we have increased our presence in Latin American equity capital markets. For example, according to Dealogic, we achieved an 11% market share in Latin America in 2017.

The following graphs sets forth our position in equity underwriting in Latin America (excluding Brazil) for the periods indicated:

(Please see graph on the following page)

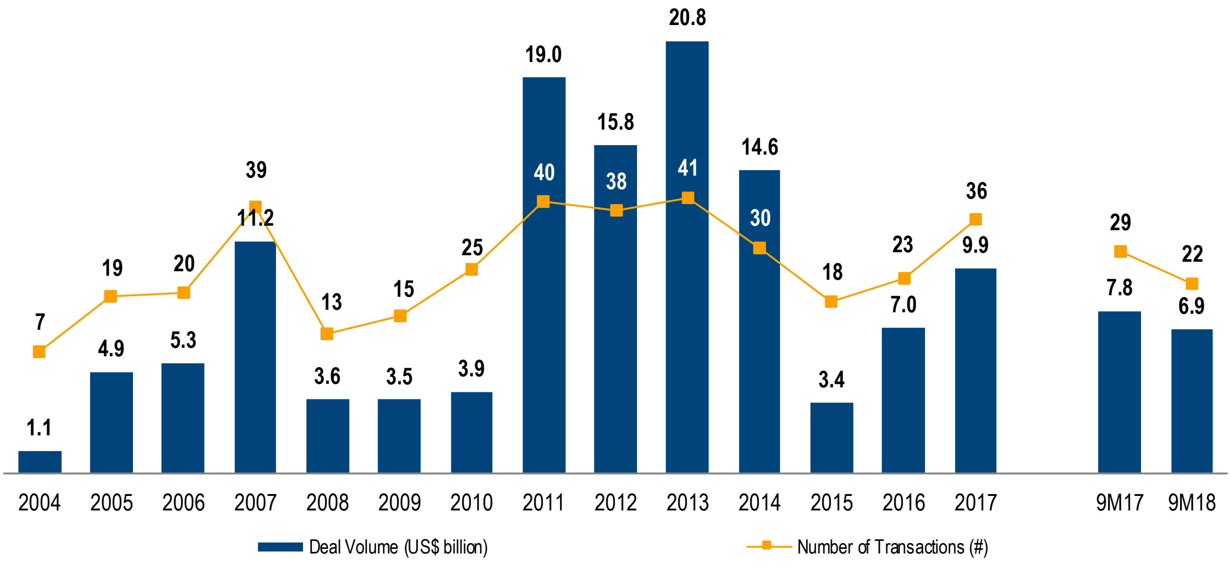
Number of Transactions (Latin America ex-Brazil)[(1)]



Source: Dealogic

(1) Data for 2004 to 2011 includes transactions from Celfin and Bolsa y Renta, which were acquired by us in 2012.

Volume (Latin America ex-Brazil) (US$ millions)[(1)(2)]



Source: Dealogic

(1) Represents the total aggregate transaction value, with the full deal amount allocated to each participating bookrunner.

(2) Data for 2004 to 2011 includes transactions from Celfin and Bolsa y Renta, which were acquired by us in 2012.

We believe our leadership reflects our expertise in capital markets transactions, the strength of our research team, our track record and our distribution capabilities.

Debt Capital Markets

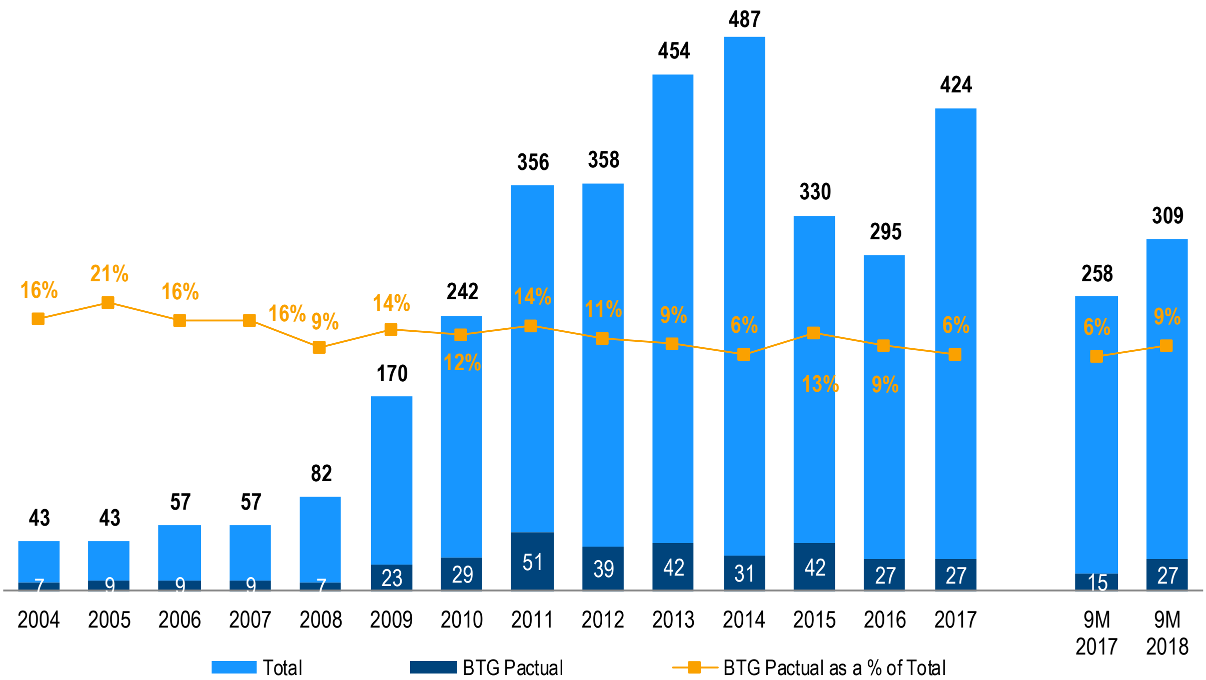
We engage in the underwriting and origination of debt securities and varying debt instruments for Brazilian and Latin American corporations and governmental entities, including convertible debt securities. In servicing our clients, we employ a focused approach to debt underwriting, emphasizing high value-added areas.

From January 1, 2014 through September 30, 2018, we served as lead manager or bookrunner in transactions that have raised approximately R$26.6 billion of local debt proceeds for our clients.

Following the strengthening of our investment banking platforms in Chile and Colombia in 2012 and the commencement of operations in Mexico in 2013, we further consolidated our position in Latin American debt capital markets, primarily in Chile, Peru, Colombia and Mexico. We believe that our historical strength in debt capital markets and expanded local presence throughout Latin America will serve to facilitate a leading position in the region.

The graphs below set forth our position in the Brazilian debt capital market for the periods indicated:

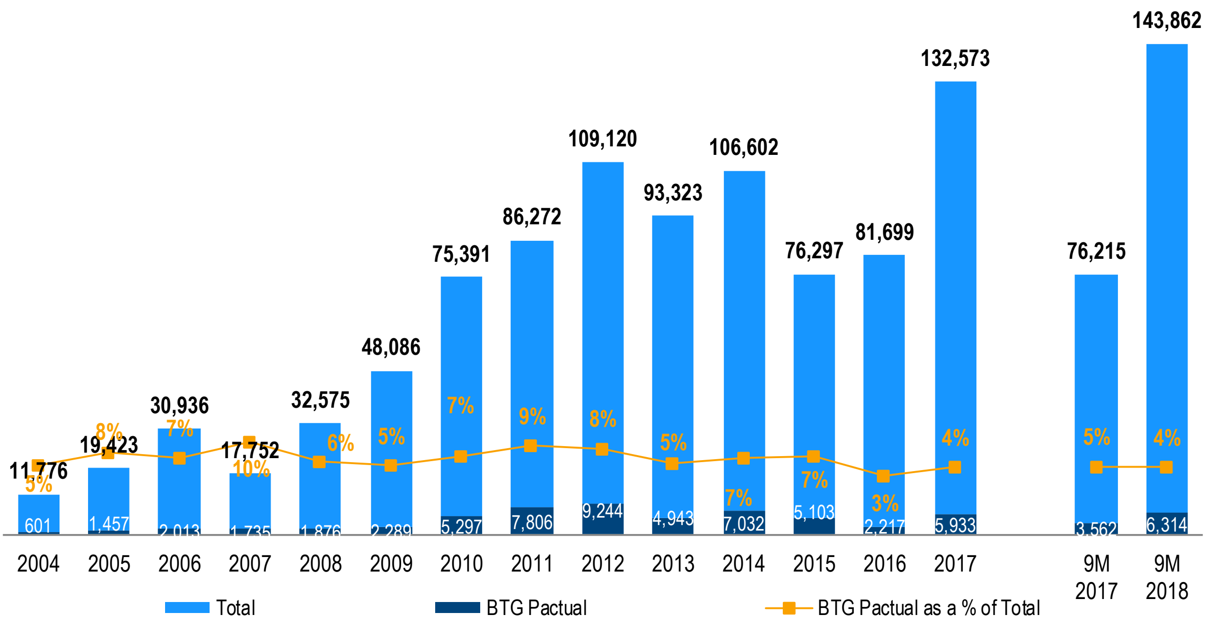
Number of Transactions (Brazil)[(1)]



Source: ANBIMA

(1) Includes local fixed income origination transactions only.

Volume (Brazil) (R$ millions)[(1)(2)]



Source: ANBIMA

(1) Includes local fixed income origination transactions only.

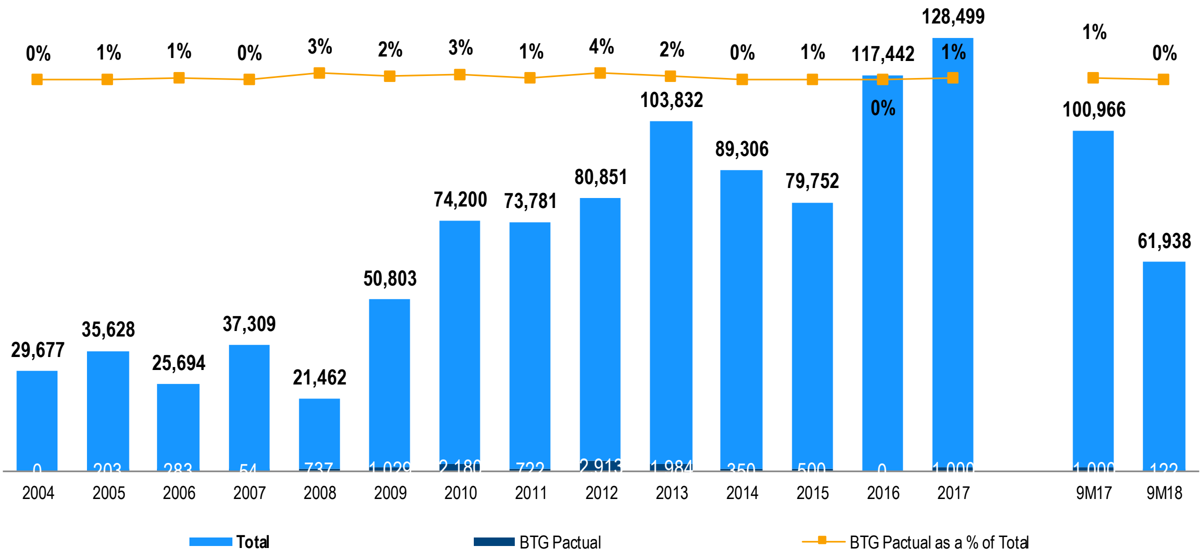
(2) With respect to syndicated transactions, represents the total aggregate transaction value allocated to the underwriter syndicate participating in debt offerings and not only Banco BTG Pactual's portion of the total allocation.

Following our Latin American initiatives in Chile, Colombia, Peru and Mexico, we have expanded our presence in Latin American debt capital markets. Since debt capital market transactions are mainly led by local banks with strong balance sheet capabilities in their local markets, we believe that our expanded operations in Latin America, including for example, our banking licenses in Chile and Colombia, and commencing operations in Mexico, will further strength our position in the region.

The following graphs sets forth our position in debt capital markets in Latin America (excluding Brazil) for the periods indicated:

(Please see graph on the following page)

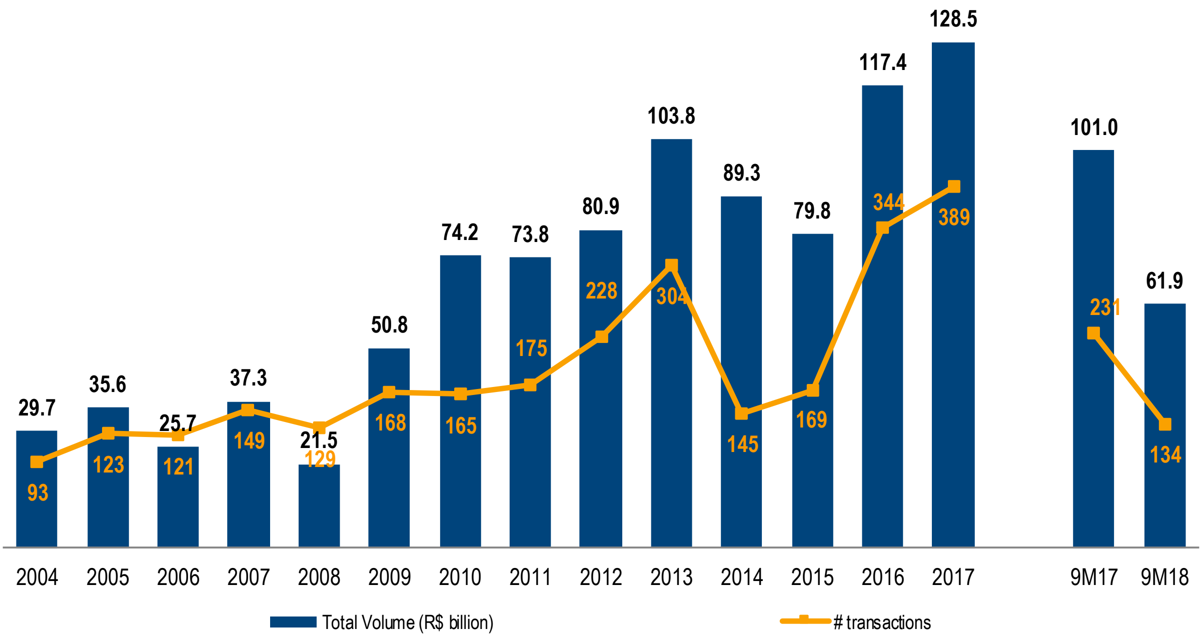
Number of Transactions (Latin America ex-Brazil)(1)



Source: Dealogic

(1) Data for 2004 to 2011 includes transactions from Celfin and Bolsa y Renta, which were acquired by us in 2012.

Volume (Latin America ex-Brazil) (US$ millions)(1)(2)



Source: Dealogic

(1) Represents the total aggregate transaction value, with the full deal amount allocated to each participating bookrunner.

(2) Data for 2004 to 2011 includes transactions from Celfin and Bolsa y Renta, which were acquired by us in 2012.

M&A & Advisory

We provide our clients with a broad range of advisory services with respect to mergers and acquisitions, divestitures, restructurings, reorganizations and spin-offs, generally involving Brazilian companies. We advised on more than 419 M&A transactions in Brazil from January 1, 2010 through September 30, 2018.

The following table shows the number of M&A transactions in Brazil in which we have acted as advisor and our market share for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,
Brazil	**2015**	**2016**	**2017**	**2018**
Number of Banco BTG Pactual transactions	45	24	35	36
Total number of transactions in the Brazilian market	676	671	643	377
Banco BTG Pactual transaction volume, in R$ million	31,160	21,681	42,107	33,462
Total transaction volume in the market, in R$ million(1)	147,530	189,081	217,530	159,353
% of Total(2)	**21.1%**	**11.5%**	**19.4%**	**21.0%**

Source: Thomson Financial

(1) Assumes the full transaction value allocated to all financial advisors and not only our portion of the total allocation.

(2) Refers to the percentage of completed deals advised by us (both on sales and purchases) versus total deals completed in the period.

Investment banking is an example of how one of our activities can generate cross-selling opportunities for other areas. For example, a client advised by our M&A group may seek our assistance in obtaining financing associated with the transaction. This cross-selling is particularly advantageous in Latin America, where many affluent families control a significant share of businesses and thus require a wide variety of financial services for both their personal wealth and the substantial businesses they control.

Following the strengthening of our investment banking platforms in Chile and Colombia through acquisitions since 2012 and the commencement of operations in Mexico in 2013, we have increased our presence in the Latin American M&A market. By expanding our local presence in the Andean region, we have been able to build relationships with several new corporate clients, advise on cross-border transactions within the region and facilitate the activity of our local M&A teams in the region.

The following table sets forth the number and volume of M&A transactions in Latin America, including Brazil, in which we have acted as advisor and our market share for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,
Latin America (including Brazil)	**2015**	**2016**	**2017**	**2018**
Number of Banco BTG Pactual transactions	50	31	40	42
Total number of transactions in the Latin American market	1,386	1,374	1,370	906
Banco BTG Pactual transaction volume, in R$ million	35,269	66,334	50,725	35,592
Total transaction volume in the market, in R$ million(1)	268,238	372,504	375,641	260,396
% of Total(2)	**13.1%**	**17.8%**	**13.5%**	**13.7%**

Source: Thomson Financial

(1) Assumes the full transaction value allocated to all financial advisors and not only our portion of the total allocation.

(2) Refers to the percentage of completed deals advised by us (both on sales and purchases) versus total deals completed in the period.

Corporate Lending

General

Through our corporate lending business unit, we offer financing, structured credit, loans and guarantees to corporations, primarily in Brazil and increasingly throughout Latin America. The main focus of our corporate lending activities is to meet the demands of large corporations, developing solutions suited to the business profile and objectives of each client, such as cash flow management and mismatches between assets and liabilities.

We engage in a number of financing transactions in which we act as lender for various clients ranging from mid-size companies to larger investment grade companies. We believe that there are significant synergies between our corporate lending business and other business units and we seek to leverage our credit platform to deepen our relationships with existing corporate clients and expand our client base. We have provided loans to companies that we believe have potential to be leaders in their respective industry segments and also to certain private companies that we believe have potential to become publicly traded in the future.

The primary focus of our corporate lending business is to meet the demands of large corporations through the development of solutions tailored to the business profile and objectives of each client. We make loans to large corporate clients that are characterized by what we believe to be a very low probability of default. We also seek to identify credit arbitrages on loans and to acquire and capitalize on non-performing loan portfolios and legal claims. These arbitrages can arise in a variety of contexts, including from corporate turnarounds, collateral packages, guarantees or debtor-in-possession financing. Such transactions are characterized by higher yields and higher probability of default than our core corporate lending business. These transactions are typically smaller in size and we seek to offset their risks with comprehensive packages of guarantees and collateral. Our corporate lending unit is also responsible for our warehousing and securitization business, which focuses on real estate related products.

As of September 30, 2018 and December 31, 2017 and 2016, our corporate lending credit portfolio amounted to a total of R$32.8 billion, R$28.6 billion and R$24.3 billion, respectively, which generated R$715.4 million, R$790.1 million and R$876.6 million, respectively, representing 19.0%, 14.3% and 10.0% respectively, of our total revenues.

Through our corporate lending business, we have extended loans to companies in the Brazilian construction sector that are subject to the *Lava Jato* investigations. See "Risk Factors—Risks Relating to Our Business and Industry—Ongoing high profile anti-corruption investigations in Brazil may adversely affect us."

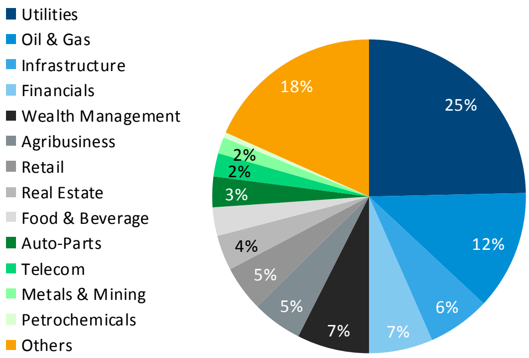
Organization

Our corporate lending activities are segmented into two main business lines: (i) origination and (ii) treasury products.

Our origination business activities are focused on identifying demand for loans to large Latin American and multinational companies with a presence in Latin America. Through our origination platform, we offer a broad range of credit products, including pass through of BNDES credit lines, export financing lines, working capital loans and financing for acquisitions.

Through our treasury products business line, we offer a variety of treasury products to our customers, providing sophisticated and innovative derivative products to help our customers manage market risk exposure to foreign exchange rates and interest rates. Through our structured operations, we also offer additional products for risk management in commodities markets. We believe that our broad range of treasury products offers clients comprehensive coverage for managing their onshore and offshore cash positions in accordance with their liquidity needs and the risk profiles of their businesses. In addition, we have expertise in structuring exclusive funds for our clients, through which we are able to offer additional products from our asset management business unit.

Set forth below is breakdown of our corporate lending portfolio by industry as of September 30, 2018, excluding Banco Pan and including certain off balance sheet items (loans, debentures, CRIs, FIDCs, FIPs, TDs, corporate bonds, letter of credit, commitments and others).



Sales and Trading

General

Through our sales and trading business unit, we offer financial products and services to a diverse group of clients in local and international markets, including market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. These activities are divided into two segments: (i) FICC (fixed income, currency and commodities) and (ii) equity sales and trading.

For the years ended December 31, 2016 and, 2017 and for the nine months ended September 30, 2018, our revenues from our sales and trading unit were R$2,816.5 million, R$2,389.0 million and R$1,042.3 million, respectively, representing 32.0%, 43.1% and 27.6%, respectively, of our total revenues.

FICC (Fixed Income, Currency and Commodities)

Our FICC area within our sales and trading unit is a large and diversified operation through which we engage in a variety of customer-driven market-making and trading activities.

We offer financial products and services to a diverse group of corporations, financial institutions, investment and pension funds, as well as governments in local and international markets and HNWI. These products and services include market-making for fixed income instruments, brokerage and clearing services, as well as derivatives, interest rates, foreign exchange and energy transactions for hedging and trading purposes. We also engage in a variety of customer-driven market-making activities, investing in a broad range of financial instruments, including debt securities, foreign exchange spots, swaps, options, futures, loans and non-deliverable forwards, insurance and reinsurance among others. We believe our willingness and ability to take calculated risks distinguishes us from most of our competitors and substantially enhances our client relationships.

Our financing activities in FICC consist of (i) undertaking a high volume of transactions with modest spreads in large and highly liquid markets, (ii) capitalizing on our strong market relationships and capital position to engage in transactions in less liquid markets in which spreads are generally larger, and (iii) structuring and executing a wide range of transactions linked to fixed income products, currencies and commodities in accordance with our clients' needs.

We provide multi-product brokerage, clearing and custody services in the Latin American market to a diversified customer base, including hedge funds, pension funds and HNWI. These activities generate commissions through the execution of agency transactions on futures and commodities exchanges. Such agency transactions are executed for our clients located throughout the world.

One of our core FICC activities is market-making in a broad array of securities and financial products. For example, we act as a dealer in currencies for the Central Bank and as primary and specialist dealer in government bonds for the Central Bank and the Brazilian National Treasury. We believe that making markets in a broad range of fixed income, currency and commodity products and related derivatives for our clients is crucial both to maintain our client relationships and to support our underwriting business by providing secondary market liquidity. We believe our clients value counterparties that are active in the marketplace and are willing to provide liquidity and research-based approaches. In addition, we believe that our significant investment in research capabilities and proprietary analytical models are critical to our ability to provide quality advice to our clients. Our research capabilities include quantitative and qualitative analyses of global economic, currency and financial market trends, as well as credit analyses of corporate and sovereign fixed income securities.

We are active in the listed options and futures markets, and we structure, distribute and execute over-the-counter derivatives on market indices, industry groups and individual company stocks to facilitate customer transactions and our proprietary trading activities. We develop quantitative strategies and render advice with respect to portfolio hedging and restructuring and asset allocation transactions. We also create especially tailored instruments to enable sophisticated investors to undertake hedging strategies and establish or liquidate investment positions. We are one of the leading participants in the trading and development of derivative instruments in Brazil. We are an active participant in the trading of futures and options in B3, and we also trade on most of the major exchanges in Latin America, the United States, Europe and Asia.

Equity Sales and Trading

We make markets and take large positions in certain equity securities to facilitate customers' transactions and to provide liquidity in the marketplace. We operate in most of the major stock exchanges, including B3, NYSE, LSE and HKEx.

Acting as an agent, we execute brokerage transactions in equity securities for institutional and individual customers located throughout the world. In recent years, aggregate commissions derived from our brokerage services have increased as a result of growth in transaction volumes on the exchanges, despite the significant impact the global financial crisis had on the world economy. Other than our equity brokerage houses in Brazil, we also have subsidiaries qualified as broker-dealers located in New York, London, Chile, Peru, Colombia and Mexico.

We also provide securities lending services through the borrowing and lending of equity securities to cover our clients' as well as our own short sales and to finance our long positions. Lenders of securities include pension funds, mutual funds, insurance companies, investment advisors, endowments, banks and individuals. We have relationships with certain strategic lenders that provide us with access to large pools of securities.

Our equity trading activities consist of undertaking on behalf of our clients a high volume of transactions with modest spreads in liquid markets such as the over-the-counter market for equity securities. We also undertake large transactions, such as block trades and positions in securities, in which we benefit from spreads that are generally larger. Finally, we structure and execute complex equity-linked transactions in accordance with our clients' needs.

We believe that major investors worldwide recognize us for our value-added sales and trading services, which are highly rated in client polls across the Americas, Europe and Asia. Our sales and trading teams were named within the top two sales and trading services teams in Brazil by *Institutional Investor* from 2012 through 2017; and within the top two sales and trading services teams in Latin America by *Institutional Investor* from 2013 through 2017, sustaining their leadership positions in their respective markets.

Research

Our research team provides fundamental research on equity, commodities, interest rates and currencies markets, macroeconomic trends, industries and companies, primarily in Latin America. We have developed an industry-leading position for our investment research products. We believe that our investment research capabilities are a significant factor in our strong competitive position in equity trading.

We believe that major investors worldwide recognize us for our value-added research products, which are highly rated in client polls across the Americas, Europe and Asia. Our equity research team was named by *Institutional Investor* among the best research teams in Brazil from 2006 through 2018 and in Latin America from 2012 through 2018.

Our research team provides equity research coverage to several companies in Latin America, across different business sectors and economies. This is accomplished through three groups:

- *the Macroeconomic Research group*, which formulates macroeconomic forecasts for global economic activity and currencies, interest rates and commodities markets;

- *the Equities Research group,* which (i) forecasts equity market returns and provides recommendations on both asset allocation and industry representation, and (ii) provides fundamental analysis, forecasts and investment recommendations for companies and industries in Latin America; and

- *the Fixed Income Research group*, which provides credit analysis and investment recommendations for companies and markets in Latin America.

We do not record any revenues from our research activities. Our research team provides useful information to our business units as well as our clients in connection with a broad range of financial products and services.

Asset Management

General

We offer asset management services across major asset classes to Latin American and other international clients. Our products include fixed income, money market, equity, multi-asset and private equity funds (including funds wholly-owned by us and PPLA both in Latin America and elsewhere). Our funds are tailored to meet our clients' needs. We have funds targeted at a broader public such as those distributed by third party distribution channels and also exclusive funds or funds restricted to a limited number of clients. In addition, we provide fund administration services to third parties.

As of September 30, 2018, we had combined AUM and AUA in the amount of R$184.2 billion, making us one of the largest asset managers in Brazil, according to ANBIMA. In addition, according to ANBIMA, as of September 30, 2018, we are the seventh largest financial institution in Brazil in terms of AUM, competing against large retail banks such as Banco do Brasil, Itaú Unibanco, Bradesco, Caixa and Santander, which are each supported by a large network of branches throughout Brazil.

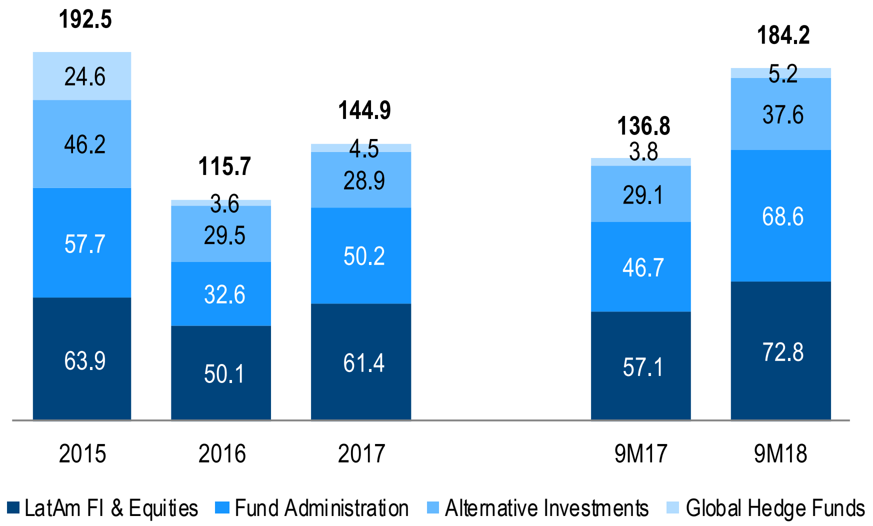
We continuously invest in our asset management businesses throughout Latin America in order to further integrate them into our global platform and provide products and solutions to a wide range of clients in the Andean region, including pension funds, insurance companies, family offices and HNWI.

In order to further enhance our presence in the region and expand our asset management platform, we have obtained an asset management operation license in Mexico and Argentina. By further expanding our operations, we believe we can leverage our business contacts within the region and offer a wide portfolio of products focused on emerging markets for private and institutional clients within the region.

The following graph sets forth our combined AUM and AUA by asset class and the change in our portfolio of AUM and AUA as of the closing dates for each of the specified periods, excluding the impact of BSI:

(Please see graph on the following page)

AUM by Asset Class (in R$ billions)



For the nine months ended September 30, 2018 and for the years ended December 31, 2017 and 2016, revenues from our asset management business unit were R$438.2 million, R$486.3 million and R$539.6 million, respectively, representing 11.6%, 8.8% and 6.1% of our total revenues, respectively.

Organization

We have continuously adapted the organizational structure of our asset management unit to meet market trends and our clients' needs.

Our asset management business unit is divided into management and fund administration services. Our management services consist of managing the portfolio of the funds on a discretionary basis. Our fund administration services consist of calculating the net asset value of the funds and rendering other services such as monitoring the compliance of the fund with the applicable regulation and providing operational control of the assets underlying the portfolios. We believe that the broad range of services provided by our asset management unit grants us an important competitive advantage.

Our primary clients include HNWI and institutional clients. Our institutional clients include pension funds, corporations, insurance companies and financial intermediaries (third party distribution). We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy.

The table below shows the breakdown of our AUM and AUA by client type:

	For the year ended December 31,						For the nine months ended September 30,	
	2015	**% of total**	**2016**	**% of total**	**2017**	**% of total**	**2018**	**% of total**
HNWI	43.0	22.3%	35.2	30.4%	41.4	28.6%	52.7	28.6%
Institutional	23.1	12.0%	10.5	9.1%	9.4	6.5%	11.0	6.0%
Financial intermediaries (third party distribution)	5.2	2.7%	4.6	4.0%	5.3	3.6%	9.4	5.1%
Corporations	11.9	6.2%	10.1	8.7%	10.1	6.9%	7.9	4.3%
Fund Services	38.0	19.8%	13.4	11.6%	34.1	23.5%	49.3	26.8%
Other	71.2	37.0%	41.9	36.2%	44.7	30.8%	53.9	29.2%
Total	**192.5**	**100.0%**	**115.7**	**100.0%**	**144.9**	**100.0%**	**184.2**	**100.0%**

We distribute our funds through the distribution channels of our asset management and wealth management business units as well as through banks, brokerage firms and other financial intermediaries. We have strategic distribution agreements with major banks in Brazil, including Banco Citibank S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Bradesco S.A., pursuant to which we pay fees for clients originated by these distribution channels.

We consider a strong and well-known asset management unit to be important not only for attracting new clients, but for providing our existing clients with a premium service.

Management of Funds

Our subsidiary BTG Pactual Asset Management is dedicated exclusively to providing asset management services through our investment funds and managed portfolios. The portfolio of products includes Latin American funds, emerging market funds and global funds, and we have specific products for a wide range of clients. BTG Pactual Asset Management was one of the largest asset managers in Brazil, according to ANBIMA, with AUM and AUA in the amount of R$184.2 billion as of September 30, 2018.

Our investment products include fixed income and equity funds, equity funds, multi-asset funds, structured funds and private equity funds, both in Latin America and globally.

Fixed Income and Equity Funds. As of September 30, 2018, we had R$72.8 billion under management invested in fixed income and equity funds.

Global Hedge Funds. As of September 30, 2018, we had R$5.2 billion under management invested in multi-asset funds. These funds have hybrid portfolios composed of a mix of fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities, mortgages and interest rates.

Alternative Investments (Private Equity and Real Estate Funds). As of September 30, 2018, we had R$37.6 billion under management invested in alternative investments, composed of private equity and real estate investments, through funds or other investment vehicles. Our private equity business pursues long-term investments in equity and debt securities, mostly in privately held companies, purchased in privately negotiated transactions. Our strategy with respect to each private equity business is to invest opportunistically and to build a portfolio of investments that is diversified by industry, product type and transaction structure and type. Our private equity business seeks to leverage our long-standing relationships with companies, investors, entrepreneurs and financial intermediaries around the world to source potential investment opportunities. In addition, our private equity business, including its portfolio companies, have generated business for our other business units, including equity underwriting, leveraged and other financing, fees and merger advisory fees. While potentially risky and frequently illiquid, our private equity activities, when successful, can yield substantial returns on capital for the investors and generate attractive management and performance fees for us.

Our investment professionals identify, manage and sell investments on behalf of our private equity funds. In addition, our private equity professionals work closely with other of our business units, where they can benefit from the expertise of specialists in debt and equity research, investment banking, leveraged finance and equity capital markets.

Our real estate investment team identifies and executes investment opportunities in diverse projects and assets, including residential and commercial construction projects, shopping centers and commercial buildings for lease. The team is made up of experienced real estate and finance professionals, allowing a detailed analysis of the economic viability of each project or asset in order to be able to select the best investment opportunities.

Fund Administration or Fund Services

Through BTG Pactual Serviços Financeiros, we provide a broad range of financial services to our clients in respect of both onshore and offshore funds, including:

- calculation of net asset value, which is the cumulative market value of the fund’s assets net of its liabilities;

- asset pricing;
- registrar and transfer agent services;
- control of the fund’s fees (management and performance fees) and other expenses;
- reporting on the fund’s portfolio composition;
- preparation of monthly reports for the fund’s clients; and
- calculation of any tax that may be imposed on the funds.

As administrator of the funds, we are also responsible for providing any information regarding the funds to regulators such as the Central Bank and the CVM and to ANBIMA as the self-regulatory authority.

According to data published by ANBIMA as of September 30, 2018, BTG Pactual Serviços Financeiros was the seventh largest fund administrator in Brazil, with AUM and AUA in the amount of R$184.2 billion as of September 30, 2018.

Wealth Management

General

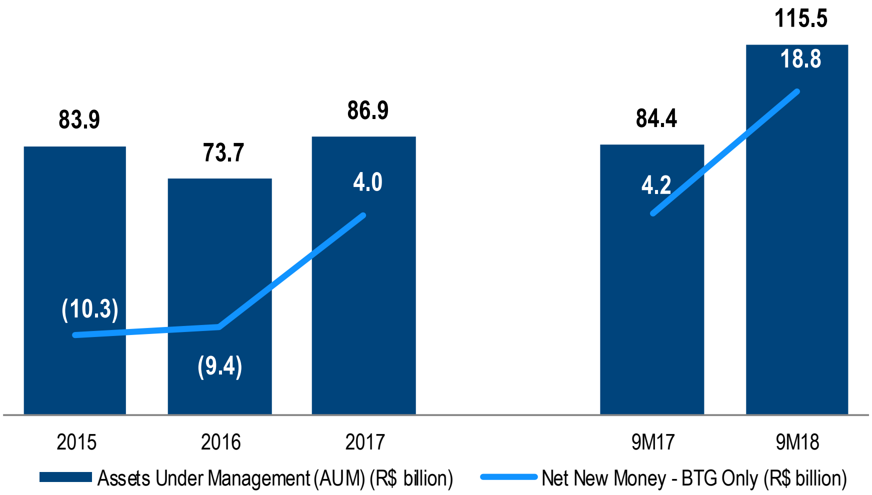
We provide investment advisory and financial planning services and offer investment products to HNWI primarily located in Latin America, with a concentration of clients in Brazil, Chile, Peru, Colombia, Mexico and Argentina. These services are provided through separately managed accounts as well as multi-investor vehicles across diverse financial asset classes, through both funds managed by our asset management team and funds managed by other financial institutions or asset managers. We also offer other services to our wealth management clients such as wealth planning, loans and bank guarantees and family office services.

As of September 30, 2018, our wealth management unit managed approximately R$115.5 billion in assets. According to data published in a private banking survey by *Euromoney* from 2012 to 2014, BTG Pactual Wealth Management was among the top three in the category of best private banking services (overall) in Brazil.

For the nine months ended September 30, 2018 and for the years ended December 31, 2017, 2016 and 2015, revenues from our wealth management business unit were R$352.5 million, R$368.7 million, R$337.5 million and R$464.2 million, respectively, excluding any revenues from the BSI acquisition.

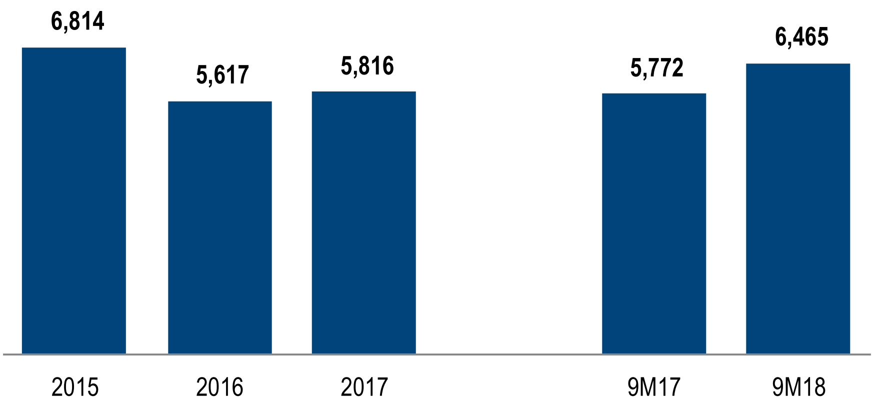
The following graph sets forth an overview of our wealth management portfolio and net inflows/outflows, excluding the effects of BSI, for the dates indicated below:

(Please see graph on the following page)



As of September 30, 2018, we had 6,465 wealth management clients, representing 3,174 economic groups worldwide. We have an extensive and diversified client base and do not significantly depend on any particular client. The diversification of our client base is an essential aspect of our business strategy.

The graph below shows the number of clients in our wealth management portfolio at the dates indicated:



We formally launched our online business platform, BTG Pactual Digital in January 2016, BTG Pactual Digital is our online marketplace for investments and was developed internally and now distributes investment funds, fixed income products and pension plans from Banco BTG Pactual and third parties, as well as treasury investments and home broker capabilities to all our clients. Distributions are made through two different channels: (i) B2C (business to consumer) which connects Banco BTG Pactual directly to its final clients and (ii) B2B (business to business) which connects a network of independent agents and their clients to our platform.

Organization. Our wealth management model is based on customized and pro-active client service through our specialized client advisors. Each client advisor attends to a limited number of clients, offering a range of financial products and personalized services according to each client's needs. Our client advisors are expected to understand their clients' needs, financial expectations and risk tolerance. Periodic reviews allow our client advisors to help clients monitor their portfolios and adapt to changing conditions. Client advisors are principally organized by client market, which allows them a higher level of client focus. We believe that this approach fosters long-term client relationships.

Our client advisors retain primary responsibility for increasing the penetration of wealth management service products within our existing customer base by introducing products and services and for generating new clients throughout Latin America.

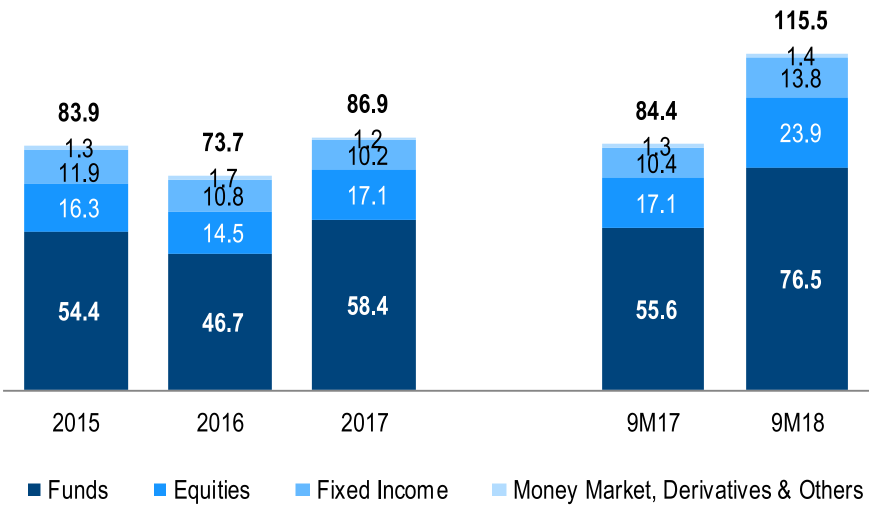
We provide a number of asset-based, transaction-based and other services to clients. Asset-based services include custodial services, deposit accounts, loans and fiduciary services, and transaction-based services include trading and brokerage and investment fund services. Wealth management also provides financial planning and consulting services. These services include establishing proprietary trusts and foundations, the execution of wills, corporate and personal tax structuring and tax efficient investments.

Financial Planning and Wealth Management. Develops integrated comprehensive wealth management services in the form of tax and estate planning, liquidity and retirement lifestyle planning, insurance products, real estate advisory services and a variety of sophisticated capital enhancement and asset protection strategies.

Financial Advisory. Provides advisory services and solutions to clients who are entrepreneurs or company owners, including funding options and advice on structuring mergers and acquisitions.

Family Office. Provides a consolidated position of investments with a view to provide complete tax and estate planning advice.

The following graph shows information concerning WUM, presented in R$ billions, by asset class in wealth management in the periods indicated, excluding BSI for all periods:



Principal Investments

We continue to hold stakes in other companies which were originated from our historical principal investments activities, which is no longer a strategic focus of ours.

We have been reducing, through divestment of assets, our exposure in relation to certain of our principal investment activities, mainly our merchant banking, private equity and real estate investments. Given this trend, our principal investments have been significantly streamlined, and are now focused on the allocation of excessive proprietary capital, legacy investments and seed capital in certain funds as a minority investor up to specified limits.

Following the divestment and sale of several assets in our historical merchant banking investment portfolio, our current Principal Investments activities relate mainly to (i) seed money in our investment products as a minority investor, with the objective that any such investments usually represent less than 10% of our total investments; (ii) an investment of 17% in our infrastructure fund, through which our main investments are Globonet and Latin America Power (LAP); (iii) small investments in real estate funds; and (iv) legacy assets, which comprise (a) PetroAfrica, a joint venture with Petrobras International Braspetro B.V. for oil and gas exploration and production in Africa, (b) Eneva S.A., a fully integrated energy company in Brazil, with businesses in power generation, energy commercialization, and exploration and production of hydrocarbons, and (c) BW Properties, a joint investment with WTorre Properties S.A. for real estate development focused on commercial development and long-term real estate investments.

Our principal investments also include proprietary investment activities involving a wide range of financial instruments, including merchant banking and real estate investments in Brazil, as well as a variety of financial investments in global markets. Our principal investments are primarily managed by our asset management group.

We have proprietary investments in a diversified range of financial instruments across multiple asset classes and geographic regions. Our principal investments teams responsible for the management of such investments are located in São Paulo, Rio de Janeiro, New York, London, Santiago, Lima, Bogota, Mexico City and Buenos Aires. These teams focus on both developed and emerging markets, allocating capital across various underlying strategies that include a mix of emerging markets and global macro themes, including fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities and mortgages.

Our principal investments also involve arbitrage activities, by investing in a broad range of financial and equity instruments. The strategy of activities is based on making global investments through a diversified portfolio across different markets and event categories. Our investment decisions are the product of rigorous, fundamental, situational and regulatory and legal analysis.

For the year ended December 31, 2016 we posted a loss from our principal investments unit of R$29.8 million, and, in the year ended December 31, 2017 and for the nine months ended September 30, 2018, our gains from principal investments were R$15.1 million and R$362.7 million, respectively, representing 0.3% and 9.6%, respectively, of our total revenues.

Participations

Certain of our investments are characterized as Participations, and, as of September 30, 2018, they included: (i) a co-controlling interest, with 50.6% share ownership in Banco Pan, a commercial and consumer bank, focused on loans, consumer credit and payment-deducted loans and middle market loans; (ii) a 30.00% ownership interest in EFG, which we retained following our sale of BSI to EFG in November 2016; (iii) a 50.99% ownership interest in Pan Seguros, a Brazilian insurance company providing insurance to individuals for personal property related claims; (iv) 51.00% ownership interest in Pan Corretora, a Brazilian insurance broker with activities in diverse insurance segments; and (v) an approximately 19.01% ownership interest in Engelhart CTP, a global commodities trading platform which we spun-off in 2016 but continue to hold an investment in.

For the years ended December 31, 2016 and, 2017 and for the nine months ended September 30, 2018, our results from our Participations unit were R$(112.8) million, R$21.8 million and R$30.3 million, respectively.

Banco Pan

In May 2011, we purchased 100% of the shares in Banco Pan held by Grupo Silvio Santos for R$450.0 million, representing a 37.64% stake in Banco Pan (composed of 51.00% of its voting shares and 21.97% of its non-voting shares). In connection with this acquisition, we and CaixaPar entered into a shareholders agreement which establishes the conditions for the shared control of Banco Pan. In addition, CaixaPar reiterated its commitment to preserve its strategic alliance with Banco Pan by entering into a cooperation agreement under which CaixaPar has agreed to acquire credits originated by, and invest in deposits issued by, Banco Pan, thus helping to support its future business. Banco Pan and CaixaPar also intend to expand the range of the financial products and services they offer through leveraging their distribution channels.

The banking supervision and compliance with regulatory capital requirements of Banco Pan are performed and measured on a segregated basis from those of ours. Accordingly, we calculate our regulatory capital without giving effect to the assets and liabilities, risks and financial position of Banco Pan, and we do not perform the proportional consolidation of Banco Pan into our balance sheet. This results in each of us and Banco Pan continuing to calculate the respective regulatory capital requirements on a stand-alone basis, as two independent banking entities.

In November 2010, prior to our acquisition, Banco Pan disclosed that a series of accounting inconsistencies had been uncovered at Banco Pan which resulted in losses totaling R$2.5 billion. Upon such announcement, Grupo Silvio Santos and CaixaPar sought to prevent new inconsistencies by electing a new management team at Banco Pan. In addition, Grupo Silvio Santos agreed to make Banco Pan whole for such losses by injecting R$2.5 billion of capital. Subsequently, additional financial irregularities totaling R$1.3 billion and other adjustments totaling R$500 million were identified. As a consequence, on January 31, 2011, Grupo Silvio Santos injected an additional R$1.3 billion into Banco Pan and agreed to sell its stake in Banco Pan to us. We elected new officers and directors of Banco Pan in April 2011.

As a result of the aforementioned problems, which demonstrated significant weaknesses and irregularities of the existing accounting systems and internal controls of the institution, Banco Pan executed important investments in technology and processes in order to improve operational and competitive conditions of the bank.

We record the results of operations from Banco Pan using the equity method of accounting, pursuant to which our share of Banco Pan's net income or net losses, as deducted by accumulated loss adjustments relating to previous periods, is recognized in our income statement as equity pick-up from associates.

As of the date of this Offering Memorandum, we and CaixaPar are joint holders of all voting shares and 83.43% of Banco Pan's total capital stock.

Since the appointment of the new management team by the controlling shareholders in May 2011, Banco Pan has strategically diversified its business through a general restructuring, expanding products and services to focus on the following operating segments:

- *Consumer Lending.* Banco Pan offers credit for all automotive vehicle categories, including new cars, used cars, motorcycles and heavy vehicles.

- *Payroll Deduction Loans.* In this market segment, Banco Pan's business is focused on loans to pensions in Brazil's social security system (the "INSS"). In this sector, Banco Pan operates mainly through agreements with state governments, municipalities, military and government agencies. The main distribution channels for this sector are the correspondent banks that have direct access to the INSS.

- *Real Estate.* Banco Pan's main activities in the real estate industry include: (i) personal real estate financing for individuals; (ii) the acquisition of real estate receivables; and (iii) the issuance of mortgage backed securities.

- *Credit Cards.* Banco Pan has implemented a number of initiatives intended to improve its credit card base, including the redesign of its activation procedures and improvements to its PAN Mais rewards program and the loan recovery processes.

Pan Seguros

As of the date of this Offering Memorandum, we hold a 50.99% ownership interest in Pan Seguros, a Brazilian insurance company providing personal property insurance to individuals.

Pan Corretora

As of the date of this Offering Memorandum, we hold a 51.00% ownership interest in Pan Corretora, a Brazilian insurance broker with activities in diverse insurance segments.

Competition

The financial services industry, and all of the businesses with which we operate, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, merchant banking and private equity firms and other financial institutions. We compete with some of our competitors globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of personnel, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than we offer and have more extensive investment banking, principal investments, asset management and wealth management services, which may enhance their competitive position. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

We also face intense competition in attracting and retaining qualified employees and other personnel in each of our business units. We compete on the level and nature of compensation and equity-based incentives for key employees and other personnel. Our ability to continue to compete effectively in each of our business units will depend upon our ability to attract new highly qualified employees and retain and motivate our existing talent.

We believe that our main competitors (including their affiliates) across the seven business units in which we operate include the following:

Investment Banking. BB Banco de Investimento S/A , Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A., N M Rothschild & Sons Limited, Banco Santander (Brasil) S.A., IM Trust S.A. (Credicorp), JP Morgan Corredores de Bolsa SPA (Chile) and Deutsche Securities Corredores de Bolsa SPA (Chile);

Corporate Lending. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Santander (Brasil) S.A., Itaú Unibanco S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., HSBC Bank Brasil S.A. Banco Múltiplo and Corpbanca S.A.;

Sales and Trading. Banco do Brasil S.A., Banco Bradesco S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A., Banco Santander (Brasil) S.A., Larrain Vial S.A. Corredora de Bolsa and Itau BBA Corredor de Bolsa Limitada;

Principal Investments. Banco do Brasil S.A., Banco Bradesco BBI S.A., Banco Merrill Lynch de Investimentos S.A., Banco Citibank S.A., Banco Credit Suisse (Brasil) S.A., Deutsche Bank S.A. Banco Alemão, Goldman Sachs do Brasil Banco Múltiplo S.A., HSBC Bank Brasil S.A. Banco Múltiplo, Banco Itaú BBA S.A., Banco J.P. Morgan S.A., Banco Morgan Stanley S.A. and Banco Santander (Brasil) S.A.;

Participations. Banco Votorantim S.A., Banco Bradesco S.A., Banco Safra S.A., Banco do Brasil S.A., Itaú Unibanco S.A. and Banco Santander (Brasil) S.A.;

Asset Management. Banco do Brasil S.A., Itaú Unibanco S.A., BRAM Bradesco Asset Management S.A. DTVM, HSBC Bank Brasil S.A. Banco Múltiplo, Banco Credit Suisse (Brasil) S.A. BNY Mellon Serviços Financeiros DTVM S.A., Moneda Asset Management, Euroamerica Administradora General de Fondos S.A. and Itau Chile Administradora General de Fondos S.A.; and

Wealth Management. Itaú Unibanco S.A., Banco Credit Suisse (Brasil) S.A., Banco do Brasil S.A., Banco Opportunity S.A., Banco Bradesco S.A. and Banco Safra S.A.

Information Technology

Information technology is an essential component of our business growth, and thus our information technology architecture has continuously been developed to increase the efficiency and reduce the operational risk of our business processes. Over the years we have developed a comprehensive and fully integrated system platform that supports all business lines, which we believe to be perfectly fitted to the Brazilian and international markets.

We have two main data centers, one in Rio de Janeiro and one in São Paulo, which are configured to act as back-up sites to each other. In addition to the Brazilian data centers, we have two others in New York and London to support our international business operations locally as well as function as back-up sites globally.

We believe that our security policy is well-disseminated among and adhered by our personnel. This policy regulates the access and use of all our information technology resources by our personnel, and encompasses human, physical and logical security requirements, as well as encrypted resources.

Marketing

We believe that the strong recognition of our brand is primarily the result of the strong and transparent image we have built with our clients and the awards that we have received, such as being named among the Best research teams in Brazil from 2006 to 2017 and the Best Research Team in Brazil in 2017, and one of the Best Research Teams in Latin America from 2012 to 2017, as well as Best Equity Sales team in Brazil in 2017 by *Institutional Investor* in 2017; Best Investment Bank in Brazil and Best Wealth Management Provider by *World Finance* in 2017; Best Investment Manager in Brazil, Chile and across Latin America in 2017 by Euromoney Magazine; Best Family Office Services in Brazil, Best Investment Banking Capabilities, Best Asset Management Capabilities and Best Research and Asset Allocation Advice, each in 2016 by Euromoney Magazine; Wealth Management Company of the Year in 2017 by The European; Best Variable Income Fund Manager in Brazil by Standard & Poor's and *Valor Econômico*. We believe that our strong recognition also helps us to attract new clients without significant marketing initiatives and signals our expertise in the market. Our marketing efforts are usually limited to specific and focused marketing events.

Human Resources

As of September 30, 2018, our personnel consisted of 2,519 employees (including full time employees, interns and outsourced employees) who perform a number of different supporting activities.

The table below shows the number of such individuals by geographic location as of the dates indicated:

	As of December 31,			As of September 30,
Location	**2015**[(1)]	**2016**	**2017**[(2)]	**2018**[(2)]
Brazil				
Rio de Janeiro	515	387	354	352
São Paulo	967	822	838	1,034
Belo Horizonte	5	3	3	3
Porto Alegre	15	10	4	4
Recife	7	4	4	5
Brasília	4	3	3	2
Curitiba	13	14	4	3
Salvador	4	–	-	-
Cuiabá	7	6	-	-
Rio Verde	4	5	-	-
Varginha	7	8	-	-
Querência	1	1	-	-
Sorriso	9	10	-	-
Paranaguá	–	–	-	-
Ribeirão Preto	6	–	-	-
Santos	14	14	-	-
New York	157	95	92	99

Location	As of December 31, 2015(1)	2016	2017(2)	As of September 30, 2018(2)
Stamford	107	100	2	3
London	304	207	55	50
Chile	370	293	293	317
Peru	37	21	19	27
Colombia	296	256	245	249
Mexico	40	34	33	28
Argentina	16	24	14	16
Other locations	345	310	64	63
Outsourced	189	262	221	264
Total	**3,439**	**2,889**	**2,229**	**2,519**

(1) Does not reflect BSI employees.

(2) Does not reflect Engelhart CTP employees.

In order to meet Central Bank's requirements, as well as improve the quality of our credit products, we regularly provide classes, seminars and conferences for our personnel in their respective areas of expertise, including classes related to the prevention of money laundering. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Legal and Regulatory Risk."* We also regularly provide financial support to other classes and seminars requested by our personnel that we deem useful for our business operations.

In the nine months ended September 30, 2018 and in 2017, 2016 and 2015, we had personnel expenses of R$574.2 million, R$648.9 million, R$1,676.6 million and R$1,633.9 million, respectively, including expenses in connection with salaries, payroll charges and benefits. These benefits include: (i) meal vouchers, (ii) food vouchers, and (iii) medical and dental insurance. We also maintain a profit sharing plan regulated by a collective bargaining agreement with the National Banks Federation (*Federação Nacional de Bancos*) and the Banking Trade Union (*Sindicato dos Bancários*).

Our personnel based in Brazil are also members of the Banking Trade Union, and we are members of several bank associations. We believe that we have a good relationship with our employees and relevant unions and we have never experienced a strike or other labor conflict.

Properties

We have offices in Rio de Janeiro, São Paulo, Porto Alegre, Belo Horizonte, Recife, Brasília, Salvador, Ribeirão Preto, Curitiba, Pirapora, Turmalina, Sorriso, and Cuiabá, Brazil, as well as offices in New York, Stamford, Mexico City, London, Santiago, Lima, Medellin, Cali, Barranquilla, Bogota and Buenos Aires. We own a portion of our offices in Santiago, Chile and otherwise lease all of our offices.

All of our lease agreements are valid, with a specified term. There are no liens or encumbrances affecting the properties which we lease, and our use and operation of such properties do not violate any applicable laws.

Insurance

We maintain insurance policies to cover us against certain risks we believe may affect our operations. We maintain insurance policies that provide coverage against risks associated with fraud, directors' and officers' liability, and other related risks which are customary in the industry in which we operate. Our insurance policies are renewed on an annual basis and contain standard terms and conditions applicable to insurance policies with similar coverage.

Our insurance policy for named perils provides coverage against damages to our furniture and devices within such premises caused by fire, lightning, explosions and electric damages, in our offices, as well any other damage caused by any of the events mentioned. The maximum recovery award under our insurance policies that we maintain varies according to the covered location. Such award may be up to R$120.0 million (see "Management's

Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition and Sale of Insurance Assets").

Intellectual Property

We have registered the trademark "BTG Pactual" in both word and combined forms before the Brazilian Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), and before intellectual property agencies in several other countries, including the United States, Chile, Argentina and Mexico.

In addition, we have registered several other brands we use in Brazil and elsewhere such as "Latin Stockwatch" and "Brazil Follow the Money."

We own the domain names "pactual.com.br" and "btgpactual.com.br," among others, which are duly registered with NIC.br (*Núcleo de Informação e Coordenação do Ponto Br*), the entity responsible for registering domain names in Brazil.

Material Agreements

We are party to several agreements arising out of the normal course of our business, such as a broad range of financial agreements and other agreements, including for telecommunications services, supply of goods and information technology. We do not believe that any of those agreements taken individually is material to our financial condition results of operations.

In addition, we have entered into certain other material acquisition, capital increases and sale agreements. We are party to material agreements relating to (i) the purchase and subsequent sale of BSI to EFG (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—BSI/EFG"), (ii) the acquisition of Bamerindus (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Bamerindus"), (iii) the spin-off of our commodities business (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Commodities Business Spin-Off"), (iv) the purchase and subsequent sale of our reinsurance business (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Sale of Insurance Assets"), (v) the purchase and sale of certain loan portfolios (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Loans Recovery Activity") and (vi) the recapitalization of Eneva (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Restructuring of Eneva").

Legal Matters

We are a party to various judicial and administrative proceedings, including tax, labor, civil and regulatory proceedings, arising in the ordinary course of our business. As of September 30 2018, our provisions for legal proceedings were R$1,628.0 million and judicial deposits were R$1,547.5 million, as detailed below. We believe that our provisions for judicial and administrative proceedings are sufficient to meet our probable losses.

We are a party to a number of legal proceedings involving the payment of certain taxes and contributions. Our principal legal proceedings are summarized below.

Tax Proceedings

As of September 30, 2018, we were party to approximately 654 legal proceedings involving the payment of certain taxes and contributions, representing contingencies in the total amount of approximately R$6.68 billion, for which provisions in the amount of R$1,453.7 million and judicial deposits in the amount of R$1,492.3 million have been made. The most relevant tax proceedings are the following:

- *Income and Social Contribution Taxes (IRPJ and CSLL)*. In December 2015, we received a tax assessment which totaled R$2,006 million, alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by Banco BTG Pactual was inappropriate. Such goodwill originated in connection with the acquisition of Banco Pactual by UBS AG in 2006 and then of UBS Pactual by BTG in 2009. This assessment relates to the amortization of goodwill that occurred in 2010 and 2011. We have filed an appeal of this tax assessment. In February 2017, a preliminary administrative decision was issued providing for a partial reduction of the tax assessment in the amount of R$268.0 million. In response to the unfavorable portion of the administrative decision, we filed another appeal in March 2017. In January 2019, an unfavorable decision by the Finance Ministry's Administrative Council for Tax Appeals (CARF) was issued, which we intend to appeal. We have not established additional provisions in relation to this matter.

- In addition, in December 2017, we received a tax assessment which totaled R$836 million, also alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by Banco BTG Pactual was inappropriate. Such goodwill originated in connection with the acquisition of Banco Pactual by UBS AG in 2006, UBS Pactual by BTG in 2009 and the private placement that occurred in 2010. This assessment relates to the amortization of goodwill that occurred in 2012. We have filed an appeal against this tax assessment. In October 2018, an unfavorable preliminary administrative decision was issued. In response to the administrative decision, we filed another appeal in November 2018.

- In November 2018, we received a tax assessment which totaled R$90 million, alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by BTG Pactual Gestora de Recursos was inappropriate. Such goodwill originated in connection with the acquisition of Brazilian Finance & Real Estate (BFRE) by BTG in 2012. This assessment relates to the amortization of goodwill that occurred in 2013 and 2014. We will file an appeal of this tax assessment.

- In December 2018, we received a tax assessment which totaled R$420 million, alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by Banco BTG Pactual was inappropriate. Such goodwill originated in connection with the acquisition of UBS Pactual by BTG in 2009 and the private placement to a consortium of international investors that occurred in 2010. This assessment relates to the amortization of goodwill that occurred in 2013. We will file an appeal of this tax assessment.

- *Social Security Contribution Tax* (*Contribuição para o Financiamento da Seguridade Social*) ("COFINS"). Such proceedings, which date back to February 1999, involve an aggregate amount of approximately R$1,046 million, which is fully deposited. In 1998, new tax legislation was enacted which required Brazilian companies to pay COFINS on revenues generated from financial investments (Law No. 9,718/98). Prior to 1998, the Brazilian Federal constitution dictated that Brazilian companies were only required to pay COFINS taxes on revenues generated from operational activities. We challenged the assessment of COFINS on financial investments and claimed the right to calculate the tax pursuant to the Complementary Law No. 70/91, arguing that in order to expand the COFINS tax calculation basis, the Brazilian legislature was required to observe a constitutionally mandated waiting period prior to enacting such legislation. In December 2008, we obtained favorable decisions in part from the Federal Regional Court of Brazil, and in July 2010, we appealed the unfavorable portions of such decisions before both the Brazilian Superior Court of Justice and the Brazilian Supreme Court. In October 2015, Banco BTG Pactual's appeal was denied by the Brazilian Superior Court of Justice. We are currently awaiting a decision from the Brazilian Supreme Court on our appeal, and in the meantime, our rights under the initial partially favorable decision are still in effect. We have been advised by our external legal counsel that we may lose these appeals.

- *Other Tax Proceedings*. As of September 30, 2018, we were a party to several additional tax proceedings, representing contingencies in the total amount of R$2,152 million, for which no provisions were made.

These proceedings include: (i) proceedings in the amount of R$481 million concerning payments related to our profit sharing program (PRL) challenging the social security contribution related to these payments and its non-deductibility from our income and social contribution tax base (IRPJ and CSLL, respectively); (ii) a proceeding in the amount of R$22 million related to the demutualization and IPO of the Bovespa and BM&F, challenging the taxation of PIS and COFINS on revenues arising from Banco BTG Pactual's sale of these companies' shares; (iii) a proceeding which totals R$181 million involving PIS and COFINS due in 2012, (iv) a proceeding in the amount of R$72 million regarding the withholding tax related to a Brazilian asset sale made by a non-resident investor, in which case, Banco BTG Pactual is jointly liable along with a third party; and (v) a proceeding in the amount of R$1,041 million regarding IRPJ and CSLL potentially due upon the merger between One Properties and BR Properties, where we have been advised by our external legal counsel that the chances of loss are possible (50%). If we incur losses in connection with these matters, we believe we are entitled to be partially indemnified by third parties for such losses.

On December 31, 2017, we received a tax assessment that totaled R$206 million concerning the deductibility of interest on net equity (JCP) from the IRPJ and CSLL basis paid by Banco BTG Pactual. We filed an appeal of this tax assessment. In June 2018, an unfavorable preliminary administrative decision was issued. In response to the administrative decision, we filed another appeal. In November 2018, a favorable secondary administrative decision was issued. We have been advised by our external legal counsel that the probability of loss in this case is remote, and as a result, we have not made any provisions with respect to this matter.

In October 2017, we received a tax assessment questioning the use of foreign tax credit to offset IRPJ and CSLL over foreign profits in 2012. We filed an appeal of this tax assessment. In December 2018, an unfavorable preliminary administrative decision was issued. In response to the administrative decision, we will file another appeal. The total amount involved is R$150 million, for which no provisions were made. We have been advised by our external legal counsel that the probability of loss in this matter is possible.

In December 2018, we received a tax assessment which totaled R$70 million concerning the use of foreign tax credit to offset IRPJ and CSLL over foreign profits in 2013. We will file an appeal of this tax assessment.

In August 2017, we adhered to the Regularization Tax Program (PERT), established by Provisional Measure no. 783/2017, an amnesty program which allowed taxpayers to use net operating losses (NOLs) to pay 80% of its tax liabilities. The tax liabilities included in the mentioned program were related to the IRPJ and CSLL tax assessments that discuss the amortization of goodwill related to periods of 2007, 2008 and 2009, in an amount of R$2,428 million as of August 31, 2017, in connection with the acquisition of Banco Pactual by UBS AG in 2006. We used NOLs from Banco BTG Pactual and its subsidiaries and joint controlled entities in the amount of R$1,900 million; made a down payment of R$487 million, equivalent to 20% of the tax debt, and received reimbursement in the amount of R$806 million from UBS AG and a capital increase of R$172 million from BTG Pactual Holding.

Labor Proceedings

As of September 30 2018, we were a party to approximately 881 labor proceedings, of which less than 18% are related to former Banco BTG Pactual's employees, and for which provisions of R$51.3 million have been made. Such claims brought by our former employees are mostly related to overtime payment claims. With respect to the remaining claims, most of them are from other companies' former employees and/or outsourced providers that request Banco BTG Pactual's joint liability on labor matters.

Civil and Other Proceedings

As of September 30, 2018, we were defendants in approximately 2,226 civil proceedings, representing estimated contingencies in the approximate amount of R$5,306 million, for which provisions in the amount of R$123.1 million have been made.

In November 2015, André Santos Esteves, then the CEO, chairman and largest shareholder of Banco BTG Pactual, was temporarily taken into custody in Brazil in connection with allegations of obstruction of justice. Following such arrest, we conducted an internal investigation coordinated by an independent committee in conjunction with external legal counsel and forensic and financial consultants, and found no basis to conclude that the allegations of misconduct against Mr. Esteves, Banco BTG Pactual or our personnel that were the subject of the investigation are credible, accurate or otherwise supported by reliable evidence. On September 1, 2017, the Brazilian Federal Prosecutor's Office filed its closing arguments requesting the dismissal of all charges against Mr. Esteves. On July 12, 2018, Mr. Esteves was acquitted by the competent court of all charges and the case was officially closed on August 17, 2018.

However, due to statements made by Mr. Delcídio do Amaral, a former Brazilian Senator, in a plea bargain mentioning Mr. Esteves in relation to other matters, Mr. Esteves became subject to additional criminal investigations related to (i) alleged corruption in connection with the exclusivity agreement in place between Distribuidora e Derivados do Brasil S.A., a gas station chain owned by certain of the Banco BTG Pactual Partners and BR Distribuidora, a Petrobras subsidiary, and (ii) the alleged existence of a criminal organization involving various politicians and political parties, public agents, entrepreneurs and businessmen, acting to obtain undue payments on agreements with publicly owned entities. On December 5, 2018, the Brazilian Supreme Court granted a motion to dismiss the investigations concerning Mr. Esteves in relation to the alleged existence of a criminal organization. A related investigation before the Brazilian federal courts regarding the alleged payment of bribes to former congressman Eduardo Cunha in exchange for his support on provisional tax measures that would be supposedly favorable to the BTG Pactual Group remains ongoing. Other corruption related allegations have been made against Mr. Esteves in connection with an investment by Banco BTG Pactual in assets acquired by Banco BTG Pactual from Petrobras from its PetroAfrica subsidiary as well. None of the foregoing matters, and other matters involving us, have resulted in any criminal charges being brought against Mr. Esteves, us or any other Banco BTG Pactual employees, and Mr. Esteves and Banco BTG Pactual continue to cooperate with all authorities in any investigations that are proceeding and we continue to monitor the situation. All of the foregoing matters were analyzed as part of our internal investigation coordinated by an independent committee in conjunction with external legal counsel and forensic and financial consultants over the course of 2015 and 2016.

We cannot predict whether any of the investigations mentioned herein will result in criminal charges being brought against Mr. Esteves or us, and what impact, if any, any such proceedings or investigations may or could have on Mr. Esteves or us and any of our businesses, including any potential fines and penalties, regardless of whether there is a determination of any wrongdoing.

In December 2018, XP Investimentos S.A., or XP, filed a preliminary proceeding against us alleging a breach of the confidentiality agreement that we executed in the context of our engagement as underwriters in XP's contemplated initial public offering and simultaneously seeking to bar us from approaching independent financial advisors associated with XP to operate with BTG Pactual Digital. We filed a preliminary response to such lawsuit shortly thereafter. In the more recent decision, a lower judge indicated that there was not sufficient evidence to establish that we had improperly used confidential information for the development of BTG Pactual Digital (especially because the full list of independent financial advisers affiliated with XP is publicly available); however, a preliminary injunction was granted prohibiting us, among other matters, from approaching through our own initiative independent financial advisors related to XP. On January 22, 2019, we filed (i) an appeal against this preliminary decision, which we expect to be analyzed during the next weeks, and (ii) a complaint with the CADE accusing XP of anticompetitive practices and requesting an investigation due to XP's alleged non-compliance with an agreement signed with CADE in connection with Itaú Unibanco Holding S.A.'s acquisition of a 30% stake in XP.

Regulatory Proceedings

We are exposed to significant regulatory action and supervision, mainly from the Central Bank and the CVM. We and eventually our officers could face claims and investigations related to our business activities, including with regard to our investment recommendations, compliance, internal controls and trading strategies. Settlements are frequently entered with the CVM.

In December 2016, CADE notified us that they had commenced an administrative proceeding against Banco BTG Pactual, one current employee and one former employee. The administrative proceeding arose from alleged anticompetitive practices in the FX spot and future markets (derivatives). They are related essentially to spot, forward and future operations conducted and settled in *reais*. According to CADE, the evidence identified communications among certain companies that took place in Bloomberg's chat rooms and supposedly revealed attempts to coordinate exchange operations, exchange risk positions, define prices to exchange and differential spreads, to share commercially sensitive information including negotiation activities, risk positions, and client information. The administrative defense before CADE was presented in January 2018. We are not in a position to opine on the risk of conviction and potential penalties.

Based on the facts aforementioned, CADE had sent a notice to the Central Bank informing of the alleged irregularities. In December 2016, the Central Bank notified us that it had commenced an administrative proceeding involving Banco BTG Pactual and two of our officers, in their capacity as responsible officers, in order to investigate the same practices that were already under investigation before CADE, as well as the alleged insufficient internal control and risk management structures. In February 2017, we filed an administrative defense, and the administrative proceeding before the Central Bank is now expected to proceed to trial. We are not in a position to opine on the risk of conviction and potential penalties that could arise from this proceeding.

In October 2017, the CVM initiated an administrative proceeding against Banco BTG Pactual (in its capacity as fund manager of Fundo de Investimento Multicredito Crédito Privado LS Investimento no Exterior ("FIM CP LS")), in addition to other investment funds, individuals and financial institutions, regarding alleged short sale trading prior to the pricing of OI S.A.'s follow-on equity offering. If the CVM concludes that Banco BTG Pactual participated in these short sales, penalties could be severe, including fines and/or temporary prohibition or suspension from operating. No director or other individual related to Banco BTG Pactual is party to this proceeding. Banco BTG Pactual's defense was filed with the CVM in February 2018 and is currently under review.

MANAGEMENT

Senior Management Team

Below is a summary of the business experience and other biographical information of our Senior Management Team, who is responsible for defining the general business policies and guidelines of the BTG Pactual Group, including its long-term strategies, and for controlling and monitoring its overall performance. Each member of our Senior Management Team is a Partner.

Roberto Balls Sallouti is the chief executive officer and a member of the board of directors of Banco BTG Pactual. Mr. Sallouti joined Banco BTG Pactual in 1994, and became a partner in 1998. He was named chief operating officer in 2008, having previously been responsible for Banco BTG Pactual's fixed income division. He was named chief executive officer in 2015. Mr. Sallouti received his bachelor's degree in economics, with concentrations in finance and marketing, from The Wharton School at the University of Pennsylvania.

John Huw Gwili Jenkins is a member of the board of directors of Banco BTG Pactual. Prior to joining BTG Pactual in 2009, Mr. Jenkins worked at UBS AG from 1996 to 2008, where he held several positions, including chief executive officer, global head of equities, head of equities for the Americas and head of Asia-Pacific equities. Prior to joining UBS AG, Mr. Jenkins worked at BZW Investment Management from 1986 to 1996 and Hill Samuel in 1986. Mr. Jenkins has spent most of his career based in Asia and the United States. Mr. Jenkins received his bachelor's degree with honors in sociology and psychology from the University of Liverpool, his MBA from the London Business School and has recently participated in the Executives in Residence program at the London Business School.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. Prior to joining Banco BTG Pactual in October 2008, Mr. Filho served as vice chairman of Banco BTG Pactual from 2006 to 2008. Mr. Filho joined Banco BTG Pactual in 1997 as a partner and served as executive director of private banking and a member of its executive committee. Prior to 1997, Mr. Filho worked for 28 years at Banco de Crédito Nacional, where he held various positions including vice president for financial management, leasing, insurance, real estate, legal and marketing from 1988 to 1997, and financial director from 1979 to 1988.

Rogério Pessoa Cavalcanti de Albuquerque serves as the co-head of the wealth management unit and executive officer of Banco BTG Pactual. Mr. Pessoa joined Banco BTG Pactual in 1998 and became a partner in 2004. Mr. Pessoa served as head of our wealth management unit from 2004 to 2009. Previously, Mr. Pessoa worked for Delta Bank as vice president of private banking and for Prudential Securities as a broker in the international client accounts division. Mr. Pessoa received his bachelor's degree in economics from the Catholic University of Rio de Janeiro and his MBA from the University of Illinois.

Eduardo Henrique de Mello Motta Loyo is a member of the board of directors of Banco BTG Pactual. Mr. Loyo joined Banco BTG Pactual in 2007, where he served as managing director and chief economist for Latin America. In addition, Mr. Loyo served as chief economist and executive officer of Banco BTG Pactual until July 2018. From 2005 to 2007, Mr. Loyo was executive director of the IMF, elected by Brazil and eight other countries. Mr. Loyo was deputy president of the Central Bank from 2003 to 2005, and a voting member of the Central Bank's Committee on Monetary Policy (*Comitê de Política Monetária*) ("COPOM"). Since 2001, Mr. Loyo has been a professor of economics at the Catholic University of Rio de Janeiro and was assistant professor of public policy at Harvard University from 1998 to 2003. Mr. Loyo also held visiting faculty positions at Columbia University in 2003 and INSEAD in 2002. Mr. Loyo serves as a director of the Institute for Economic Policy Studies - Casa das Graças, a think tank in Rio de Janeiro. Mr. Loyo received his PhD in economics from Princeton University.

Guilherme da Costa Paes serves as the co-head of the investment banking unit and executive officer of Banco BTG Pactual. Mr. Paes joined Banco BTG Pactual in 1992 and became a Partner in 1998. Mr. Paes headed the oil and infrastructure sectors within the corporate finance division, participating in M&A and capital markets transactions. Mr. Paes received his degree in business administration from Santa Úrsula University in Rio de Janeiro and his MBA from the Brazilian Institute of Capital Markets ("IBMEC") with a concentration in finance.

Renato Monteiro dos Santos serves as the head of FICC and executive officer of Banco BTG Pactual. Mr. Santos joined Banco BTG Pactual in 1997 and became a partner in 2001. Mr. Santos served as head of the Brazil rates desk and head of FICC Latin America from 2006 to 2008. Mr. Santos began his career at Banco BTG Pactual in 1997 as a trader, serving as head of Latin America fixed income markets from 2004 to 2006. Mr. Santos received a bachelor's degree in business administration from FGV-SP and a bachelor's degree in economics from the University of São Paulo.

André Fernandes Lopes Dias is the chief risk officer and an executive officer of Banco BTG Pactual. Mr. Fernandes joined Banco BTG Pactual in 1997 and, in 2004, assumed responsibility for the control of credit risk. In 2006, he became an executive director in charge of credit risk control at UBS AG, a position he held until 2009. Prior to joining Banco BTG Pactual, Mr. Fernandes worked as an auditor at KPMG. Mr. Fernandes received his business administration degree from the Catholic University of Rio de Janeiro.

João Marcello Dantas Leite is head of finance and tax of Banco BTG Pactual and an executive officer of Banco BTG Pactual. Mr. Dantas acted as the investor relations officer of Banco BTG Pactual until October 2018. Mr. Dantas joined Banco BTG Pactual in 1993 as head of the fiscal department, and in 1997 he assumed the position of controller. Prior to joining Banco BTG Pactual, Mr. Dantas worked in tax consultancy at Arthur Andersen. Mr. Dantas is a member of the board of directors of ANBIMA. Mr. Dantas received his bachelor's degree in economics from the University Cândido Mendes.

Board of Directors

Our board of directors is responsible for, among other things, electing and removing our executive officers and supervising the other members of our management team.

The members of our board of directors are elected and removed at our shareholders' meetings in accordance with the terms and conditions of our by-laws, Brazilian Corporations Law and the Partner Brazil Shareholders Agreement (see "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement"). Each such director is elected for a one-year term, and may be reelected. Under our by-laws, the board of directors shall be composed of five to eleven members, one of whom is designated as chairman and one of whom is designated as vice chairman.

Under Brazilian Corporations Law, the adoption of a cumulative voting process to elect board members may be required by the shareholders holding at least 10.0% of our voting capital. Under such procedure, each voting share shall be granted a number of votes equal to the number of directors to be elected, and shareholders shall have the right to cumulate votes in a single candidate or distribute them among several candidates. In addition, minority shareholders whose interest in the voting shares represent a minimum of 15.0% of our voting capital stock have the right to elect one director in a separate voting process. Moreover, minority shareholders whose interest in our preferred shares representing at least 10.0% of our capital stock have the right to elect one member of the board of directors by a separate voting process. In addition, in case minority shareholders do not reach the 15.0% and 10.0% thresholds, they may combine their holdings in common and preferred shares so that they jointly hold at least 10.0% of the capital stock and, therefore, are able to elect one director in a separate voting process. As a result, minority shareholders may be entitled to elect up to two members of the board of directors by the separate voting process in addition to any additional members elected through the cumulative voting process. However, whenever the directors are elected by the cumulative voting process and the minority shareholders exercise their right to elect directors in a separate voting process, Brazilian Corporations Law allows holders (or group of holders bound by voting agreements) of more than 50% of the voting shares the right to elect the same number of directors elected by minority shareholders via the cumulative and separate voting processes, plus one.

Our capital stock consists of common shares representing approximately 66% of our total capital stock and preferred shares representing approximately 34% of our total capital stock. As of the date of this Offering Memorandum, our board of directors is composed of eight elected members, two of whom are independent directors.

The table below shows the name, position and date of election of each member of our board of directors as of the date of this Offering Memorandum:

Name	Position	Election Date(1)
Nelson Azevedo Jobim	Chairman of the Board	April 27, 2018
John Huw Gwili Jenkins	Vice Chairman of the Board	April 27, 2018
Roberto Balls Sallouti	Director	April 27, 2018
Cláudio Eugênio Stiller Galeazzi	Director	April 27, 2018
Mark Clifford Maletz	Director	April 27, 2018
Guillermo Ortiz Martínez	Director	April 27, 2018
Eduardo Henrique de Mello Motta Loyo	Director	April 27, 2018

(1) Refers to date of most recent election.

The business address of each member of our board of directors is Praia de Botafogo, 501, 5 º e 6º *andares*, Rio de Janeiro, RJ–22250-040, Brazil.

Below is a summary of the business experience and other biographical information of our board of directors.

Nelson Azevedo Jobim is the Chairman of our board of directors. Mr. Jobim served in various capacities in the public sector, including as a member and President of the Federal Supreme Court from 1997 to 2006, Minister of Justice, Minister of Defense, President of the National Council of Justice and President of the Electoral Superior Court. Mr. Jobim received his bachelor's degree in law and social sciences from the Universidade Federal do Rio Grande do Sul in 1968.

John Huw Gwili Jenkins is a member of our board of directors. For a summary of Mr. Jenkins' business experience and other biographical information, see "—Senior Management Team" above.

Roberto Balls Sallouti is a member of our board of directors. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Cláudio Eugênio Stiller Galeazzi is a member of our board of directors. Mr. Galeazzi is based in São Paulo. Mr. Galeazzi joined Banco BTG Pactual in August 2010 as a partner. Throughout his career, he has been involved in consulting, restructuring, turnaround, interim management and managing well-known companies in the real economy. He held senior positions in several companies, such as, commercial vice-president of British Petroleum mining company in Brazil and chief executive officer of the following companies, Cia Estanifera do Brasil (CESBRA); Vila Romana and VR; Laticineos MOCOCA; ARTEX; LOJAS AMERICANAS; SENDAS; CBD (*Grupo Pão de Açucar*); and CECRISA. Mr. Galeazzi is a certified public accountant. He served as president of the Conselho Nacional do SESI in Brasilia for five years, director of Instituto Euvaldo Lodi and FIESP (*Federação das Industrias de São Paulo*) and vice-president of ANFAC (*Associação Nacional de Factoring*). He also served as board member and consultant of several companies and is the founder of Galeazzi Associados. He currently serves as director of MAM (*Museu de Arte Moderna de São Paulo*).

Mark Clifford Maletz is a member of our board of directors. Mr. Maletz is a senior fellow at the Harvard Business School and an internationally recognized expert in the areas of strategy, leadership development and organizational transformation. Prior to his time at Harvard Business School, he was a partner at McKinsey and Company where he worked in the organization practice. Mr. Maletz was also previously a professor at Babson College. Mr. Maletz is a founder of the Center for Research on Corporate Performance, the chairman emeritus of the EastWest Institute and a member of the board of Global Capacity. Mr. Maletz received his AB from Dartmouth College and a masters in Cognitive Science, masters in Computer, Information and Control Engineering and a PhD in Communication Sciences from the University of Michigan.

Guillermo Ortiz Martínez is a member of our board of directors. He is currently chairman of the board of directors of BTG Pactual Casa de Bolsa México, and a board member of Weatherford International (a large oil and equipment company based in Geneva) and several Mexican companies (including Mexichem, ASUR, the Chedraui Commercial Group and VITRO). He has held other senior positions, such as, executive officer of the International

Monetary Fund (IMF) between 1984 and 1988, and as President of the Bank of Mexico between 1998 and 2009. Mr. Ortiz holds a bachelor's degree in economics from Universidad Nacional Autónoma de México and a master's degree and a PhD in economics from Stanford University.

Eduardo Henrique de Mello Motta Loyo is a member of our board of directors, subject to the ratification of the Central Bank of Brazil. For a summary of Mr. Loyo's business experience and other biographical information, see "—Senior Management Team" above.

Board of Executive Officers

Under our by-laws, our board of executive officers must be composed of two to sixteen members, two of whom are designated as the chief executive officer and others as executive officers. Our executive officers are our legal representatives, responsible for the day-to-day management of our operations and for implementing the policies and general guidelines set by our board of directors.

Since 2012, our board of executive officers has been composed of two to sixteen members, who are not required to be our shareholders. In addition, one member of the board of executive officers must be designated as director of investor relations and up to seven members must be designated as senior vice presidents, with the remaining members as executive officers. The designation of the members of our board of executive officers occurs at the time of election.

Under Brazilian Corporations Law, our executive officers must reside in Brazil, but do not need to be shareholders.

Pursuant to our by-laws, our executive officers are elected by our board of directors for three-year terms, with re-election permitted. Under Brazilian Corporations Law, a maximum of one-third of our directors may also serve as executive officers. In addition, executive officers may be removed at any time pursuant to a decision taken by our board of directors.

Our board of executive officers is composed of fourteen members. The table below shows the name, position and date of election of each of our executive officers as of the date of this Offering Memorandum:

Name	Position	Election Date(1)
Roberto Balls Sallouti	Chief Executive Officer	April 28, 2017
Antonio Carlos Canto Porto Filho	Senior Vice President	April 28, 2017
Guilherme da Costa Paes	Executive Officer	April 28, 2017
João Marcello Dantas Leite	Executive Officer (CFO)	April 28, 2017
Oswaldo de Assis Filho	Executive Officer	April 28, 2017
Renato Monteiro dos Santos	Senior Vice President	April 28, 2017
Rogério Pessoa Cavalcanti de Albuquerque	Executive Officer	April 28, 2017
André Fernandes Lopes Dias	Executive Officer	April 28, 2017
Iuri Rapoport	Executive Officer	April 28, 2017
Bruno Duque Horta Nogueira	Executive Officer	April 28, 2017
Mariana Botelho Ramalho Cardoso	Executive Officer (COO)	April 28, 2017
Pedro Bueno da Rocha Lima	Executive Officer and Investor Relations Officer	April 27, 2018
Marcelo Flora Sales(2)	Executive Officer	January 9, 2019
Alexandre Camara e Silva(2)	Executive Officer	January 9, 2019

(1) Refers to date of most recent election.

(2) Election subject to the ratification by the Central Bank.

The business address of each member of our board of executive officers is Praia de Botafogo, 501, 5 º e 6º *andares*, Rio de Janeiro, RJ–22250-040, Brazil.

Below is a summary of the business experience and other biographical information of our board of executive officers.

Roberto Balls Sallouti is the chief executive officer of Banco BTG Pactual. For a summary of Mr. Sallouti's business experience and other biographical information, see "—Senior Management Team" above.

Guilherme da Costa Paes is an executive officer of Banco BTG Pactual. For a summary of Mr. Paes' business experience and other biographical information, see "—Senior Management Team" above.

João Marcello Dantas Leite is an executive officer of Banco BTG Pactual and also serves as Banco BTG Pactual's investor relations officer. For a summary of Mr. Dantas' business experience and other biographical information, see "—Senior Management Team" above.

Oswaldo de Assis Filho is an executive officer of Banco BTG Pactual. Prior to this, Mr. Assis Filho was responsible for the commercial coverage of the insurance, banking and textile sectors of the investment banking business unit of BTG Pactual. Mr. Assis Filho has worked in financial institutions since 1976 and, before joining Banco BTG Pactual, he was vice-president of Banco de Crédito Nacional. He graduated from Instituto Tecnológico da Aeronáutica, where he received a bachelor's degree in electrical engineering in 1973. He also has a master degree in economics from Universidade de São Paulo. Mr. Assis Filho has been a partner of Banco BTG Pactual since 1997.

Renato Monteiro dos Santos is an executive officer of Banco BTG Pactual. For a summary of Mr. Santos' business experience and other biographical information, see "—Senior Management Team" above.

Rogério Pessoa Cavalcanti de Albuquerque is an executive officer of Banco BTG Pactual. For a summary of Mr. Albuquerque's business experience and other biographical information, see "—Senior Management Team" above.

André Fernandes Lopes Dias is an executive officer of Banco BTG Pactual. For a summary of Mr. Fernandes' business experience and other biographical information, see "—Senior Management Team" above.

Iuri Rapoport is an executive officer of Banco BTG Pactual. He joined the BTG Pactual Group in 1995 and became a partner in 2001. In 1999, he became co-head of the legal department and served as general counsel between 2003 and 2009. From 2008 to 2011, he was an executive officer responsible for strategic decisions, prior to leaving the BTG Pactual Group to assume the position of chief operating officer at Banco Pan. In February 2014, Mr. Rapoport returned to the BTG Pactual Group as an executive officer focused on operational and strategic management. Mr. Rapoport received his bachelor's degree in law (with specialization in business law) from University of São Paulo and also holds an LLM - Master of Laws (international finance) from King´s College London, University of London.

Bruno Duque Horta Nogueria is an executive officer of Banco BTG Pactual and a Managing Director Partner. He joined the BTG Pactual Group in 2000 and became a partner in 2009. Mr. Duque has served in a variety of positions in the legal department of Banco BTG Pactual and since 2012, has overseen the legal department for all of Latin America. Prior to joining the BTG Pactual Group, Mr. Duque worked in the Brazilian electricity sector, working in the legal departments of Eletropaulo and Grupo Rede and in the consulting department of the National Electric Energy Agency. Mr. Duque received his bachelor in law from the Universidade São Paulo (USP).

Mariana Botelho Ramalho Cardoso is an executive officer of Banco BTG Pactual that is based in São Paulo. Mrs. Cardoso is head of the anti-money laundering (AML) department of Banco BTG Pactual. She joined Banco BTG Pactual in 1996 and became a partner in 2006. She has spent sixteen years of her career in the Investment Fund Industry and since 2016, joined the Compliance Department of BTG Pactual. Mrs. Cardoso received her bachelor's degree in economics from the Federal University of Rio de Janeiro.

Pedro Bueno da Rocha Lima is an executive officer of Banco BTG Pactual that is based in São Paulo. Mr. Lima joined Banco BTG Pactual in 2007, and worked in Investment Banking, responsible for several transactions in the insurance, health, retail market industries, as well as capital markets and mergers and acquisition transactions generally. In 2012, he became head of the Investor Relations and Corporate Finance department of Banco BTG Pactual. Prior to joining Banco BTG Pactual, he worked in the strategic and financial planning area of Pfizer Inc. and the Mergers and Acquisitions division of Rabobank. Mr. Pedro Lima holds a bachelor's degree in business administration from Fundação Getúlio Vargas - FGV / SP.

Marcelo Flora Sales is an executive officer of Banco BTG Pactual that is based in São Paulo. Mr. Flora is responsible for BTG Pactual digital, an online retail platform, and for the life insurance and pension segment, focused on Wealth Management and retail clients. Mr. Marcelo Flora Sales joined BTG Pactual in 2000 and served, in this period, as responsible for the Distribution area of the Asset Management segment and the FICC Products Distribution of Banco BTG Pactual. Mr. Flora holds a bachelor's degree in Civil Engineering from UERJ - Universidade do Estado do Rio de Janeiro, the State University of Rio de Janeiro.

Alexandre Camara e Silva is an executive officer of Banco BTG Pactual that is based in São Paulo. Mr. Camara is responsible for the Special Situations area, whose activities are related to structured corporate credit operations, Non-Performing Loans, rogatory letters and Legal Claims, High Yield Credit and Structured Finance. Mr. Camara joined BTG Pactual in 2003 and also served as Credit Officer of Banco Prosper and responsible for the Middle Corporate Credit area of Banco BBM. Mr. Alexandre Camara e Silva holds a bachelor‘s degree in Electrical Engineering from PUC-Rio and received his MBA in Finance and Economics and Business Law from FGV-RJ.

Management of our Cayman Islands Branch

Our Caymans Islands Branch does not have a separate management board and it is managed by our board of directors and board of executive officers.

Compensation

General

In 2017, we paid an aggregate of R$54.4 million to the officers and directors of Banco BTG Pactual.

Under Brazilian law, our shareholders are responsible for establishing the aggregate amount of compensation that may be paid to our executive officers and directors. Our board of directors in turn allocates such aggregate amount among our directors and executive officers.

Compensation Committee

Our compensation committee's principal functions are (i) approval of the granting of stock options, (ii) discussion and analysis of our existing compensation models and (iii) evaluation and approval of the compensation packages proposed by the chief executive officer for our executive officers, including the fixed and variable compensation components, benefits and long-term incentive compensation. As of the date of this Offering Memorandum, the members of our compensation committee are Renato Monteiro dos Santos, Roberto Balls Sallouti and Mateus Carneiro.

Committees

Fiscal Council

Under Brazilian Corporations Law, a company may form a fiscal council to operate as a corporate body independent of its management and its independent auditors. A fiscal council may be either permanent or non-permanent. A non-permanent fiscal council is formed at the request of shareholders that represent at least 10.0% of the voting shares or 5.0% of the non-voting shares. Such request may be made at any shareholders' meeting. Our by-laws provide that our fiscal council is a non-permanent body, which, when formed, is composed of a minimum of three and a maximum of five members and their respective alternates, according to Brazilian Corporations Law, and will remain in place for the entire fiscal year in which it was formed. As of the date of this Offering Memorandum, our fiscal council has not been formed.

Under Brazilian Corporations Law, the fiscal council may not include members that are (i) on our board of directors, (ii) on our board of executive officers, (iii) employed by us, (iv) employed by a subsidiary or company under common control with us or (v) spouses or close family members of any member of our board of directors or board of executive officers.

Audit Committee

On May 27, 2004, the CMN issued Resolution No. 3,198, as amended, which regulates the rendering of independent auditors' services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as to clearing houses and clearing and custody service providers. Resolution No. 3,198 requires financial institutions holding a regulatory capital or managing third parties' wealth in amounts equal to or greater than R$1 billion, among other entities, to create an independent corporate body designated as an audit committee. Our audit committee may be composed of three to six members, and is currently composed of three independent members elected by our board of directors. As of the date of this Offering Memorandum, the members of our audit committee are Anibal Cardoso Joaquim, Pedro Paulo Longuini and Cláudio Engênio Stiller Galeazzi. The current composition of our audit committee is in compliance with the CVM Instruction No. 308, which requires the presence of an audit committee in public companies.

Our audit committee is not in compliance with the audit committee requirements mandated by the U.S. Sarbanes-Oxley Act of 2002, nor are we subject to such requirements. In general terms, the audit committee's duties are to supervise the activities of the internal and independent auditors, evaluate the adequacy of the internal controls system and corporate governance practices, and assess whether our books and records are handled appropriately.

Capital and Risk Committee

Our capital and risk committee's purpose is to assist the board of directors in the oversight of the risks we undertake, including market, credit, operational and liquidity risks and our capital consumption. In general terms, our capital and risk committee is responsible for reviewing and discussing with the management (i) our capital plan and ratios, (ii) liquidity risk metrics, strategy and control, (iii) market and credit risk management policies and controls, and (iv) operational and environmental risks control. Our capital and risk committee is composed of three members, a majority of which is considered independent in accordance with paragraph 5 of article 45 of CMN Resolution No. 4,557.

As of the date of this Offering Memorandum, the members of our capital and risk committee are Leandro Marra Romani, João Marcello Dantas Leite and Gustavo Henrique Moreira Montezano.

Compliance Committee

In general terms, our compliance committee's duty is to advise the board of directors on the adoption of strategies, policies and measures aimed at the dissemination of our compliance culture, risk mitigation and compliance with standards applicable to us. Matters related to anti-money laundering, financing of terrorism and anticorruption are under the scope of our compliance committee.

As of the date of this Offering Memorandum, the members of our compliance committee are Nelson Jobim, Roberto Sallouti, Claudio Galeazzi, Mariana Cardoso and Bruno Duque.

Compensation Committee

Our compensation committee is responsible for discussing and approving matters related to compensation, preserving the partnership model and aligning our long-term interests with those of our employees and shareholders. See "—Compensation—Compensation Committee" above.

OUR PARTNERSHIP

Our Partnership

We believe the key to our success is our partnership model. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) substantially enhances the integration of our various business units and maximizes cross-selling of our products, (iii) allows us to maintain an intense, long-term and recurring commitment to our clients, and identify and capitalize on opportunities in the Brazilian and international financial markets, (iv) substantially enhances our ability to attract the best available talent and (v) greatly facilitates our ability to consistently maintain a lean and cost efficient organizational structure. As a result of this model, and the integration of our businesses, we have a diversified revenue mix and low cost to income ratio and have consistently achieved financial results that we believe exceed those of our competitors.

Description of Partnership Model

Partners have been admitted to and left our partnership by purchasing and selling equity interests in us, PPLA Investments and BTG Pactual Holding. As described below, the partnership has the right to purchase all or part of any Partner's Partnership Equity at any time and for any reason, without the consent of the affected Partner. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group has the right to sell all of its Partnership Equity to certain entities that are wholly-owned by the Partners but may not sell to any other third party except as described below.

The purchase and sale of Partnership Equity occurs in a number of circumstances, including, but not limited to, (i) a periodic review of the performance of Partners and employees whereupon we may determine to reallocate the Partnership Equity among our Partners and to promote certain high performing employees, who previously did not own Partnership Equity, to Partner status, simultaneously reducing the Partnership Equity held by certain other Partners (the "Reallocation Transfers") or (ii) admission of individuals as new Partners in connection with the commencement of their activities as executives within the BTG Pactual Group. These reallocations and decisions to admit new Partners are done on a meritocratic basis, following discussions among the Senior Management Team, in an effort to reward individuals who are determined to be making significant contribution to the BTG Pactual Group and who are also perceived to share our partnership culture.

The entities utilized as the purchaser of the Partnership Equity transferred in the circumstances described above are BTG Pactual Holding (with respect to the Partnership Equity that consists of our shares and shares of BTG Pactual Holding) and the Merchant Banking Partnership (with respect to the Partnership Equity that consists of PPLA Investments limited partnership interests). The purchasing entities are wholly-owned by our Partners. Partners entering the partnership or increasing their interest through the allocation and purchase of new interests can receive financing for such purchases from PPLA Investments to the extent they did not have the resources available to effect such purchases.

In order to ensure that the interests of our Partners and our public shareholders are aligned, and to perpetuate the model that we believe is the key to our success, we have implemented several concrete steps to maintain our partnership model. These mechanisms result in the economic burden of incentivizing our most important executives (other than to the extent of costs relating to salaries, bonuses and the cost of PPLA Investments providing financing to Partners that purchase Partnership Equity) being borne by our Partners (through future dilution), rather than being shared with our public shareholders.

Continuation of Purchase/Sale Right

We have the right to cause our current and future Partners to sell all or a portion of their Partnership Equity (at any time and for any reason). This arrangement allows us to continue the practice of reallocating Partnership Equity among Partners and to new individuals who become Partners on a meritocratic basis which we believe substantially enhances our ability to attract and retain talented executives. In addition, any Partner leaving his or her full time employment with the BTG Pactual Group will have the right to sell all of its Partnership Equity to the entities (and only to such entities) wholly-owned by the Partners as described above. Certain of the individuals who purchase Partnership Equity may require loans to purchase such equity interests to the extent they do not have the resources available to effect such purchases. PPLA Investments may make loans to such individuals.

Restrictions on Sales of Partnership Equity

The Partnership Equity is subject to substantial transfer restrictions. These restrictions are primarily designed to maintain our partnership by preventing Partners from selling their Partnership Equity other than as described above with respect to sales among Partners (through BTG Pactual Holding and the Merchant Banking Partnership), subject to certain limited exceptions described below. The Partnership Equity does not include, and the transfer restrictions described in this section do not apply to, our equity securities purchased by the Participating Partners at the same time and on the same terms and conditions as a consortium of international investors or the common shares and Series A preferred shares of us acquired by BTG Pactual Holding in our initial public offering and all additional units acquired by the Partners in the open market in their capacity as Participating Partners (see "Principal Shareholders"). Such transfer restrictions will also not apply to any of the units that may be subsequently purchased in the market or from third parties who are not Partners or affiliates of Partners.

The Partnership Equity may not, directly or indirectly, be transferred or otherwise sold by any Partner, except for "Permitted Partner Transfers" which are limited to transfers:

- to certain related parties that are Permitted Transferees of the transferring Partner;
- pursuant to Reallocation Transfers;
- on a pro rata basis by the Partners to a "Strategic Investor" (as defined below), provided that any such transfer is subject to the approval of our controlling shareholder;
- in connection with a "Change of Control" (as defined below), including pursuant to a mandatory tender offer initiated by the person or group that is acquiring control of us in connection therewith, provided that any such Change of Control will require the approval of our controlling shareholder;
- to a lender in connection with the foreclosure by such lender on a loan that created a lien on such Partnership Equity, provided that such transaction has been approved by our controlling shareholder; and
- pursuant to a certain Partner withdrawal agreement to the extent necessary to facilitate any of the foregoing permitted transfers.

We currently intend to keep these provisions in place with respect to all of the Partnership Equity for the foreseeable future, and are aware of no conditions that would cause us to believe that there is any likelihood that we will modify such provisions.

However, from time to time we consider the specific provisions of our partnership and believe it is important to retain the flexibility to implement changes that we believe to be in the best interests of our business. Accordingly, it is possible, although currently not anticipated or even considered likely, that such provisions may be modified at some future date.

For purposes of the foregoing:

"Change of Control" means a transaction or series of related transactions (other than Reallocation Transfers) pursuant to which our current or future Partners (including any entity that is wholly-owned by such Partners as a group) dispose of or sell, whether directly or indirectly, more than 50% of our common shares to any person or group of persons that is or are not prior to the time of such transaction or the beginning of the series of related transaction, and will not in connection with such transaction or series of related transaction, become, employees, officers, consultants, Partners or other individuals that provide similar full-time services to the BTG Pactual Group;

"Permitted Transferee" of a Partner means (i) any spouse (current or former), sibling, lineal descendants, ancestors, heirs, testamentary trustees or legatees of such Partner or of any spouse of such Partner, (ii) any entity that is controlled and wholly-owned by such Partner or any person described in clause (i) above, for so long as it remains such or (iii) any trust (including a charitable remainder trust) or similar arrangement of which such Partner (or any distributee of such trust if such distributee is a person described in clause (i) above) is the primary beneficiary or has an interest; and

“Strategic Investor” means any *bona fide* third party investor that is unaffiliated with the BTG Pactual Group if BTG Pactual Holding and PPLA GP jointly and reasonably determine in good faith that the inclusion of such investor as a holder of our equity securities can reasonably be expected to enhance the earnings, customer base, business reputation, distribution network or prospects of, or products offered by, the BTG Pactual Group.

Partner Non-Competition Agreements

Each of the members of the Senior Management Team have entered into restrictive covenant agreements and for a period of 12 months following the date such member of the Senior Management Team is no longer providing full-time services to, or acting in a similar capacity with respect to, the BTG Pactual Group, such member of the Senior Management Team has agreed to the following restrictions, among other customary restrictions (including those relating to treatment of confidential information and non-disparagement), any of which may be waived by us at any time: (i) non-compete restrictions; (ii) non-solicitation of employees; and (iii) non-solicitation of clients.

Shareholders Agreements

Partner Brazil Shareholders Agreement

The Partners, BTG Pactual Financeira, BTG Pactual Holding and us are parties to a shareholders agreement (the “Partner Brazil Shareholders Agreement”) which governs the relationship among the Partners with respect to their ownership of the shares of BTG Pactual Holding. The Partner Brazil Shareholders Agreement does not apply to the Partners in their capacity as Participating Partners in respect of our common shares and Series A preferred shares acquired by the Participating Partners in the open market or upon the same terms as a consortium of international investors in December 2010.

Controlling Partners Shareholders Agreement

The Controlling Partners, BTG Pactual Financeira, BTG Pactual Holding, BTG Pactual G7 Holding and we are parties to a shareholders agreement (the “Controlling Partners Shareholders Agreement”), which governs the relationship among the Controlling Partners with respect to their ownership of the shares of BTG Pactual Holding, and the manner in which the Controlling Partners exercise control of BTG Pactual Holding and, indirectly, us.

This Controlling Partners Shareholders Agreement stipulates that certain matters must be submitted to a vote of the Controlling Partners at a general meeting, including, among other matters: (i) any changes to the rights or preferences of G7 Holding’s issued shares, (ii) issuing a new class of G7 Holding shares, (iii) G7 Holding entering into certain corporate transactions such as mergers and acquisitions, (iv) amending the constitutive documents of G7 Holding, (v) any matters that would affect the control of BTG Pactual Holding by G7 Holding or affect the control of Banco BTG Pactual by BTG Pactual Holding and (vi) prior to the exercise of voting rights at a general shareholders’ meeting or board of directors meeting of BTG Pactual Holding. In the event that any clause under the Controlling Partners Shareholders Agreement conflicts with the Partner Brazil Shareholders Agreement or any other related agreement, the Controlling Partners Shareholders Agreement will always prevail.

We anticipate that the Controlling Partners Shareholders Agreement will be amended to reflect the transfer of Marcelo Kalim’s ownership interest in G7 Holding and the entry of André Esteves as one of the controlling shareholders, in each case upon receipt of all necessary corporate and regulatory approvals to effect such transfer.

Control of Banco BTG Pactual

Except as set forth below, the Partner Brazil Shareholders Agreement and the Controlling Partners Shareholders Agreement provide that the Controlling Partners, through G7 Holding, will generally control our management and direct our and our subsidiaries actions (including investment vehicles in which we own a majority interest) (such entities being collectively referred to herein as the “Banco entities”), to the extent applicable through its ownership of a majority of the voting interests of BTG Pactual Holding, which, through BTG Pactual Financeira, indirectly owns a majority of our common shares. Pursuant to the terms and conditions of the Partner Brazil Shareholders Agreement and the Controlling Partners Shareholders Agreement, dated as of December 3, 2015, as amended, any new or additional controlling shareholder of Banco BTG Pactual shall depend on the previous approval of the Central Bank and be in conformity with applicable laws then in effect.

Board of Officers

BTG Pactual Financeira is managed by a board of officers which consists of three members, elected and removed by BTG Pactual Holding.

BTG Pactual Holding is managed by a board of officers which consists of three members, elected and removed by G7 Holding.

Ownership of Our Common Shares by BTG Pactual Holding

The Partner Brazil Shareholders Agreement provides that if we issue any common shares and preferred shares (other than a pro rata issuance to all shareholders), BTG Pactual Holding will exercise its right to convert a certain number of our Series B preferred shares into our common shares. Such conversion is necessary so that (i) BTG Pactual Holding maintains control of us as required by applicable Brazilian laws and (ii) the number of our common shares continues to be no less than 50% of the total number of our common shares and our preferred shares issued and outstanding at any given time.

PRINCIPAL SHAREHOLDERS

As of December 31, 2018, our outstanding capital stock was R$7,392,092,408.36, fully subscribed and paid-in, represented by 2,637,236,572 shares, all nominative, in book-entry form and without par value, consisting of 1,731,276,922 common shares, 456,603,310 Series A preferred shares and 449,356,340 Series B preferred shares. Our capital stock can be increased (without requiring any amendment to our by-laws) up to the limit of 10,000,000,000 shares, subject to the limitation provided for in article 15, §2, of Brazilian Corporations Law (which restricts the number of preferred shares without voting rights to fifty percent of all issued shares), by resolution of our board of directors, which shall establish the issue price, the number of common shares and/or preferred shares to be issued and any additional conditions for the subscription and payment of such shares. Any increase in our capital stock must be approved by the Central Bank.

On October 26, 2018, we concluded a corporate reorganization pursuant to which 1,502,975,267 of our common shares and 449,356,340 of our Class B preferred shares previously held by BTG Pactual Holding, our previous direct controlling shareholder, were contributed to the capital of BTG Pactual Holding Financeira, a newly-formed company in which BTG Pactual Holding holds approximately 99.9% of the share capital. The corporate purpose of BTG Pactual Holding Financeira is exclusively to hold equity interest in financial and other institutions authorized by the Central Bank. Such corporate reorganization aimed to align BTG Pactual Holding's structure with applicable Brazilian legislation, and did not entail any modification to our ultimate ownership structure. As a result of this transaction, as of December 31, 2018, BTG Pactual Holding Financeira holds 86.8% of our common shares and 49.6% of our preferred shares, while as of the same date BTG Pactual Holding directly owns 1.9% of our common shares and 7.2% of our preferred shares. G7 Holding continues to hold the majority of the shares of BTG Pactual Holding.

The following table sets forth, as of December 31, 2018, information relating to the ownership of our shares by (i) BTG Pactual Holding Financeira, which directly holds 86.8% of our voting shares and is controlled by BTG Pactual Holding, which, in turn, is effectively controlled by the Controlling Partners, through G7 Holding, which holds 57.1% of the voting shares of BTG Pactual Holding, (ii) affiliate entities, which represent shares held by our Partners acquired in the open market through their own investment vehicles and, therefore, which are not Partnership Equity and (iii) our free float. The table below does not account for any of our common shares or our preferred shares that may be issued upon conversion of our Series B preferred shares into Series A preferred shares or common shares.

Name	Common	Series A preferred	Series B preferred	% of common	% of preferred
BTG Pactual Holding Financeira Ltda.[1]	1,502,975,267	—	449,356,340	86.8%	49.6%
BTG Pactual Holding S.A. [2][3][4]	32,598,868	65,197,736	—	1.9%	7.2%
Related Party Partner Vehicles [5]	45,624,188	91,248,376	—	2.6%	10.0%
Free float [6]	150,078,599	300,157,198	—	8.6%	33.1%
Total [7]	**1,731,276,922**	**456,603,310**	**449,356,340**	**100.0%**	**100.0%**

(1) BTG Pactual Holding owns approximately 99.9% of the voting shares of BTG Pactual Holding Financeira.

(2) Ownership and control of BTG Pactual Holding, as of December 31, 2018, is as follows: (i) 222,252,366 common shares, or 57.1% of the voting shares of BTG Pactual Holding, are held by G7 Holding, which is the entity owned by the Controlling Partners and (ii) 167,078,469 common shares and 448,043,021 preferred shares, or 42.9% of the voting shares and 76.9% of the total equity of BTG Pactual Holding, are held by our Partners (including Andre Esteves) as Partnership Equity, excluding those shares through G7 Holding. These calculations exclude shares which are held in treasury.

(3) G7 Holding, which is owned and controlled by the Controlling Partners, owns 57.1% of the voting shares and 23.1% of the total equity of BTG Pactual Holding. The individual ownership interests of each Controlling Partner in G7 Holding are, as of December 31, 2018, as follows: (i) Marcelo Kalim, with 796,339,918 shares, or 24.8% of the ownership interest of G7 Holding, (ii) Roberto Balls Sallouti, with 938,543,389 shares, or 29.3% of the ownership interest of G7 Holding, (iii) Renato Monteiro dos Santos, with 625,695,533 shares, or 19.5% of the ownership interest of G7 Holding, (iv) Antonio Carlos Canto Porto Filho, with 455,051,285 shares, or 14.2% of the ownership interest of G7 Holding and (v) Guilherme da Costa Paes, with 391,059,670 shares, or 12.2% of the ownership interest of G7 Holding. On December 28, 2018, Marcelo Kalim announced that he will transfer his entire ownership interest in G7 Holding to BTG Pactual Holding.

As a result of such transactions, subject to the requisite regulatory and corporate approvals, Mr. Kalim will cease to be a Controlling Partner and Banco BTG Pactual shareholder, directly or indirectly. See "Summary—Recent Developments."

(4) As of December 31, 2018, André Esteves holds 154,758,494 common shares and 123,229,429 preferred shares of BTG Pactual Holding, corresponding to 39.7% of the voting interest and 28.9% of the total economic interest of BTG Pactual Holding. Following receipt of the requisite corporate and regulatory approvals, it is expected that André Esteves will join G7 Holding as a Controlling Partner, exchanging certain of his voting interest in BTG Pactual Holding for a corresponding stake in G7 Holding. See "Summary—Recent Developments."

(5) Related Party Partner vehicles consist of ownership interests held by our Partners, outside of BTG Pactual Holding, acquired in open market transactions and, therefore, not considered Partnership Equity.

(6) May include interests held by our Partners other than our Senior Management Team acquired in the open market.

(7) Considering direct and indirect interests held though BTG Pactual Holding, including through G7 Holding, and Related Party Partner Vehicles, the following Partners (including through each Partner's family members or through trusts or other entities) hold a 5.0% or greater economic interest in Banco BTG Pactual as of December 31, 2018: (i) Roberto Balls Sallouti, with 5.0% of the ownership interest of Banco BTG Pactual and (ii) Andre Esteves, with 21.4% of the ownership interest of Banco BTG Pactual.

RELATED PARTY TRANSACTIONS

We engage in related party transactions with certain of our affiliates in the ordinary course of our business, including financing facilities and commercial and services agreements. We believe that these transactions are carried out on an arms-length basis, in accordance with ordinary market practices.

We summarize below certain material agreements entered into with related parties:

Loans

From time to time, including in connection with the acquisition of Banco BTG Pactual, and in connection with the purchase of shares in each of us (indirectly) and BTG Pactual Holding as part of Reallocation Transfers (see "Our Partnership"), BTG Loanco, LLC, a Delaware limited liability company and wholly-owned subsidiary of PPLAI ("BTG Loanco"), Banco BTG Pactual—Cayman Islands Branch, Banco BTG Pactual—Luxembourg Branch, BTG Pactual NY Corporation, and BTG MB Investments L.P. made loans, referred to herein as the Banco BTG Pactual Partner Loans, to certain Partners, in such capacity, the Banco BTG Pactual Debtor Partners, the proceeds of which were used to fund all or a portion of their investment in BTG Pactual Holding. The Banco BTG Pactual Partner Loans mature 20 years after the date of the loan, unless otherwise accelerated as provided below. As of September 30, 2018, the aggregate original principal amount that remained outstanding under such loans (excluding any adjustments to such principal based on the prevailing CDI Rate as described below) was approximately R$4,029.8 million. Because of the steps we have taken to ensure that our partnership model would not change following our initial public offering, we expect to continue to make additional Banco BTG Pactual Partner Loans. See "Our Partnership—Our Partnership—Description of Partnership Model—Continuation of Purchase/Sale Right."

Approximately 83% of Banco BTG Pactual Partner Loans are denominated in *reais* and the remaining amount are denominated in U.S. dollars. The outstanding principal of the Banco BTG Pactual Partner Loans will be adjusted from time to time based on the prevailing CDI Rate for the *real*-denominated loans and LIBOR for the U.S. dollar-denominated loans. The outstanding principal of the Banco BTG Pactual Partner Loans is adjusted by the prevailing CDI Rate for the *real*-denominated loans and LIBOR for the U.S. dollar-denominated loans on a monthly basis.

Banco BTG Pactual Debtor Partners must make mandatory prepayments on the outstanding amounts of the Banco BTG Pactual Partner Loans if any cash distributions or other cash payments are made to the Banco BTG Pactual Debtor Partners on account of their ownership of any shares in Banco BTG Pactual (indirectly) or shares in BTG Pactual Holding or if the Banco BTG Pactual Debtor Partner receives any proceeds from the sale or other disposition of such shares. Banco BTG Pactual Debtor Partners may also voluntarily prepay the Banco BTG Pactual Partner Loans without penalty or premium. In addition, in connection with the payment of annual cash bonuses to Partners, we have generally determined the amount of such bonus that Banco BTG Pactual Debtor Partners are permitted to retain and required Banco BTG Pactual Debtor Partners to use the remainder of such bonus, on an after-tax basis, to pay down outstanding amounts due under their respective Banco BTG Pactual Partner Loans or loans made by PPLAI to certain Partners. The amount of such bonuses that may be retained by Banco BTG Pactual Debtor Partners is generally applied equally among all Banco BTG Pactual Debtor Partners of the same class (determined based upon the country in which they are based and the ownership interest they hold in Banco BTG Pactual (indirectly) and BTG Pactual Holding), although exceptions were made on case by case basis for Partners demonstrating specific liquidity needs. Although the use of bonuses to pay down outstanding loan balances is not required by the terms of the Banco BTG Pactual Partner Loans, a Partner who fails to comply with such policy understands that as a result of such failure, BTG Pactual Holding may exercise its rights to repurchase the shares owned by such Partner at book value. See "Our Partnership."

The Banco BTG Pactual Partner Loans contain events of default, such as payment defaults, bankruptcy and insolvency, and if the Banco BTG Pactual Debtor Partner grants a lien or other encumbrance (other than permitted liens or encumbrances) on its shares (or ceases to own any shares) of BTG Pactual Holding. In the case of an event of default, BTG Loanco, Banco BTG Pactual—Cayman Islands Branch, Banco BTG Pactual—Luxembourg Branch, BTG Pactual NY Corporation, and BTG MB Investments L.P. may, among other things, and subject to certain limitations, declare any amounts outstanding under the Banco BTG Pactual Partner Loan immediately due and payable.

Each Banco BTG Pactual Debtor Partner pledged all of the shares of BTG Pactual Holding owned by such Banco BTG Pactual Debtor to BTG Loanco, Banco BTG Pactual—Cayman Islands Branch, Banco BTG Pactual—Luxembourg Branch, BTG Pactual NY Corporation, and BTG MB Investments L.P. as security for payment of, and performance of obligations under, the Banco BTG Pactual Partner Loans.

Asset Management Services

In the ordinary course of our business, we provide a broad range of asset management services to PPLAI, as well as to the Merchant Banking Partnership, an exempted limited partnership owned by our Partners and through which our Partners conduct certain merchant banking investments in Brazil.

On June 30, 2010, PPLAI transferred Partners Alpha for R$92.4 million to the Merchant Banking Partnership. Following such sale, on April 1, 2010, the Merchant Banking Partnership started to pay a management fee equal to 2.0% of the total AUM of the Merchant Banking Partnership and a performance fee equal to 20.0% of the return on the investments to our asset management unit, which is serving as the investment advisor to such partnership.

In addition, after the sale of Partners Alpha by PPLAI, virtually all of PPLAI's merchant banking investments and investments in multi-asset funds are managed by BTG Pactual Gestora de Recursos Ltda. and BTG Pactual Global Asset Management Limited, respectively, our wholly owned subsidiaries. In connection with these services, we receive management fees, which are calculated as a percentage of asset value (that may vary by asset class) and committed capital, invested capital and total gross acquisition cost with respect to the funds and investment vehicles in which PPLAI invests, and performance fees, when returns of these funds and vehicles exceed specified benchmarks or other performance targets. We receive these fees from the invested funds or vehicles. With respect to exclusive funds created for PPLAI, we believe that the fees we charge are in line with the fees charged by us for exclusive funds created for other clients. For the nine months ended September 30, 2018 and the years ended December 31, 2017, 2016 and 2015, we recorded aggregate revenues of R$36.8 million, R$47.2 million, R$70.7 million and R$183.3 million, respectively, in asset management fees from PPLAI, and R$8.8 million, R$11.6 million, R$11.6 million and R$13.7 million, respectively, in asset management fees from the Merchant Banking Partnership.

Investments by PPLAI in Banco BTG Pactual

In the ordinary course of its business, PPLAI maintains bank accounts with, and has invested in certain financial products offered by us and certain of our subsidiaries, demand deposits and time deposits. In addition, PPLAI has entered into several financial derivative contracts with us. As of September 30, 2018, our net position with respect to all such activities resulted in a liability of US$9.3 million.

Partner Non-Competition Agreements

Please see the section entitled "Our Partnership—Partner Non-Competition Agreements" for a description of these agreements.

Partner Brazil Shareholders Agreement

Please see the section entitled "Our Partnership—Shareholders Agreements—Partner Brazil Shareholders Agreement" for a description of this agreement.

Shared Services Agreement and Call Option with Engelhart CTP

We are party to a shared services arrangement with Engelhart CTP whereby we provide certain operational and back office services to Engelhart CTP in return for the reimbursement of a portion of our administrative expenses (approximately 5.0%). Since the spin-off of Engelhart CTP from Banco BTG Pactual, Engelhart CTP has been increasingly developing its own independent administrative support infrastructure and, therefore, relies on Banco BTG Pactual's services to a lesser degree.

Additionally, in connection with the spin-off of Banco BTG Pactual's commodities platform, Banco BTG Pactual has granted a call option through April 8, 2021 to Engelhart CTP whereby Engelhart CTP has the option to acquire its remaining equity interest held by Banco BTG Pactual for its equity value.

Purchase of Notes by Certain of our Affiliates

Vehicles owned by some of the Partners, acting in their personal capacity, were allocated approximately US$55.4 million in the bookbuilding process of this offering.

REGULATORY OVERVIEW

The Brazilian Financial System and Banking Regulation

Regulatory Framework

The basic institutional framework of the Brazilian financial system was established by Law No. 4,595 of December 31, 1964, as amended (the "**Banking Reform Law**"). The Banking Reform Law created the CMN, which is responsible for examining monetary and foreign currency policies pertaining to economic and social development, as well as overseeing the operation of the financial system.

Principal Regulatory Agencies

The Brazilian national financial system (*Sistema Financeiro Nacional*) is composed, among others, of the following regulatory and inspection bodies:

- the CMN (*Conselho Monetário Nacional*);
- the Central Bank;
- the CVM (*Comissão de Valores Mobiliários*);
- the Brazilian Council of Private Insurance (*Conselho Nacional de Seguros Privados*);
- the SUSEP; and
- the National Superintendency of Private Pension (*Superintendência Nacional de Previdência Complementar*).

The CMN and the Central Bank regulate the Brazilian banking sector. The CVM is responsible for the policies of the Brazilian securities market. Below is a summary of the main functions and powers of the most relevant of these regulatory bodies.

The CMN

The CMN is the chief authority for monetary and financial policy in Brazil, responsible for the overall supervision of Brazilian budgetary, credit, fiscal, monetary and public debt policies.

The CMN has the authority to regulate the credit operations of Brazilian financial institutions and Brazilian currency, to supervise Brazil's foreign exchange and gold reserves, to establish Brazilian saving and investment policies and to regulate the financial institutions operating in Brazil and the Brazilian capital markets with the overarching purpose of promoting economic and social development of Brazil. The CMN also oversees the activities of the Central Bank and the CVM. Specifically, the main responsibilities of the CMN are the following:

- coordinating monetary, credit, budget, tax and public debt policies;
- establishing foreign exchange and interest rate policy;
- protecting the liquidity and solvency of financial institutions;
- overseeing activities related to the stock exchange markets;
- enabling the improvement of the resources of financial institutions and instrument;
- regulating the structure and operation of financial institutions;
- adjusting the volume of forms of payments to the needs of the Brazilian economy;

- directing the investment of the funds of financial institutions, public or private, taking into account different regions of the country and favorable conditions for the stable development of the national economy;

- granting authority to the Central Bank to issue currency and establishing reserve requirement levels; and

- establishing general directives for banking and financial markets.

The Central Bank

The Central Bank is responsible for implementing policies of the CMN as they relate to monetary, credit and exchange control matters, regulating and supervising public and private sector Brazilian financial institutions and monitoring and regulating foreign investment in Brazil.

Specifically, the main responsibilities of the Central Bank are the following:

- managing the day-to-day control over foreign capital inflows and outflows (risk capital and loans in any form);

- setting forth the administrative rules and regulations for investment registration;

- monitoring foreign currency remittances;

- controlling the outflow of funds (in the event of a serious deficit in Brazil's balance of payments, the Central Bank may limit remittances of profit and prohibit remittances as capital for a limited period of time);

- receiving compulsory withholdings and voluntary demand deposits of financial institutions;

- executing rediscount transactions and loans to banking financial institutions and other institutions authorized to operate by the Central Bank;

- acting as a depositary of gold and foreign currency reserves; and

- controlling and approving the incorporation, functioning, transfer of control and equity reorganization of financial institutions and other institutions authorized to operate by the Central Bank.

The CVM

The CVM is a government agency responsible for implementing policies established by the CMN and regulates, develops, controls and inspects the securities market. The CVM is an independent agency linked to the Ministry of Finance. It has independent administrative authority and legal standing. The main responsibilities of the CVM are the following:

- implementing and regulating the securities and exchange policies established by the CMN in accordance with the Brazilian corporations law and securities law; and

- controlling and overseeing the Brazilian securities and derivatives market by: approving, suspending and canceling the registration of public companies; authorizing brokers and dealers to operate in the securities market and public offerings of securities; supervising the activities of public companies, stock exchanges, commodities and futures exchanges, market members, and financial investment funds and variable income funds; requiring full disclosure of material events affecting the market, annual and quarterly reporting by public companies; and imposing penalties applicable to violations in the securities market.

Since 2001, the CVM has had jurisdiction to regulate and oversee the derivatives' market and financial and investment funds that were originally regulated and supervised by the Central Bank. Pursuant to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303, of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds and of transactions involving derivatives were transferred to the

CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. In accordance with Law No. 6,385, of December 7, 1976, as amended, (also known as the Brazilian Securities Exchange Law), the CVM is managed by one president and four directors as appointed by the President of Brazil (and approved by the Senate). The individuals appointed to the CVM must be of good standing and recognized as experts in the field of capital markets. CVM directors are appointed for a single five-year term and one-fifth of the members must be renewed on a yearly basis.

Banking Regulation

Principal Limitations and Restrictions on Financial Institutions

The activities of financial institutions are subject to limitations and restrictions. In general, such limitations and restrictions relate to the offering of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, administration of third party funds and microcredit finance and payroll deduction credit.

The principal restrictions on banking activities established by the Banking Reform Law and further applicable regulations are as follows:

- no financial, banking or credit institution may operate in Brazil without the prior approval of the Central Bank. In addition, foreign banks and financial institutions must be expressly authorized to operate in Brazil by Presidential decree as stipulated by the article 52 of the Temporary Constitutional Provisions Act (*Ato das Disposições Constitucionais Transitórias – ADCT*) and article 18 of the Banking Reform Law;

- a financial, banking or credit institution may not invest in the equity of any other company in Brazil or abroad, except where such investment is approved by the Central Bank based on certain standards established by the CMN. However, investments are permitted without restrictions in such institutions through the investment banking unit of a multiple-service bank or a subsidiary of an investment bank;

- a financial, banking or credit institution may not own real estate other than the property it occupies, except if it takes possession of real estate in satisfaction of a debt or when expressly authorized by the Central Bank, subject to a specific CMN rule to be edited;

- financial institutions are prohibited from carrying out transactions that fail to comply with the principles of selectivity, guarantee, liquidity and risk diversification;

- financial institutions are prohibited from granting loans or advances without an appropriate deed evidencing such debt;

- a financial, banking or credit institution may not lend more than 25.0% of its PR to any single person or group, such restriction to be gradually replaced, starting on January 1, 2019, by no more than 25% of the financial institution's Tier I Capital of its PR;

- financial institutions are prohibited from carrying out repurchase transactions (*operações compromissadas*) in excess of an amount corresponding to 30 times their PR;

- the administration of third party funds should be segregated from other activities and in compliance with the relevant rules imposed by the CVM;

- the registered capital and total net assets of financial institutions must be compatible with the rules governing share capital and minimum capitalization requirements imposed by the Central Bank for each type of financial institution;

- the total amount of funds applied in the fixed assets of financial institutions cannot exceed 50.0% of the respective amount of PR;

- financial institutions may not expose themselves to gold and foreign currencies, assets or liabilities referenced in currency exchange variations in excess of 30.0% of their PR; and

- except as provided in the law in certain situations, may not extend credit to or guarantee transactions which are not compatible with market conditions (such as interest, term, collateral), of (i) its controlling shareholders, directors and members of other statutory bodies (fiscal, advisory and others) and their respective spouses and relatives up to second degree; (ii) individuals or legal entities that hold a qualified interest (as per current regulations) in their capital; (iii) legal entities in which they have qualified interest (direct or indirect); (iv) legal entities in which they have effective operational control or preponderance in the deliberations, regardless of the equity interest; and (v) legal entities with common directors or members of the board of directors. The aggregate outstanding amount of the transaction with related parties above may not exceed 10% of the net worth of the financial institution, adjusted by revenues and expenses deducted by any equity interest held in other institutions authorized to operate by the Central Bank (in Brazil or abroad), and subject to the cap of 1% to individuals and 5% to legal entities. The restrictions with respect to transactions with related parties do not apply to transactions entered into by financial institutions in the interbank market, as well as to additional exceptions contemplated by article 34 of the Banking Reform Law. On October 29, 2018, CMN enacted Resolution No. 4,639, which regulates the conditions and limits for financial institutions and leasing companies for carrying out credit operations with related parties, including, in addition to the above-mentioned, credit operations that may be contracted between financial institutions and their related parties, such as loans and financing, advances, leasing operations, provision of credit limits, among others.

Capital Adequacy and Leverage

We must comply with capital requirements established by the Central Bank and CMN that follow principles recommended by the Basel Committee. The Basel accords are a risk-based guideline that establishes capital requirements for financial institutions. The main principle of the recommendation of the Basel Committee is that financial institutions should maintain a sufficient amount of capital to support the principal risks, including credit, market and operational risks, associated with the level of assets held in their balance sheets, calculated on a consolidated basis.

The regulations imposed by the Central Bank typically follow the guidance proposed by the Basel Committee. Brazilian financial institutions are still required to comply with standardized capital requirements with respect to their market, credit and operational risks.

In June 2004, the Basel Committee approved a framework for risk-based capital adequacy, commonly referred to as the Basel II Accord. The Basel II Accord sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a substantial strengthening of existing capital requirements and fully endorsed previous agreements on the overall design of the capital and liquidity reform package, the Basel III Accord, which was endorsed at the Seoul G20 Leaders summit in November 2010. The Basel III Accord recommendations aim to improve the ability of financial institutions to withstand shocks to the financial or of other sectors of the economy, to maintain overall financial stability and to promote sustainable economic growth.

In March 2013, the CMN and the Central Bank issued a new regulatory framework for the implementation of the Basel III Accord in Brazil. Accordingly, CMN Resolution 4,192 and CMN Resolution 4,193, determined, among other things, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the PR. The PR is used to determine the capital adequacy of Brazilian financial institutions, and is represented by the sum of the Tier 1 capital and Tier 2 capital.

Beginning in October 2013, the Tier 1 capital and Tier 2 started to be calculated as follows under the Basel III Accord:

Tier 1 Capital. Tier 1 capital corresponds to the sum of Common Equity Tier 1 Capital (*Capital Principal*) and Additional Tier 1 Capital (*Capital Complementar*).

The Common Equity Tier 1 Capital (*Capital Principal*) generally corresponds to the sum of: (i) capital stock; (ii) reserves; (iii) unrealized gains; (iv) retained earnings; (v) creditor profit and loss account balances; (vi) deposits in escrow accounts to cover capital shortages (pursuant to the terms of CMN Resolution No. 4,019 of September 29, 2011); and (vii) balance of positive adjustment in a market value of derivative financial instruments used for cash flow hedge, minus: (i) unrealized losses; (ii) treasury stocks eligible for Common Equity Tier 1 Capital (*Capital Principal*); (iii) retained losses; (iv) debtors profit and loss account balances; (v) balance of negative adjustment at a market value of derivative financial instruments used for cash flow hedge; and (vi) prudential adjustments corresponding to: (a) goodwill paid in the acquisition of investments based on the expectation of future profits, net of deferred tax liabilities related to them; (b) intangible assets, (c) actuarial assets related to defined benefit pension funds, net of deferred tax liabilities related to it, to which the financial institution does not have full access; (d) the aggregate value , exceeding 10% of the value ascertained according to the sum of Common Equity Tier 1 Capital (*Capital Principal*), disregarding the respective deductions with regard to the equity elements, of the direct or indirect shareholding investments, lower than 10% of the capital stock of entities compared to financial institutions, not consolidated, plus insurance companies, reinsurers, capitalization companies and open-ended private pension entities and of the shareholding investments lower than 10% of the Common Equity Tier 1 Capital (*Capital Principal*) of an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil , in Common Equity Tier 1 Capital (*Capital Principal*) instruments of institutions which do not belong to the same financial conglomerate; (e) direct or indirect shareholding interests exceeding 10% of the capital stock of entities compared to financial institutions, not consolidated, plus insurance companies, reinsurers, capitalization companies and open-ended private pension entities; (f) non-controlling shareholder interest in banking-licensed subsidiaries and foreign subsidiaries located abroad and which exercise activities equivalent to a financial institution in Brazil; (g) tax credits resulting from temporary differences that depend on the generation of future taxable profits or revenues for their realization; (h) tax credits resulting from tax losses and a negative base of Social Contribution on Net Profits and those originated from such contribution related to calculation periods ended until December 31, 1998; (i) deferred permanent assets; (j) shareholders' interests exceeding 10% of the Common Equity Tier 1 Capital (*Capital Principal*) of an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil , in Common Equity Tier 1 Capital (*Capital Principal*) instruments of institutions which do not belong to the same financial conglomerate; (k) the amount corresponding to investment in premises, controlled financial institution abroad or non-financial entity that is part of the conglomerate, in relation to which the Central Bank does not have access to sufficient information, data and documents for purposes of consolidated global supervision; (l) the negative difference between the amount provisioned and the expected loss from exposures covered by internal systems of credit risk classification (IRB approach); (m) non-controlling shareholding interest in non-banking licensed institutions, locally or abroad; (n) the negative difference between the amount provisioned and the adjustments made in connection with market-value assessment of financial instruments.

Pursuant to CMN Resolution 4,193, as amended, the Central Bank, since January 1, 2016, is allowed to require financial institutions to present an additional rate of Common Equity Tier 1 Capital (*Capital Principal*) over their RWA. Such increase in the limits of Common Equity Tier 1 Capital (*Capital Principal*) is denominated Additional Principal Capital (*Adicional de Capital Principal*) and, according to CMN Resolution No. 4.443, of October 29, 2015, will be imposed upon the following schedule: (i) 0.625% of RWA, in 2016; (ii) 1.25% of RWA, in 2017; (iii) 1.875% of RWA, in 2018; (iv) 2.5% of RWA, from 2019 on. Non-compliance with Additional Principal Capital limits restricts: (i) the payment of variable remuneration to officers and administrators of the respective financial institution; (ii) the payment of dividends and interest on shareholder' equity; (iii) the payment of net surplus and annual compensation to shareholders of credit cooperatives; (iv) the repurchase of shares, in any amount; and (v) any possible capital decrease.

Additional Tier 1 Capital (*Capital Complementar*) corresponds to the sum of all amounts under instruments that adhere to all the following conditions: (i) being in registered form, when issued in Brazil and, when issued abroad, whenever local legislation so permits; (ii) being paid in cash; (iii) having a perpetual nature; (iv) having their payment subordinated to the payment of other liabilities of the respective issuer, except for the payment of the elements that make up the Common Equity Tier 1 Capital (*Capital Principal*), in case of dissolution of the issuing institution; (v) providing that the payment of their compensation shall only be made with funds resulting from profits and profits reserves subject to distribution in the last period of determination; (vi) providing for the suspension of payment of compensation that exceeds the funds available for this purpose; (vii) providing for the suspension of payment of compensation on a *pro rata* basis to the restriction imposed by the Central Bank to the distribution of dividends or other results regarding stocks, quotas or *quotas-partes*, eligible to Common Equity Tier 1 Capital (*Capital Principal*); (viii) providing for the suspension of payment of compensation in case the issuing institution presents insufficient compliance with the Additional Principal Capital (*Adicional de Capital Principal*) (in this case the suspension will be on a *pro rata basis*) or the payment results in noncompliance with the minimum requirements of Common Equity Tier 1 Capital (*Capital Principal*), Tier 1 Capital and PR; (ix) having their redemption or repurchase subject to Central Bank's approval; (x) being only redeemable upon the issuer's initiative; (xi) not being subject of any guarantee, insurance or other similar mechanism; (xii) not presenting any provision that directly or indirectly modifies the amount originally raised except for the cases of repurchase and redemption provided therein; (xiii) not providing for changes to the terms or payment conditions agreed; (xiv) not having their purchase directly or indirectly financed by the issuing institution; (xv) providing for a write-off event (a) disclosure by the issuing institution, in the form established by the Central Bank, that its Common Equity Tier 1 Capital (*Capital Principal*) is lower than 5.125% of its RWA, (b) execution of a commitment of contribution to the issuing institution if the exception provided for in the *caput* of article 28 of the Supplementary Law No. 101, of May 4, 2000 occurs, (c) upon the imposition of intervention or RAET by the Central Bank on the issuing institution; or (d) upon Central Bank's decision on write-off or conversion in accordance with requirements and specific regulation from CMN; (xvi) providing that the occurrence of the situations in items (v), (vi), (vii), (viii), (xv) and (xviii) shall not be deemed as an event of default; (xvii) providing that compensation unpaid due to the provision of item (v) and the compensation related to the suspension period described in items (vi), (vii) and (viii) shall be deemed extinguished; and (xviii) providing that write-off or conversion of the debt will not occur in case of ongoing review or republication of documents used for purposes of calculation of the ratio between Common Equity Tier 1 Capital (*Capital Principal*) and RWA. From this amount, the following must be excluded: (i) fund-raising instruments issued by an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil (except for those belonging to the same financial conglomerate) and (ii) shares of own issuance authorized to make up the Additional Tier 1 Capital (*Capital Complementar*).

Tier 2 capital corresponds to the sum of the amounts corresponding to (i) the positive difference between the amount provisioned and the expected loss from exposures covered by internal systems of credit risk classification (IRB approach) and (ii) instruments that comply with the following conditions: (a) being in registered form, when issued in Brazil and, when issued abroad, whenever local legislation so permits; (b) being paid in cash; (c) for a minimum period of five years between the date of issuance and maturity date, and no repayment is permitted; (d) having their payment subordinated to the payment of other liabilities of the respective issuer, except for the payment of the elements that make up the Common Equity Tier 1 Capital (*Capital Principal*) and the Additional Tier 1 Capital (*Capital Complementar*), in case of dissolution of the issuing institution; (e) having their early redemption or repurchase subject to Central Bank's approval; (f) being only redeemable upon the issuer's initiative; (g) not being subject to any guarantee, insurance or other similar mechanism; (h) not presenting any provision that modifies deadlines or payment conditions agreed upon within the issue and the maturity of the instrument, including in accordance with the credit quality of the issuing institution; (i) not having their purchase directly or indirectly financed by the issuing institution; (j) providing for a write-off event (1) disclosure by the issuing institution, in the form established by the Central Bank, that its Common Equity Tier 1 Capital (*Capital Principal*) is lower than 4.5% of its RWA, (2) execution of a commitment of contribution to the issuing institution if the exception provided for in the *caput* of article 28 of the Supplementary Law No. 101, of May 4, 2000 occur, (3) upon the imposition of intervention or RAET by the Central Bank on the issuing institution; or (4) upon Central Bank's decision on write-off or conversion in accordance with requirements and specific regulation from CMN; (k) providing that the occurrence of the situations in items (j) and (l) shall not be deemed as an event of default; (l) providing that write-off or conversion of the debt will not occur in case of ongoing review or republication of documents used for purposes of calculation of the ratio between Common Equity Tier 1 Capital (*Capital Principal*) and RWA. From this amount, the following must be excluded: (i) fund-raising instruments issued by an institution authorized to operate by the Central Bank or by an institution located abroad and which exercises activities equivalent to a financial institution in Brazil (except for those belonging to the same financial conglomerate) and (ii) shares of own issuance authorized to make up Tier 2 Capital.

In addition to the changes above relating to the calculation of the PR, this new set of rules introduced the concept of quasi-financial institutions (*instituições assemelhadas*) and required consolidation of such quasi-financial institutions into the financial statements of financial institutions.

The Basel III Accord regulatory capital requirements will be gradually increased by the Central Bank until 2022 and may require Banco BTG Pactual to increase its capital basis, which could negatively impact its results and adversely affect its ratios mentioned above. In addition, due to changes in the rules concerning capital adequacy or due to changes in the performance of the Brazilian economy as a whole, Banco BTG Pactual may be unable to meet the minimum capital adequacy requirements required by the Central Bank. Banco BTG Pactual may also be compelled to limit its credit operations, dispose its assets and/or take other measures that may adversely affect.

Prudential Regulation

CMN Resolution No. 4,553, issued on January 30, 2017, established the division of financial institutions and other Central Bank-licensed entities for purposes of regulation, according to their respective size and risk profile, into five segments, based on the size and significance of international activity:

- Segment 1, composed of multiservice banks, commercial banks, foreign investment banks, exchange banks and savings banks (*caixas econômicas*) (a) whose size is equal to or greater than 10% of Brazilian GDP; or (b) performing significant international activity, regardless of their size;

- Segment 2, composed of multiservice banks, commercial banks, foreign investment banks, exchange banks and savings banks whose size is less than 10% and equal to or higher than 1% of Brazilian GDP, as well as other entities whose size is equal to or higher than 1% of Brazilian GDP;

- Segment 3, composed of any institution whose size is less than 1% and equal to or greater than 0.1% of Brazilian GDP;

- Segment 4, composed of any institution whose size is less than 0.1% of Brazilian GDP; and

- Segment 5, composed of (a) any institution whose size is less than 0.1% of Brazilian GDP and which applies a simplified methodology for calculation of minimum requirements of regulatory capital, Tier I Capital and Common Equity Tier 1 Capital, except for multiservice banks, commercial banks, investment banks, exchange banks and savings banks; and (b) institutions not required to calculate regulatory capital.

As of the date hereof, Basel III rules and other prudential regulations are, apart from certain exceptions (such as concerning credit cooperatives) the same for any entity authorized to operate by the Central Bank.

CMN Resolution No. 4,557, issued on February 23, 2017, sets a regulatory framework which aims to adopt Basel recommendations on banking regulation relating to risk and capital management for Brazilian financial institutions. The rule provides that risk management must be conducted through an integrated effort by the relevant entity (i.e., not only must risks be analyzed on an individual basis, but financial institutions and other Central Bank-licensed institutions must also control and mitigate the adverse effects caused by the interaction between different risks). It also expands the rules and requirements on risk management governance and the competence and duties of the risk management officer. Under this resolution, financial institutions must implement a continuous and integrated risk management structure compatible with their business model. Such structure must be compatible with the financial institution in terms of: (i) the nature of operations, including complexity of products and services; (ii) size and risk exposure; and (iii) systemic importance.

Regulation of Risk and Capital Management Structure

On February 23, 2017, CMN enacted Resolution No. 4,557, which unifies and expands the Brazilian regulation on risk and capital management for Brazilian financial institutions and other institutions authorized to operate by the Central Bank. The new rule is also an effort to incorporate into Brazilian regulation new recommendations from the Basel Committee on Banking Supervision. The rule provides that risk management must be conducted through an integrated effort by the relevant entity (i.e., not only must risks be analyzed on an individual basis, but financial institutions and other institutions authorized to operate by the Central Bank must also control and mitigate the adverse effects caused by the interaction between different risks). It also expands the rules and requirements on risk management governance and the competence and duties of the risk management officer.

The rule sets out different structures for risk and capital management which are applicable for different risk profiles, based on the risks profiles set out in the applicable regulation. This means a financial institution of smaller systemic importance can have a simplified structure of management, while institutions of larger complexity have to follow stricter protocols.

Reserve and Other Requirements

Currently, the Central Bank imposes a series of requirements on financial institutions regarding compulsory reserves. Financial institutions must deposit reserves with the Central Bank. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system.

Some of the most relevant types of reserves required under Brazilian law include:

Demand Deposits. Pursuant to Central Bank Circular No. 3,917, of November 22, 2018, banks and other financial institutions are generally required to maintain a mandatory reserve of 21% of the average daily balance over the amounts on their demand time deposits and certain other amounts, after a deduction of R$500.0 million. If the applicable reserve requirement for a financial institution is equal to or below R$0.5 million, the financial institution will be exempt from setting aside reserve requirements as set forth by Circular No. 3,917, however, it must provide information to the Central Bank regarding demand deposits held by it. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and part of such deposits will bear no interest. At the end of each day, the balance of such account must be equivalent to at least 65.0% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Savings Accounts. Pursuant to Circular No. 3,093 dated March 1, 2002, as amended, the Central Bank established that Brazilian financial institutions are generally required to deposit in a SELIC-based interest-bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 20% of the average aggregate balance of savings accounts during the prior week. In addition, a minimum of 65.0% of the total amount of deposits in savings accounts held by the members of the Brazilian Savings and Loan System ("SBPE") must be used to finance the real estate sector, 80.0% of which must be allocated to residential real estate or the housing construction sector, as determined by CMN Resolution No. 3,932 of December 16, 2010, such Resolution to be revoked and replaced, as of January 1, 2019, by CMN Resolution No. 4,676 of July 31, 2018, which maintains the current thresholds, as set out above.

Time Deposits. In accordance with Central Bank Circular No. 3,916, of November 22, 2018, banks are subject to a mandatory reserve of 33.0% in the calculation period from December 17, 2018, of the average daily balance of their time deposits and certain other amounts, after a deduction of R$30.0 million, in the amount exceeding: (i) R$3.6 billion, for financial institutions with a Tier I component of the regulatory capital below R$3.0 billion; (ii) R$2.4 billion, for financial institutions with a Tier I component of the regulatory capital equal or higher than R$3.0 billion and below R$10.0 billion; (iii) R$1.2 billion, for financial institutions with a Tier I component of the regulatory capital equal to or higher than R$10.0 billion and below R$15.0 billion; and (iv) zero, for financial institutions with a Tier I component of the regulatory capital equal to or higher than R$15.0 billion. If the applicable reserve requirement of a financial institution is below R$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,916, although it must provide information to the Central Bank on time deposits it holds. Amounts subject to this reserve requirement shall be deposited in cash in a specific account and part of such deposits will bear interest at a SELIC-based rate. At the end of each day, deposited amounts shall be equivalent to 100% of the applicable reserve requirement.

Asset Composition Requirements

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred charges) of Brazilian financial institutions may not exceed 50.0% of the sum of their PR, calculated in accordance with criteria established by the Central Bank.

Brazilian financial institutions cannot have more than 25.0% of their PR allocated to credit transactions (including guarantees) extended to the same customer (including its parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their PR. On February 2, 2018, the Central Bank submitted to public hearing, the Public Hearing No. 59/2018, a proposal setting to improve the foregoing regulation. As a result of the Public Hearing No. 59/2018, the Central bank issued CMN Resolution 4,667, which restricts certain financial institutions from extending credit to any person or group of related persons in an aggregate amount over 25.0% of the financial institution's Tier I capital. Also, institutions deemed as systemically worldwide relevant by the Financial Stability Council (*Conselho de Estabilidade Financeira*) shall not exceed the amount of 15.0% of its Tier I capital in regards to exposures with another institution deemed systemically worldwide relevant institution.

Repurchase Transactions

Repurchase transactions (*operações compromissadas*) are sale and repurchase agreements involving the sale of securities. Repurchase transactions carried out in Brazil are subject to operating capital limitations based on the financial institution's PR. A financial institution may only carry out repurchase transactions for an amount up to 30 times its PR. Within this limitation, repurchase transactions involving private bonds may not exceed five times the amount of PR.

Transactions with Affiliates

Brazilian Law No. 7,492, enacted on June 16, 1986, which regulates crimes against the Brazilian financial system, defines as a crime the extension of credit by a financial institution to any of its directors or officers and certain of their family members, as well as any entity controlled directly or indirectly by such financial institution or which is subject to common control of such financial institution (except loans to leasing subsidiaries). Violations of Law No. 7,492 are punishably by two to six years' imprisonment and a fine. On June 30, 1993, the Central Bank issued Resolution No. 1,996, which requires any such transaction to be reported to the Public Prosecutor's office.

Foreign Currency Loans

Pursuant to Central Bank regulation, financial institutions may borrow foreign currency denominated funds in international markets without obtaining the Central Bank's prior written consent, including to on-lend such funds to Brazilian individuals or companies in Brazil and other financial institutions. Banks make these on-lending transactions through loans payable in *reais*, though they are adjusted by foreign currency variation. The lending terms must reflect the terms of the original transaction. The interest rate charged on the underlying foreign loan must also be consistent with international market practices. In addition to the original cost of the transaction, the financial institution may only charge an additional on-lending fee.

The Central Bank may set limitations on the term, interest rate and general conditions of foreign currency loans. The Central Bank may change such limitations depending on the economic environment and the Brazilian government's monetary policy.

Substantially all foreign credit operations are subject to registration with the electronic system of the Central Bank, through the so-called RDE-ROF Module. Failure to correctly inform the Central Bank of the terms of such foreign credit transaction may subject the financial institution to warnings and fines.

Treatment of Overdue Debts

The Central Bank, through CMN Resolution No. 2,682 of December 21, 1999, as amended, requires financial institutions to classify credit transactions in accordance with their level of credit risk as either, "AA," "A," "B," "C," "D," "E," "F," "G" or "H" and make provisions according to the risk level attributed to each transaction. Such credit classifications are responsibility of the institution holding the credit and must be made based on consistent and verifiable criteria, supported by internal and external information, covering at least the following aspects: (i) the condition of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, administration and quality of controls, punctuality and delay in payments, contingencies and credit limits; and (ii) the terms of the transaction, such as its nature and purpose, type of collateral , in particular, its level of adequacy and liquidity and the total amount of the credit. Where there are several credit transactions involving the same customer, economic group or group of companies, the credit risk must be determined by analyzing the particular credit transaction of such customer or group which represents the greatest credit risk to the financial institution.

Credit transactions of up to R$50,000 may be classified either by the financial institution's own evaluation method or according to the number of days such transaction is past due, whichever is more stringent, observed that the classification must correspond, at least, to risk level A.

Credit classifications are required to be reviewed:

on a monthly basis, in the event of a delay in the payment of any installment of principal or interest, in accordance with the following risk classifications:

(1) 1 to 14 days overdue: risk level A, at least;

(2) 15 to 30 days overdue: risk level B, at least;

(3) 31 to 60 days overdue: risk level C, at least;

(4) 61 to 90 days overdue: risk level D, at least;

(5) 91 to 120 days overdue: risk level E, at least;

(6) 121 to 150 days overdue: risk level F, at least;

(7) 151 to 180 days overdue: risk level G, at least; and

(8) more than 180 days overdue: risk level H;

every six months, in the case of transactions involving the same customer, economic group or group of companies, the amount of which exceeds 5.0% of the adjusted net worth of the financial institution in question; and

once every 12 months, in all circumstances, except in the case of credit transactions with a customer whose total liability is lower than R$50,000, the classification of which may be classified through the adoption of an internal evaluation model or due to the delays stated in art. 4, item I, of such Resolution.

Failure to comply with the requirements established by the Central Bank will result in the reclassification of any transaction to risk level H, regardless other administrative measures.

Credit loss provisions must be made monthly by each financial institution in accordance with the following and shall not be less than the sum resulting from the application of the following percentages:

- 0.5% of the total amount of credit transactions classified as level A;
- 1.0% of the total amount of credit transactions classified as level B;
- 3.0% of the total amount of credit transactions classified as level C;
- 10.0% of the total amount of credit transactions classified as level D;
- 30.0% of the total amount of credit transactions classified as level E;
- 50.0% of the total amount of credit transactions classified as level F;
- 70.0% of the total amount of credit transactions classified as level G; and
- 100.0% of the total amount of credit transactions classified as level H.

Internal Compliance Procedures

On August 28, 2017, the CMN enacted Resolution No. 4,595 providing that Brazilian financial institutions and other institutions authorized to operate by the Central Bank shall implement and maintain a compliance policy compatible with the nature, size, complexity, structure, risk profile and business model of the institution. The compliance policy is intended to ensure an effective compliance risk management by the institution and may be established at the consolidated enterprise level (*conglomerado prudencial*). Among other minimum requirements, the compliance policy must establish the scope and purpose of the compliance function in the institution, the position in the organizational structure of the institution, of the specific unit responsible for the compliance function, the allocation of sufficient, adequately trained and experienced staff in the compliance function, and the segregation of roles among the staff involved in the compliance function in order to avoid conflicts of interest.

The compliance policy must be approved by the board of directors and the regulation also assigns to the board the responsibility to ensure: (i) it is adequately managed throughout the institution; (ii) its effectiveness and continuous application; (iii) its communication to all employees and relevant services providers; and (iv) the dissemination of integrity and ethical standards as part of the institutions culture. The board of directors is also responsible for ensuring the application of correctional measures in case of compliance breaches, and providing the necessary means for the activities related to the compliance functions to be adequately conducted.

Brazilian Payment and Settlement System

The rules for the settlement of payments in Brazil are based on the guidelines adopted by the BIS. The Brazilian Payment and Settlement System (*Sistema de Pagamentos Brasileiro*) ("SPB") comprises the entities, systems and procedures related to the processing and settlement of funds transfer operations, transactions with foreign currency or financial assets and securities. The following entities are members of the SPB: check clearing services, clearing and settlement of electronic orders of debit and credit, money transfer and other financial assets, clearing and settlement of transactions with securities, clearing and liquidation of transactions carried out on commodities and futures exchanges, and others, collectively referred to as Financial Market Infrastructure (IMF) operators. Beginning in October 2013, with the enactment of Law No. 12,865, the arrangements and payment institutions also became part of the SPB.

SPB presents a high degree of automation, with increasing use of electronic media for transfer funds and settlement of obligations, to replace paper-based instruments. Up until the mid-1990s, changes in the SPB were driven by the need to deal with high inflation rates and, therefore, the technological progress achieved was mainly aimed at increasing the processing speed of financial transactions.

In the remodel conducted by the Central Bank until 2002, the focus redirected to risk management. The entry into operation of the Reserve Transfer System ("STR"), in April 2002, as established by Central Bank Circular 3,100 of March 28, 2002, marks the beginning of a new phase of SPB. The STR, managed and operated by the Central Bank, is a real-time gross settlement system for funds transfers in Brazil. STR is the core system of the SPB, as it settles transactions in the monetary, foreign exchange and capital markets between the financial institutions that hold accounts at the Central Bank. The funds transfers are settled by STR in the accounts held at the Central Bank. Also, in addition to these financial flows, the net positions of the clearing and settlement systems are settled through the STR. STR's direct participants can issue funds transfer orders on their own behalf or on behalf of a third party. The receiver can be other STR's direct participants or their clients. Funds transfers are final, that is, irrevocable and unconditional. In this sense, it is only possible to undo a transaction through another transaction in the opposite direction. In addition, in order to guarantee the stability of the system, the STR funds transfers are conditioned to the existence of sufficient balance in the account of the transferring participant.

The Central Bank and institutions authorized by it to operate, the Financial Market Infrastructure (IMF) operators, such as the B3, and the National Treasury Secretariat are participants of the STR.

With this system, Brazil became part of the group of countries in which transfers of interbank funds can be settled in real time, irrevocably and unconditionally. In order to ensure liquidity and hence better functioning of the payment system in the real-time settlement environment, two aspects are especially important:

- use by banks of the reserve requirement balances throughout the day for bond settlement purposes, since the verification of compliance is based on end of day balances; and

- activation by the Central Bank of a routine to optimize the process of settlement of transfer orders of funds held in queues within the STR.

Financial institutions and other institutions chartered by the Central Bank are also required under these rules to create a risk management framework and a capital management structure, in accordance with certain procedures established by the Central Bank, such as CMN Resolution No. 4,557, issued by the CMN on February 23, 2017. The risk management framework should include:

- policies and strategies for risk management, clearly documented, which establishes limits and procedures to maintain exposure to the risks;

- effective processes of tracking and timely reporting of exceptions to risk management policies, limits and levels of risk appetite;

- systems, routines and procedures for risk management;

- period evaluation of the adequacy of the systems, routines and procedures mentioned in the item above;

- policies, processes and proper controls to ensure the identification of risks inherent to: (a) new products and services; (b) relevant changes to existing products and services; (c) significant changes in processes, systems, operations and model of the business of the institution; (d) hedge strategies and risk-taking initiatives; (e) significant corporate reorganizations; and (f) change in the macroeconomic perspectives;

- roles and responsibilities for risk management purposes, clearly documented, that assigns attributions to the staff of the institution at its various levels, including outsourced service providers;

- stress testing program;

- continuous evaluation of the effectiveness of the risk mitigation strategies used, considering, among other aspects, the results of the stress tests;

- clearly documented policies and strategies for the management of business continuity; and

- timely management reports for the institution's board of directors, the risk committee and the executive board concerning, among other issues, actions for risk mitigations and its effectiveness and assumptions and results of the stress tests.

Insolvency Laws Concerning Financial Institutions in Brazil

Financial institutions are subject to the proceedings established by Law No. 6,024, enacted on March 13, 1974, as amended, and Decree-Law No. 2,321, enacted on February 25, 1987, as amended by Decree-Law No. 2,327 enacted on April 24, 1987, which establish the applicable provisions in the event of intervention, temporary administration or extra-judicial liquidation by the Central Bank, as well as to bankruptcy proceedings.

Intervention and extra-judicial liquidation occur when a financial institution is in a precarious financial condition or upon the occurrence of events that may impact the creditors' situation. Such measures are imposed by the Central Bank in order to avoid the bankruptcy of the entity.

Intervention

Pursuant to Law No. 6,024/74, the Central Bank has the power to appoint an intervener to intervene in the operations of or to liquidate any financial institution other than public financial institutions controlled by the Brazilian federal government. An intervention may be ordered at the discretion of the Central Bank if any of the following is detected:

- due to mismanagement, the financial institution has suffered losses leaving creditors at risk; and

- the financial institution has consistently violated Brazilian banking laws or regulations.

As of the date on which it is ordered, the intervention will automatically: (i) suspend the enforceability of payable obligations; (ii) suspend maturity of any previously contracted obligations; and (iii) freeze deposits existing on the date on which the intervention is ordered. The intervention ceases: (a) if interested parties undertake to continue the economic activities of the financial institution, by presenting the necessary guarantees, as determined by the Central Bank; (b) when the situation of the financial institution is normalized, as determined by the Central Bank; or (c) when extra-judicial liquidation or bankruptcy of the entity is ordered.

Intervention may also be ordered upon the request of a financial institution's management, if their respective bylaws entitles them to this jurisdiction - with an indication of the causes of the request, without prejudice to civil and criminal liability in which the same administrators incur, by the false or malicious indication. Any such intervention period should not exceed six months, which may be extended only once for up to six additional months by the Central Bank. The intervention proceedings are terminated if the Central Bank establishes that the irregularities that have triggered an intervention have been eliminated. Otherwise, the Central Bank may extra-judicially liquidate the financial institution or authorize the intervener to file for voluntary bankruptcy under Law No. 11,101 of February 9, 2015, or the Brazilian Bankruptcy Law ("BBL"), among other situations, if the assets of the intervened institution are insufficient to satisfy at least 50.0% of the amount of its outstanding unsecured debts.

Extra-judicial Liquidation

Extra-judicial liquidation is an administrative proceeding ordered by the Central Bank (to financial institutions other than those controlled by the Brazilian federal government) and conducted by a liquidator appointed by the Central Bank. This extraordinary measure aims at terminating the activities of a troubled financial institution, removing it from the Brazilian national financial system, liquidating its assets and paying its liabilities, as in an-extra judicially decreed bankruptcy.

The Central Bank will order the extra-judicial liquidation of a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they become due, or upon the occurrence of an event that indicates a state of insolvency under the rules of the BBL;
- management seriously violates Brazilian banking laws, regulations or rulings;
- the institution suffers a loss which subjects its unprivileged and unsecured creditors to severe risk; and/or
- upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days or, if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.

Extra-judicial liquidation may also be ordered upon the request of a financial institution's management, if its respective bylaws entitles it to this jurisdiction, or on a proposal from the intervener, with an indication of the causes of the request.

The decree of extra-judicial liquidation will: (i) suspend the actions or foreclose on rights and interests relating to the collection of the entity being liquidated, and no other actions or executions may be brought during the liquidation; (ii) accelerate the obligations of the entity being liquidated; (iii) interrupt the statute of limitations with regard to the obligations assumed by the institution; (iv) failure to comply with the penal clauses provided in unilateral agreements that became due by virtue of the extra-judicial liquidation; (v) ratably deduct interest, against the estate, until the date when the debts are paid in full; (vi) no claim for monetary correction of any passive currencies or pecuniary penalties for infringement of criminal or administrative laws; and (vii) freeze all assets belonging to the managers (who acted as managers in the 12 months preceding the declaration of liquidation of the financial institution (this rule also applies to the intervention and bankruptcy process) until their respective liabilities are fully settled.

Extra-judicial liquidation procedures may be terminated (a) if the financial institution is declared bankrupt or (b) by discretionary decision of the Central Bank in the following events: (i) full payment of the unsecured creditors; (ii) change of corporate purpose of the institution to an economic activity that is not part of the National

Financial System; (iii) transfer of the controlling interest of the financial institution; (iv) conversion into ordinary liquidation; (v) exhaustion of the assets owned by the financial institution, upon its full realization and distribution of the proceeds among the creditors, even if full payment of the credits did not occur; or (vi) the remaining asset is acknowledged by the Central Bank as illiquid or of difficult realization.

Temporary Special Administration Regime (RAET)

In addition to the intervention procedures described above, the Central Bank may also establish a RAET, which is a less intrusive form of intervention in private and non-federal public financial institutions. A RAET also allows troubled institutions to continue to operate their activities in the ordinary course. The RAET may be ordered in the case of an institution which:

- enters into recurrent operations that are against economic or financial policies set forth in federal law;
- faces a shortage of assets;
- fails to comply with the Compulsory Reserves rules maintained by the Central Bank;
- has reckless or fraudulent management;
- carries out activities which call for an intervention; or
- the occurrence of any of the situations described above that may result in a declaration of intervention.

The main objective of a RAET is to assist the troubled institution under special administration to recover and avoid intervention and/or liquidation. A RAET does not affect the day-to-day business, operations, liabilities or rights of the financial institution, which continues to operate in the ordinary course. The RAET also immediately results in the loss of the term of office of the administrators and members of the Audit Committee of the institution.

There is no minimum term for a RAET, but such procedure ceases upon the occurrence of any of the following events: (i) acquisition of share control of the financial institution by the Brazilian federal government, (ii) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (iii) when, at the discretion of the Central Bank, the institution's situation has normalized or (iv) declaration of extra-judicial liquidation of the financial institution.

Repayment of Creditors in a Liquidation or Bankruptcy

Pursuant to the provisions of the BBL, in the event of extra-judicial liquidation or bankruptcy of a financial institution, creditors are paid pursuant to their priorities and privileges. Pre-petition claims are paid on a pro rata basis in the following order:

- labor claims, capped at an amount equal to 150 times the minimum wages per employee, and claims relating to labor accidents;
- secured claims up to the encumbered asset value;
- tax claims, regardless of their nature and commencement of time, except tax penalties;
- claims with special privileges;
- claims with general privileges;
- unsecured claims;
- contractual fines and pecuniary penalties for breach of administrative or criminal laws, including those of a tax nature; and
- subordinated claims.

Super-priority and post-petition claims (for example, costs related to the liquidation or bankruptcy procedure), as defined under the BBL, are paid with preference over pre-petition claims.

In November 1995, the Central Bank created the Credit Guarantee Fund ("FGC") to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy or other state of insolvency. The member entities of the FGC are financial institutions, which take demand, time and savings deposits, as well as savings and loan associations. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions that work with customer deposits.

The FGC is a deposit insurance system that guarantees, pursuant to CMN Resolution No. 4,688 of September 25, 2018, as amended, a maximum amount of R$250,000 of deposit and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group) and a maximum amount of R$1.0 million by creditor against the set of all consolidated financial institutions at each period of four years. The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In addition, Law No. 9,069 was introduced in 1995 affecting the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. Such law confers immunity from attachment on compulsory deposits maintained by financial institutions with the Central Bank. Such deposits may not be attached in actions by a bank's general creditors for the repayment of debts.

Cancellation of Banking License

Law No. 13,506 of November 13, 2017, together with specific regulations adopted by Central Bank Circular No. 3,857 of November 14, 2017, as amended by Circular No. 3,910 of August 17, 2018, provides penalties that can be imposed upon financial institutions in certain situations. Among them, a financial institution may be subject to the cancellation of its license to operate and/or to perform certain activities or modalities of operations in case of serious offense.

Pursuant to the annex of CMN's Resolution No. 4,122 of August 2, 2012, as amended, the Central Bank may also cancel the financial institution's authorization to operate if one or more of the following situations occur: (i) failure to carry out the financial transactions that usually characterize the type of financial institution in which the respective entity is classified, (ii) operational inactivity (iii) the institution is not located at the address that was provided to the Central Bank, (iv) failure to provide the financial statements required by the regulations to the Central Bank for over four months without acceptable justification, and/or (v) failure to observe the agreed business plan as described in the annex. The cancellation of a banking license may only occur after the appropriate administrative proceedings are carried out by the Central Bank.

Anti-Money Laundering Regulations

Law No. 9,613 of March 3, 1998, as amended by Law No. 12,683 of July 9, 2012 and Law No. 13,506 of November 13, 2017 ("the Anti-Money Laundering Law"), plays a major role for those engaged in banking and financial activities in Brazil. The Anti-Money Laundering Law sets forth the definition and the penalties to be incurred by persons involved in activities that comprise the "laundering" or concealing of property, rights and assets, as well as a prohibition on using the financial system for these illicit acts.

Pursuant to the Anti-Money Laundering Law, financial institutions must: (i) identify and maintain up-to-date records regarding their clients; (ii) maintain internal controls and records; (iii) review and supervise transactions or proposals with characteristics which may indicate the existence of a money laundering crime; (iv) keep records of transactions involving electronic transfers and checks for a period of at least five years; (v) keep records of transactions that exceed R$10,000 in a calendar month, or reveal a pattern of activity that suggests a scheme to avoid identifications, for a period of at least five years; (vi) keep records of transfers involving electronic transfers, checks, administrative checks or payment orders that exceed R$1,000; and (vii) inform the appropriate authorities, and refrain from providing notice of such act to any person, including the one to which the information refers, of any suspicious transaction or set of transactions performed by individuals or entities pertaining to the same group of companies.

Pursuant to Circular 3,461 enacted by the Central Bank on July 24, 2009, as amended, which consolidated and improved Brazilian anti-money laundering legislation, financial institutions (including their branches and subsidiaries abroad) are required to: (i) keep up-to-date records regarding their customers (including statements of purpose and nature of transactions and the verification of characterization of customers as politically-exposed individuals); (ii) adopt preventive policies and internal procedures; (iii) record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money, including specific registries for issuance or recharging of prepaid cards; (iv) maintain records of transactions carried out by individuals or entities belonging to the same group of companies in an amount that exceeds R$10,000 in a calendar month or reveals a pattern of activity that may suggest a scheme to avoid identification; (v) review transactions or proposals that may indicate criminal activity; (vi) maintain records of every transfer of funds allowing the identification of the (a) deposits, wire transfers, and checks, among others and (b) issuances of checks and order of payments, among others, in amounts that exceed R$1,000; and (vii) notify the relevant authority of any transaction that may be considered suspicious by the financial institution.

The financial institutions must inform the Central Bank, and refrain from giving notice of such act to any person, including the one to which the information refers, of any transactions of the type referred to under (iii) and (iv) above that exceed R$50,000. Notwithstanding, the financial institutions must review transactions that have characteristics which may indicate the existence of a crime and inform the Central Bank within one business day of the proposed or executed transaction, in accordance with the Anti-Money Laundering Law. The records referred to above must be maintained for at least five years or ten years, depending on the nature of the information, from the end of the relationship with the customer. Failure to comply with any of the obligations indicated above may subject the financial institution and its officers and directors to fines and penalties that vary in amount, but in no event greater than, twice the amount of the transaction, twice the amount of the profit actually received (or the amount of profits that would have been received from the transaction, or R$20.0 million) and which could lead to officers and directors to be considered ineligible to exercise any position at a financial institution and/or the cancellation of the financial institution's operating license.

Government and auditors from the Brazilian Internal Revenue Service may also inspect an institution's documents, books and financial registry in certain circumstances. On March 3, 1998, the Brazilian government created the Council of Control of Financial Activities (*Conselho de Controle de Atividades Financeiras*) ("COAF"), which operates under the Ministry of Finance. The purpose of the COAF is to investigate, examine, identify and impose administrative penalties in respect of any suspicious or unlawful activities related to money laundering in Brazil. The COAF is comprised of a president appointed by the Ministry of Finance and eleven members of the council, one of whom is appointed by each of the following entities: (i) the Central Bank; (ii) the CVM; (iii) the Ministry of Foreign Affairs; (iv) the SUSEP; (v) the Federal Revenue Service (*Secretaria da Receita Federal*); (vi) the Office of the Attorney-General of the Brazilian National Treasury; (vii) the Brazilian Federal Police Department; (viii) the Federal Intelligence Agency; (ix) the Ministry of Justice; (x) the Ministry of Finance; and (xi) Ministry of Transparency and Federal General Controller (*Controladoria Geral da União*). The term of office of each of the president and the other members of the council is three years.

On March 12, 2012, the Central Bank amended the rules applicable to procedures that must be adopted by financial institutions in the prevention and combat of money laundering and terrorism financing, as a response to the recommendations of the Financial Action Task Force. The main measures include: (i) enactment of Circular No. 3,583, which sets forth that (a) financial institutions must not initiate any relationship with clients or proceed with existing relationships, if it is not possible to fully identify such clients and (b) anti-money laundering procedures are also applicable to agencies and subsidiaries of Brazilian financial institutions located abroad; (ii) enactment of Circular No. 3,691, which regulates the Resolution No. 3,568, dated May 29, 2008, which rules on the foreign exchange market and other measures; and (iii) enactment of Letter Circular No. 3,542, which increases the list of examples of transactions and situations which may characterize evidence of occurrence of money-laundering, tending to improve the communication between financial institutions and the COAF.

Banking Secrecy in Brazil

Brazilian financial institutions are also subject to strict bank confidentiality regulations and must maintain the secrecy of their banking operations and services provided to their customers. The duty of secrecy is extended to the Central Bank in relation to the operations that it carries out and regarding the information that it obtains in the exercise of its attributions. The only circumstances in which information about customers, services or transactions of Brazilian financial institutions or credit card companies may be disclosed to third parties are provided in Complementary Law No. 105/01 and are, among others, the following: (i) express consent of the interested parties; (ii) the exchange of information between financial institutions for record purposes; (iii) the supply to credit reference agencies of information based on data from the records of issuers of bank checks drawn on accounts without sufficient funds and defaulting debtors; and (iv) as to the occurrence or suspicion that criminal or administrative illegal acts have been performed, in which case the financial institutions and the credit card companies may provide the competent authorities with information relating to such criminal acts when necessary for the investigation of such acts. Complementary Law No. 105/01 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, *provided* that a specific treaty in that respect may have been previously executed.

Regulation on Cybersecurity

On April 26, 2018, the CMN issued Resolution No. 4,658, related to cybersecurity and cloud storage policies applicable to financial institutions and other institutions authorized by the Central Bank. According to this new rule, financial institutions must now follow cyber risk management and cloud outsourcing requirements on how such entities must design or adapt their internal controls. Policies and action plans to prevent and respond to cybersecurity incidents must be approved by May 6, 2019, and fully compliant by December 31, 2021. Data location and processing may take place inside or outside the Brazilian territory, but access to data stored abroad must be granted at all times to the Central Bank for inspection and exchange information purposes.

Data Protection Regulation

On August 14, 2018, Law No. 13,709 (the “Brazilian General Data Protection Law”) was enacted in an increasingly data-driven business environment to create a significantly more robust legal landscape for personal data processing in Brazil - which is currently subject to sectorial rules set out in different statutes - and strengthens the rights for protection of personal data.

On December 28, 2018, Provisional Measure No. 869 of December 27, 2018 (“MP 869”) was published, amending certain provisions of the Brazilian General Data Protection Law and creating the National Data Protection Authority ("ANPD"). Among its various competences, the ANPD will (i) issue regulations and procedures on the protection of personal data; (ii) deliberate, at an administrative level, upon the interpretation of the Brazilian General Data Protection Law; (iii) supervise the compliance with, and assess penalties in the event of data processing performed in violation of, the Brazilian General Data Protection Law; (iv) implement simplified mechanisms for recording complaints about the processing of personal data in violation of the Brazilian General Data Protection Law; and (v) request information, at any time, to controllers and personal data processors that carry out personal data processing operations. MP 869 also assigned to the ANPD the exclusive competence to assess penalties provided for by the Brazilian General Data Protection Law which prevail over any related competences of other public entities. Brazilian Congress is required by the Brazilian Federal Constitution to resolve on the approval of MP 896 within 60 days of its enactment and, if approved, to convert such provisional measure into law. In the event the Brazilian Congress fails to resolve on the conversion of MP 896 within such timeframe, the provisions set forth therein shall automatically became ineffective as of the expiration of such term.

In addition, the legal basis for sharing personal data from the public sector’s databases to private entities has been extended to include, among others, transfers supported by legal provisions or agreements, or to prevent fraud and irregularities.

Regulation on Fintechs

The CMN approved on April 26, 2018, resolutions No. 4.656 and 4.657, which regulate the operation of financial technology companies that operate in the credit market, the so-called “fintechs”. With this new regulation, these startups, which today operate as banking correspondents in the credit market, may grant credit without the intermediation of a bank. The new rules are applicable immediately to these entities and allow interested companies to start the authorization process.

Accordingly, to the approved regulation, fintechs could be structures as (A) Direct Credit Companies, which will carry out operations with their own resources through an electronic platform; or (B) Interpersonal Loans Company, focused on financial intermediation (peer-to-peer). On October 29, 2018, the Federal Government enacted the Decree No. 9,544 authorizing the foreign investment up to 100% in the capital stock of Direct Credit Companies or Interpersonal Loans Company.

Open Banking

In Brazil, there is still no specific regulation that obliges banks to disclose data and customer information in an Open Banking model. Although, and following a global trend, BACEN moves toward to adapt our legislation in this regard, following a process that began with the enactment of Resolution No. 3,401/06.

On March 28, 2018, the CMN approved Resolution No. 4,649, which prohibited banks from limiting or preventing access by payment institutions to different types of banking operations, aiming to stimulate competition in the Brazilian Financial System.

Politically Exposed Individuals in Brazil

Pursuant to Central Bank Circular No. 3,461, issued by the Central Bank on July 24, 2009, as amended, financial institutions (including their branches and subsidiaries abroad) and other institutions authorized to operate by the Central Bank are required to take certain actions to establish business relationships with, and to follow-up on, financial transactions of customers who are deemed so-called “politically exposed individuals.”

For purposes of this regulation, politically exposed individuals are public agents and their immediate family members, spouses, life partners and step-children, as well as people of close relationship, who occupy or have occupied a relevant public office or position over the past five years in Brazil or other countries, territories and foreign jurisdictions.

Central Bank Circular No. 3,461 provides that the internal procedures developed and implemented by such financial institutions must be structured in such a way as to enable the identification of politically exposed individuals, as well as the origin of the funds involved in the transactions of such customers.

Auditing Requirements

We are required under the rules set forth by the Central Bank to prepare financial statements in accordance with the rules and accounting guidelines from the Central Bank (which are also part of Brazilian GAAP). As a financial institution, we are required by the Central Bank to (i) present annual and semi-annual audited financial statements; and (ii) file quarterly financial information with the CVM, with a specific review report prepared by independent auditors.

Under CMN Resolution No. 3,786 enacted on September 24, 2009, we are required to present, in addition to the statutory annual financial statements prepared under the accounting guidelines from the Central Bank, annual consolidated financial statements prepared in accordance with IFRS, translated into Portuguese by a duly accredited Brazilian entity, and accompanied by an independent audit report confirming that the financial statements have been so prepared.

Internal Auditors

On June 29, 2017, the CMN issued Resolution No. 4,588, as amended (“Resolution No. 4,588”), which establishes the rules applicable for internal audits at financial institutions and other institutions authorized to operate by the Central Bank. It determines that financial institutions and other institutions authorized to operate by the Central Bank have to implement and maintain internal audit functions compatible with the nature, size, complexity, structure, risk profile and business model of the respective institution. Such activity must be undertaken by a specific unit in the institution or institution that are part of its financial conglomerate, directly subordinated to the board of directors or by an independent auditor (provided that such auditor is not in charge of the institutions financial statements or any other activity that may imply a conflict of interest).

Furthermore, in accordance with CMN Resolution 4,656 of April 26, 2018 and under the terms of Resolution No. 4,588, fintechs are allowed to carry out internal audit activities.

Independent Auditors in Brazil

On May 27, 2004, the CMN issued Resolution No. 3,198, as amended ("Resolution No, 3,198"), which regulates the rendering of independent auditors' services to financial institutions and other institutions authorized to operate in Brazil by the Central Bank, as well as clearing houses and clearing and custody service providers. According to Resolution No. 3,198, financial institutions (except for microcredit loan societies) must be audited by independent auditors. Financial institutions may only engage independent auditors that are duly registered with the CVM and certified as specialists in banking analysis by the Central Bank. In September 2008, the Central Bank amended previous rules it had established regarding the independence of auditors, and its current rules require a rotation for a period of at least five consecutive years for the partner in charge, manager, supervisor or any other members of the independent audit team who have had a managerial level role in the auditing work of a financial institution. Additional requirements imposed by the Central Bank relating to the work performed by independent auditors for a financial institution in Brazil, include the following:

- review during the execution of audit procedures, to the extent deemed necessary, the financial institution's internal controls and procedures, including in relation to its electronic data processing and risk management systems, and identify any potential failings; and
- report on the financial institution's non-compliance with any applicable regulation to the extent it is material to its financial statements or activities.

Independent auditors and the fiscal council, when established, must, individually or together, notify the Central Bank of the existence or evidence of error or fraud within three business days of the identification of such error or fraud, including:

- non-compliance with rules and regulations that place the continuity of the audited entity at risk;
- fraud of any amount perpetrated by the management of the institution;
- material fraud perpetrated by the institution's employees or third parties; and
- material errors in the accounting records of the audited entity.

Audit Committee

Resolution No. 3,198 requires financial institutions and certain other entities holding a reference net worth equal to or greater than R$1.0 billion, that manage third-party resources in amounts equal to or greater than R$1.0 billion or presents an amount of deposits and management of third-party funds in an amount equal to or greater than R$5.0 billion to establish a corporate body designated as an "audit committee," which must be composed of at least three individual members, with a maximum term of office of five years each for publicly held companies. At least one of the members of the audit committee must have specific accounting and financial knowledge. The institution's fiscal council may perform the duties of the audit committee, provided it operates on a permanent basis, subject to the provisions of Resolution No. 3,198.

In addition, Brazilian legislation also permits the creation of a single committee for an entire group of companies. In this case, the audit committee or the fiscal council, as the case may be, should be responsible for any and all financial institutions comprising the same group, *provided* that these financial institutions comply with the requirements mentioned above.

Ombudsman Office

According to CMN Resolution No. 4,433, published on July 23, 2015, as amended, financial institutions must establish an ombudsman department, whose mission is to ensure strict compliance by financial institutions with the legal and regulatory regimes relating to consumer rights, and to mediate any conflicts among financial institutions and their clients and users of their products and services. The structure of a financial institution's ombudsman department must be compatible with the nature and complexity of its products, services, activities, processes and systems. In addition, to avoid a conflict of interest, its organizational structure must be distinct from any area of the financial institution's organization, such as the services and products trading, risk management and internal audit areas.

The following are the ombudsman department's responsibilities: (i) receiving, recording, instructing, analyzing and giving formal and adequate attention to claims from clients and users of products and services of financial institutions; (ii) providing clarifications regarding the status of a claim and information as to when a response is expected to be given; (iii) sending a final answer by the date on which a response is required; (iv) keeping the board of directors or, if one does not exist, the financial institution's board of executive officers, informed about the problems and shortcomings detected in the performance of its duties and the results of the actions taken by the financial institution's officers to solve them; and (v) preparing and sending to the internal audit department, to the audit committee (if one exists), and to the board of directors (or if one does not exist, to the board of executive officers of the financial institution), at the end of each fiscal semester, a quantitative and qualitative report about the ombudsman department's activities and its performance relative to its duties.

The constitutive documents of financial institutions must expressly state, among other provisions: (i) the duties and activities of the ombudsman department; (ii) the criteria for selection and dismissal of the ombudsman and his or her term of office; and (iii) the express commitment of the institution to (a) create adequate conditions to enable the ombudsman department to perform its duties and also to ensure that the ombudsman can operate in a transparent, independent and impartial way, and (b) ensure that the ombudsman department has access to information necessary to enable it to respond adequately to any claims received from clients in the performance of its duties, with full administrative support and the ability to request information and documents as may be necessary to perform its duties.

Financial institutions must report and maintain updated information regarding the officer who is responsible for the ombudsman department and the structure of his or her office. This responsible officer must prepare a report every six months, as required by the Central Bank. In addition, Brazilian law allows for the creation of a single ombudsman department structure for a group of related companies, such that a single ombudsman department can have responsibility for all financial institutions that are part of the same group. Any financial institution carrying out leasing transactions, however, shall create its own segregated ombudsman structure.

Foreign Investment in Brazilian Financial Institutions

The Constitution of Brazil permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the President of Brazil based on national interest or reciprocity. In addition, foreign investors may acquire publicly traded non-voting shares of Brazilian financial institutions traded on a stock exchange without specific authorization.

Regulation of Branches and Subsidiaries

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended, the Central Bank requires authorization for operations of foreign branches or subsidiaries of Brazilian financial institutions, including compliance with the following: (i) the institution must have been in operation for at least six years; (ii) the institution must be in compliance with operational limits currently in force; (iii) the institution's paid-up capital and net worth must meet the minimum levels established in Exhibit II to CMN Resolution No. 2,099, of August 17, 1994, as amended, plus an amount corresponding to 300.0% of the minimum paid-up capital and net worth required by Central Bank regulations for the installation of commercial banks; and (iv) the Brazilian financial institution must present to the Central Bank a study on the economic and financial viability of the subsidiary, branch or investment.

In addition, the Central Bank will only grant such authorization if it has access to information, data and documents relating to the operations and accounting records of the financial institution in which it has a direct or indirect holding abroad. Furthermore, the failure by a Brazilian bank to comply with the requirements of CMN Resolution No. 2,723 would imply the deduction of a designated percentage of the assets of such branch or subsidiary from the net worth of such bank for the purpose of calculating such bank's compliance with the capital adequacy requirements of the Central Bank, regardless of other penalties applied pursuant to the applicable regulation, including the cancellation of the authorization by the Central Bank.

CMN Resolution No. 4122, of August 2, 2012, as amended, sets forth the Central Bank requirements and procedures for approving the establishment, authorization to operate, cancellation of authorization, changes of control and corporate reorganizations of Brazilian financial institutions. Such Resolution further requires the Central Bank's approval for the election and confirmation of directors, executive officers and members of the audit committee as set forth in the company's by-laws.

Furthermore, under the terms of Resolution No. 2,723, the Central Bank's prior authorization is also required: (i) in order to allocate new funds to branches or subsidiaries abroad; (ii) for capital increases, directly or indirectly, of subsidiaries abroad; (iii) in order to increase equity interests, directly or indirectly, in subsidiaries abroad; and/or (iv) in order to merge with or spin-off from, directly or indirectly, subsidiaries abroad. These requirements are only applicable if such subsidiary is a financial institution or similar entity.

Equity Participations by Financial Institutions

As provided by CMN Resolution No. 2,723, of May 31, 2000, as amended, financial institutions may only directly or indirectly hold equity in legal entities (incorporated locally or abroad) that supplement or subsidize the financial institutions' activities, provided they obtain prior authorization from the Central Bank and that the other entity does not hold, directly or indirectly, equity of the financial institution. However this requirement for authorization does not apply to (i) equity interests typically held in the investment portfolios of investment banks, development banks, development agencies (*agências de fomento*) and multiservice banks with investment or development portfolios; and (ii) temporary equity interests not registered as permanent assets of the financial institution.

Asset Management Regulation

Asset management was previously regulated by the Central Bank and the CVM. Pursuant to Law No. 10,198, of February 14, 2001, as amended, and Law No. 10,303 of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds, as well as transactions involving derivatives, were transferred to the CVM. On July 5, 2002, the CVM and the Central Bank entered into a memorandum of understanding under which they agreed on the general terms and conditions for the transfer of such duties to the CVM. The asset management industry is also self-regulated by ANBIMA (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), which enacts additional rules and policies, especially with respect to marketing and advertising.

According to CVM Instruction No. 558, of March 26, 2015 as amended, individuals or entities authorized by the CVM may act as managers of third party assets. Financial institutions must segregate the management of third party assets from their other activities. These institutions must appoint an officer as the agent responsible for the management and supervision of such assets.

Regulation in the Cayman Islands

Banks and trust companies in the Cayman Islands must be licensed under the Banks and Trust Companies Law (2018 Revision). Licenses are granted by the Cayman Islands Monetary Authority. It is government policy that bank licenses should only be granted to applicants with an established track record in the banking or finance industry and that a branch or a new entity is or will be a member of a group with acceptable home-base supervising regulation.

Under the Banks and Trust Companies Law (2018 Revision), there are two basic categories of banking license: an "A" license, which permits unrestricted domestic and off-shore business, and a "B" license, which permits only off-shore business. According to the Cayman Islands Monetary Authority's website, as of September 30, 2018 there were 11 banks holding "A" licenses and 135 banks holding "B" licenses. The holder of a "B" license may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do business locally with the public or residents in the Cayman Islands.

Branches of foreign banks operating in the Cayman Islands, such as Banco BTG Pactual S.A., must maintain the minimum capital adequacy requirements as stipulated by their home jurisdictions. All other bank license holders are required to comply with the Cayman Islands Monetary Authority's implementation of the Basel II Framework for capital adequacy requirements.

Regulation in the United Kingdom

One of our operating entities, BTG Pactual Europe LLP ("BTG Pactual Europe"), is authorized by the FCA to provide investment services in the United Kingdom. As an FCA authorized investment advisor, BTG Pactual Europe's operations are subject to the supervision of the FCA, and BTG Pactual Europe is required to comply with the rules issued by the FCA regarding its operations. The FCA rules require BTG Pactual Europe to meet the standard set for different areas of its operations. The FCA rules are concerned with, among other matters, the following items:

- satisfying at all times the threshold conditions for authorization;
- having adequate senior management arrangements, systems and controls which includes operational, market, counterparty and other risk assessment;
- regulatory capital requirements;
- conduct of business requirements, including the fair treatment of customers and the suitability of investment decisions made for client portfolios;
- training and qualifications of employees and management;
- complaints handling processes;
- internal systems and controls to prevent market abuse, insider dealing, money laundering and terrorist financing, sanctions breaches, bribery and other financial crime; and
- executive remuneration.

BTG Pactual Europe must also, in undertaking its business and operations, act in accordance with the FCA's Statements of Principle for Businesses (the "Principles"). Pursuant to the Principles, BTG Pactual Europe is required to:

- conduct its business with integrity and with due skill, care and diligence;
- take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems;
- maintain adequate financial resources;
- observe proper standards of market conduct;
- pay due regard to the interests of its customers and treat them fairly;
- pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;

- manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;

- take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment;

- arrange adequate protection for clients' assets when it is responsible for them; and

- deal with its regulators in an open and cooperative way, and disclose to the FCA appropriately anything relating to BTG Pactual Europe of which the FCA would reasonably expect notice.

Regulation in the United States

The securities industry is subject to extensive regulation under U.S. federal and state laws. Accordingly, we and certain of our U.S. subsidiaries are subject to regulation, including periodic examination, primarily at the federal level, by the SEC and FINRA, a self-regulatory organization, and other government agencies and regulatory bodies.

Our subsidiary, BTG Pactual Asset Management US, LLC, is registered as an investment adviser with the SEC and is subject to various laws and regulations that are primarily intended to protect investment advisory clients. The Investment Advisers Act of 1940, as amended (the "Advisers Act"), imposes numerous obligations on investment advisers, including record-keeping, operational and marketing requirements, disclosure obligations, and prohibitions on fraudulent activities. Investment advisers are also subject to certain state securities laws and regulations. FINRA itself is subject to oversight by the SEC.

Our subsidiary, BTG Pactual US Capital, LLC, is registered as a broker-dealer with the SEC and is a member of FINRA. Our broker-dealer has a membership agreement with FINRA that limits the scope of its permitted activities, and our broker-dealer is required to comply with various laws and regulations. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of FINRA, BTG Pactual US Capital, LLC is subject to the SEC's uniform net capital rule, Rule 15c3-1 under the Exchange Act. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. Our broker-dealer is required to maintain minimum net capital of US$250,000. Broker-dealers are also subject to certain state securities laws and regulations.

In addition, U.S. Congress, regulators, and others continue to consider increased regulation of the securities industry and, in particular, the private investment fund industry, including placing limits on certain trading activities, increasing trading costs and requiring greater reporting requirements. It is difficult to predict how changes in regulations might affect us, the markets in which we trade and invest, and the counterparties with which we do business. We may be materially and adversely affected by new legislation, rule-making, or other changes in the interpretation of enforcement of existing rules and regulations by various regulators.

Non-compliance with federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines, damage to our reputation and termination of our investment adviser's or our broker-dealer's authorization to conduct its business.

Regulations in Chile

Celfin is subject to regulation by the SBIF in Chile. In addition, Celfin is also subject to regulation by the Central Bank of Chile with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Pursuant to the Chilean General Banking Law, all Chilean financial institutions may only, subject to the approval of the SBIF, engage in certain businesses in addition to commercial banking depending on the risk associated with such business and their financial strength. Such additional businesses include securities brokerage, mutual fund management, securitization, insurance brokerage, leasing, factoring, financial advisory, custody and transportation of securities, loan collection and financial services. The SBIF authorizes the creation of new financial institutions and has broad powers to interpret and enforce legal and regulatory requirements applicable to financial institutions. Furthermore, in case of noncompliance with such legal and regulatory requirements, the SBIF has the ability to impose sanctions, including fines payable by the directors, managers and employees of a financial institutions as well as the financial institutions itself. In extreme cases, it can by special resolution appoint, with the prior approval of the board of directors of the Central Bank of Chile, a provisional administrator to manage a bank. It must also approve any amendment to a financial institution's by-laws or any increase in its capital.

Regulations in Colombia

Bolsa y Renta is subject to regulation by the Central Bank of Colombia, the Colombian Ministry of Finance ("Ministry of Finance"), the Colombian Superintendency of Finance, the Superintendency of Industry and Commerce (*Superintendencia de Industria y Comercio*) and the Self-Regulatory Organization (*Autorregulador del Mercado de Valores-AMV*). The Colombian Superintendency of Finance is the authority responsible for supervising and regulating financial institutions, including Bolsa y Renta. The Colombian Superintendency of Finance has broad discretionary powers to supervise financial institutions, including the authority to impose fines on financial institutions and their directors and officers for violations of applicable regulations. The Colombian Superintendency of Finance can also conduct on-site inspections of Colombian financial institutions. The Colombian Superintendency of Finance is also responsible for monitoring and regulating the market for publicly traded securities in Colombia and for monitoring and supervising securities market participants, including the Colombian Stock Exchange, brokers, dealers, mutual funds and issuers. Financial institutions must obtain the prior authorization of the Colombian Superintendency of Finance before commencing operations. Violations of the financial system rules and regulations are subject to administrative, and in some cases, criminal sanctions.

DESCRIPTION OF THE NOTES

This section describes the general terms and provisions of the Indenture and the Notes. The description of certain provisions of the Indenture and the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions therein of certain terms. A copy of the Indenture is available upon written request from the Trustee. We urge you to read each of the Indenture and the form of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the Noteholders under the Indenture, the Notes, and this Offering Memorandum, the terms of the Indenture will prevail. Capitalized terms used but not defined shall have the meanings assigned to such terms under "—Definitions".

General

The Issuer will issue the Notes under an indenture, to be dated as of the Issue Date (as amended, modified or supplemented from time to time, the "Indenture"), among Deutsche Bank Trust Company Americas, as Trustee, Paying Agent and calculation agent; the Issuer; and Deutsche Bank Luxembourg S.A., as Luxembourg listing agent.

The Notes will have the following basic terms:

- The Notes issued in this offering will be issued on February 15, 2019 (the "Issue Date") in an aggregate principal amount of U.S.$600,000,000.
- Subject to the occurrence of one or more Write-Offs, unless the Notes have been redeemed or repurchased by the Issuer as described herein, the Notes will mature and be payable in full on February 15, 2029 (the "Maturity Date") at their then Current Principal Amount outstanding, plus any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts, due thereunder.
- From February 15, 2019 until the Call Date, the Notes will bear interest at a fixed rate of 7.750% per annum (the "Note Rate"), and on and after the Call Date, at a rate to be calculated by the calculation agent equal to the Benchmark Reset Rate plus the Credit Spread (the "Reset Rate"), except that in each case interest on unpaid principal after the Maturity Date and interest on any overdue interest will accrue at the Note Rate or Reset Rate, as applicable, plus 1% per annum (the "Arrears Rate"). Interest on the Notes will be paid semi-annually in arrears on February 15 and August 15 of each year, commencing on August 15, 2019 (each, an "Interest Payment Date") to the Noteholders registered as such as of the close of business on the relevant Record Date (whether or not a Business Day). Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.
- The Notes will initially be issued in the form of one or more fully registered Restricted Global Notes and Regulation S Global Notes. The Notes will be issued only in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. For more information about the form of the Notes and their clearance and settlement, see "—Book Entry, Delivery and Form."
- The Notes will be direct, unsecured obligations of the Issuer, subordinated in right or payment in accordance with the subordination provisions of the Indenture. The Issuer and any legal entity related to the Issuer within the same financial conglomerate or non-financial entity controlled by the Issuer (as defined under applicable Brazilian laws and regulations) have not and will not enter into any agreement that provides for any guarantee, insurance, security or collateral with respect to the Notes affecting the subordination of the Notes in accordance with CMN Resolution 4,192.

Ranking

The Notes will be unsecured obligations, and, in the event of the Issuer being declared bankrupt or put into liquidation or otherwise dissolved or wound up (*liquidado*) for the purposes of Brazilian law, whether voluntarily or involuntarily and whether or not such event involves insolvency or bankruptcy or after any similar event which has an analogous effect to the foregoing pursuant to the laws of Brazil (each a "Dissolution Event"), will be subordinated obligations ranking:

- junior in right of payment to the payment of all the Issuer's Senior Indebtedness;
- *pari passu* among themselves and with any Tier 2 Pari Passu Liabilities of the Issuer; and
- to the extent permitted by applicable Brazilian laws and regulations, senior to all the Issuer's Junior Instruments.

The Notes are subject to a Write-Off by the Issuer as described under "—Write-Off by the Issuer." See also "Risk Factors—Risks Relating to the Notes—The Notes are subject to a Write-Off in certain circumstances, which are unpredictable and may be caused by factors not fully within our control. In case of a Write-Off, the Noteholders may lose their entire investment in the Notes" and "Risk Factors—Risks Relating to the Notes—The ability to institute bankruptcy or liquidation proceedings against us in Brazil may be limited by Brazilian law." In case of a Write-Off, the Noteholders may lose their entire investment in the Notes.

The consolidation of the Issuer with, or the merger of the Issuer into, another Person, or a Dissolution Event relating to the Issuer following the conveyance or transfer of all or substantially all its properties, assets and liabilities (including the Notes issued under the Indenture) to another Person, shall not be deemed a Dissolution Event for the purposes of the subordination provisions if that Person complies with the conditions described under "—Certain Covenants—Consolidation, Merger, Conveyance or Transfer." An intervention by the Central Bank in the Issuer or the establishment by the Central Bank of a special administration regime (*regime de administração especial temporária*) in the Issuer shall not be deemed a Dissolution Event. Such a special administration regime or an intervention triggers a Write-Off as described above (See "—Write-Off by the Issuer").

In the event of a Dissolution Event, all principal, premium, if any, and interest due or to become due on all Senior Indebtedness and any Additional Amounts due in respect thereof must be paid in full before the Noteholders are entitled to receive or retain any payment in respect thereof. The Noteholders will be entitled to receive payment *pari passu* among themselves and with all existing and future Tier 2 Pari Passu Liability.

In the event that the Trustee or any Noteholder shall have received payment in a Dissolution Event, any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities, before all Senior Indebtedness is paid in full, then and in such event such payment or distribution shall be paid over or delivered forthwith to the bankruptcy trustee, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Issuer for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness. Any Taxes that have been withheld or deducted from any payment or distribution in respect of the Notes, or any Taxes that ought to have been withheld or deducted from any such payment or distribution that have been remitted to the relevant taxing authority, shall not be considered to be an amount that the Trustee or the Noteholder receives for purposes hereof. For purposes hereof, the words "cash, property or securities" shall not be deemed to include amounts which the Central Bank regards as eligible for classification as Tier 1 Capital or Tier 2 Capital.

The terms and conditions of the Notes do not limit the amount of Senior Indebtedness that the Issuer may hereafter incur.

Write-Off by the Issuer

Pursuant to Article 20, X and XII, of CMN Resolution 4,192 that governs the subordination and qualification of the Notes as Tier 2 Capital of the Issuer, the outstanding Current Principal Amount, plus accrued and unpaid interest thereon and any other amounts, including Additional Amounts, due thereunder, shall be permanently written-off by the Issuer in an amount at least equal to the balance accounted for as Tier 2 Capital of the Issuer, in accordance with the then applicable Central Bank procedures, in the following events (each, a "Write-Off"):

(i) the disclosure by the Issuer, in the form set forth by the Central Bank, that its Common Equity Tier 1 Capital (*Capital Principal*) is lower than 4.5% of the risk-weighted assets of the Issuer, calculated in accordance with CMN Resolution 4,193, *provided* that no such Write-Off will occur in the event of review or republication of the documents supporting the disclosure in accordance with Article 20, XII, of CMN Resolution 4,192;

(ii) the execution of a commitment by applicable Brazilian Governmental Authority to make a public sector capital contribution to the Issuer, pursuant to and in accordance with the terms of a specific written law, as set forth in the caput of Article 28 of Brazilian Supplementary Law 101, as of May 4, 2000, as amended ("Brazilian Supplementary Law 101"), is verified and applicable to the Issuer;

(iii) the Central Bank (or other applicable Brazilian Governmental Authority charged with the responsibility to make such determinations) declares, according to the criteria established in the applicable laws and regulations, the intervention or the establishment of a special administration regime (*regime de administração especial temporária*) in the Issuer; or

(iv) the Central Bank, according to the criteria established in the regulation issued by the CMN, determines in writing that the Notes should be written-off.

With regard to item (i) above, under Article 12 of CMN Resolution 4,193, Brazilian financial institutions (including the Issuer) must establish a formal policy (approved by the Board of Directors of the relevant institution) for the disclosure of information relating to the calculation of its risk-weighted assets and its adequacy to the applicable regulation. The policy must, among other things, (A) specify the information to be disclosed; (B) detail the internal control systems in place with respect to this process; (C) include an ongoing confirmation process for the accuracy of the information and adequacy of its content; and (D) provide the criteria for determining the materiality of information disclosed to the market under Article 12 of CMN Resolution 4,193. In addition to that, each financial institution must appoint a specific officer to be responsible for the calculation of its risk-weighted assets and the minimum requirements of Tier 1 Capital, Additional Principal Capital (*Adicional de Capital Principal*) and other minimum capital requirements. We believe that the determination and disclosure referred to in item (i) above (and any review and republication relating thereto) will be made in accordance with those rules.

With regard to items (i) to (iv) above,

- according to CMN Resolution 4,192, the Central Bank will determine the amount of a write-off of any Tier 1 Capital of the Issuer before it will determine the Write-Off of all or a portion of the Notes and any other Tier 2 Capital of the Issuer;

- Brazilian Supplementary Law 101 provides for the proper management of public finances. Pursuant to Chapter VI of the Brazilian Supplementary Law 101, public funds may only be allocated to the private sector to cover cash needs or other shortfalls if authorized by a specific law. Article 28 of the Brazilian Supplementary Law 101 further states that, unless authorized by a specific law, public funds cannot be allocated to bail out entities of the national financial system (i.e., financial institutions in general), including by means of financing transactions;

- CMN Resolution No. 4,279, dated October 31, 2013 ("Resolution 4,279"), sets forth the criteria as adopted by the Central Bank for determining in what circumstances securities accounted for as Additional Tier 1 Capital (*Capital Complementar*) or Tier 2 Capital may be written off. Pursuant to Resolution 4,279, the Central Bank can write-off such Additional Tier 1 Capital (*Capital Complementar*) or Tier 2 Capital if the Central Bank considers such measures necessary: (i) to make the continuity of the financial institution's operations possible; and (ii) to mitigate relevant risks for the Brazilian financial system. The Central Bank can consider that the continuity of a financial institution's operations are at risk when: (i) there is a material deterioration in (a) the value and liquidity of financial institution's assets; (b) the financial institution's solvency position; or (c) the financial institution's credit risk, evidenced by a significant decrease in its borrowings; or (ii) there is a material increase in the default risk and, as a result, the safeguards and guarantee mechanisms used by Brazilian clearing chambers and services are activated, according to the rules applicable to the Brazilian payment system. A material risk for the Brazilian financial system can be verified by the Central Bank when the discontinuity of the affected financial institution can lead to: (i) an impairment in the operations of other financial institutions or relevant segments of the market that might create concerns regarding the stability of the financial system; or (ii) a material loss to the availability (at adequate levels) of services that are considered essential to the financial system. Furthermore, Resolution 4,279 requires that Brazilian financial institutions adopt an action plan in case a write-off or conversion of securities is necessary;

- the Central Bank may intervene in the operations of a financial institution (other than a financial institution controlled by the Brazilian government) in any of the following events: (i) if there is a material risk to the creditors of such financial institution, (ii) if such financial institution frequently violates applicable Brazilian regulations and (iii) for purposes of preventing the liquidation of such financial institution. The Central Bank may, alternatively, perform an administrative liquidation or, in some circumstances, declare the bankruptcy of a financial institution (other than a financial institution controlled by the Brazilian government); and

- the Central Bank may also establish a special administration regime (*regime de administração especial temporária*), a less restrictive form of intervention by the Central Bank in financial institutions (including financial institutions controlled by Brazilian state or local (but not federal) government), which allows for financial institutions to continue to operate in their ordinary course of business. The main purpose of the special administration regime is to assist financial institutions to maintain their financial conditions and avoid insolvency. Therefore, the special administration regime does not affect the day-to-day business, operations, liabilities or rights of the financial institution which continues to operate in its ordinary course of business. The special regime will cease upon the occurrence of any of the following events: (a) acquisition by the Brazilian government of control of the financial institution, (b) corporate restructuring, merger, spin-off, amalgamation or transfer of the controlling interest of the financial institution, (c) decision of the Central Bank or (d) declaration of extra-judicial liquidation of the financial institution. There is no minimum term for a special administration regime.

The Write-Off of any amount due under the Notes and the situations described above will not constitute an event of default and shall not allow any Noteholder to (i) require any repayment on any then outstanding Current Principal Amount, interest or other amounts, including Additional Amounts, due under, or with respect to, the Notes or (ii) pursue any other remedy under the Indenture or the Notes. The Issuer and the Noteholders also acknowledge that under CMN Resolution 4,192, the Write-Off shall not be regarded as a default and shall not cause or give rise to the acceleration of any other debt or give rights to cause any acceleration of rights arising under, or termination of, any other business transaction in which the Issuer participates (in accordance with Article 20, XI, of CMN Resolution 4,192).

By purchasing the Notes, each Noteholder will automatically be deemed to have irrevocably waived its right to claim or receive, and will not have any rights against the Issuer with respect to, repayment of any principal amount of the Notes (or any portion thereof) that was subject to a Write-Off as described above or any interest with respect thereto (or other amounts, including Additional Amounts, payable in connection therewith), including any and all accrued and unpaid interest (including, but not limited to, the Arrears Rate) with respect to such principal (or portion thereof) as of the effective date of the Write-Off, irrespective of whether such amounts have become due and payable prior to the date on which the Write-Off shall have occurred.

The Issuer shall provide written notice to the Noteholders via the clearing system through which the Notes are settled and cleared as well as written notice to the Trustee that an event or circumstance triggering a Write-Off has occurred, on the Business Day following such event. The notice to the Trustee must be in writing and accompanied by a certificate signed by two officers of the Issuer stating that an event triggering a Write-Off has occurred, the amount of the Write-Off and its method of calculation (if less than the Current Principal Amount, plus accrued and unpaid interest thereon and additional amounts thereunder, is subject to the Write-Off) and the effective date of the Write-Off.

In addition, the entire outstanding amount of the Notes accounted as Tier 2 Capital of the Issuer will be written-off in case our Common Equity Tier 1 Capital (*Capital Principal*) falls below 4.5% of our risk-weighted assets, even if the shortfall amount is less than the total outstanding principal amount of the Notes accounted as Tier 2 Capital.

If an event triggering a Write-Off occurs, all Tier 2 Pari Passu Liabilities of the Issuer will be written off in full together with the Write-Off of the Notes.

See "Risk Factors—Risks Relating to the Notes—The Notes are subject to a write-off in certain circumstances, which are unpredictable and may be caused by factors not fully within our control. In case of a Write-Off, the Noteholders may lose their entire investment in the Notes."

Conflicts with CMN Resolution 4,192

Pursuant to Article 14, II and 15 of CMN Resolution 4,192, any provision of this Description of the Notes, this Offering Memorandum, the Indenture, the Notes, the Purchase Agreement or any other related document that conflicts with any of the provisions of the Terms of Subordination or Article 20 of CMN Resolution 4,192 will be null and void.

Availability of Claims

Claims against the Issuer for payments under any Notes will not be available beyond six years from the date on which the relevant payment became due.

Additional Notes

The Indenture will provide that, from time to time, without notice to or the consent of the Noteholders, Additional Notes with terms substantially similar to the Notes offered hereby may be issued upon satisfaction of the conditions set forth in the Indenture. Any Additional Notes may be issued on terms established pursuant to a resolution of the Issuer's Board of Directors, which will also establish the aggregate principal amount of each tranche delivered to the Trustee, or pursuant to a supplemental Indenture. Any Additional Notes issued in accordance with the terms of this paragraph and the Notes offered hereby will be treated as a single series for all purposes under the Indenture; *provided* that if the Additional Notes are not fungible with Notes offered hereby (i) for United States federal income tax purposes or (ii) because the Central Bank has not approved the qualification of the Additional Notes as Tier 2 Capital, the Additional Notes will have a separate CUSIP and ISIN number. For purposes of this "Description of the Notes", references to the Notes include Additional Notes, if any.

Listing

The Issuer has made an application to list the Notes on the Official List of the Luxembourg Stock Exchange and it has made an application for admission to trading on the Euro MTF market of the Luxembourg Stock Exchange.

Payments of Principal and Interest

Payment of principal, interest and other amounts due under the Notes will be made or procured to be made by the Trustee or any Paying Agent to the Persons in whose name the Notes are registered at the close of business on the relevant Record Date. Payment of the Current Principal Amount will only be made against surrender of the relevant Notes at the specified office of the Trustee or Paying Agent. Payments of the Current Principal Amount and interest in respect of each Global Note will be paid by wire transfer of immediately available funds to DTC. Payments of Current Principal Amount and interest in respect of any certificated Notes will be made by U.S. dollar check drawn on a bank in the City of New York and mailed to such Noteholder at its registered address. Upon application by the Noteholder of at least US$1.0 million in aggregate principal amount of the Notes to the specified office of the Trustee or Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York.

In the event that any Payment Date is not a Business Day then payment of the interest, principal or other amounts payable on such date will be made on the next succeeding day that is a Business Day. Payments postponed to the next Business Day in this situation will be treated under the Indenture as if they were made on the original Payment Date. No interest will accrue on the postponed amount from the original Payment Date to the next day that is a Business Day.

Additional Amounts

All payments by or on behalf of the Issuer or any successor thereto in respect of the Notes will be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges (together, the "Taxes") of whatever nature imposed, levied, collected, withheld or assessed by or within Brazil or any political subdivision or any authority thereof or therein or any other jurisdiction having power to tax in which the Issuer is organized, doing business or otherwise subject to the power to tax (any of the aforementioned being a "Taxing Jurisdiction"), unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required ("Additional Amounts"), except that no such Additional Amounts shall be payable with respect to any Note:

(a) to a Noteholder or a beneficial owner that is liable for such Taxes in respect of such Note by reason of it having some present or former connection with a Taxing Jurisdiction (including, but not limited to, being or having been a citizen, resident or national thereof, or being or having been present or engaged in a trade or business therein, or having or having had a permanent establishment therein) other than the mere holding of such Note or the receipt of the relevant payment in respect thereof;

(b) to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies, with any certification, identification or other reporting requirements concerning the nationality, identity or residence of such holder or third party or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note is presented for payment;

(c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days;

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a Member State of the European Union;

(e) in respect of any Taxes imposed by or required to be withheld under sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), any regulations or other official guidance thereunder, any agreement (including any intergovernmental agreement) entered into in connection therewith, or any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing;

(f) in respect of any Taxes imposed other than by way of withholding or deduction;

(g) in respect of any estate, inheritance, gift, sales, transfer, value added, personal property, or similar Tax;

(h) to a Noteholder that is a fiduciary, partnership, or any Person other than the sole beneficial owner of such Note, if and to the extent that, no Additional Amounts would have been payable had the beneficiary or settlor with respect to such fiduciary, partner, or the beneficial owner of such Note owned the Note directly; or

(i) due to any combination of any of the above.

"Relevant Date" in respect of any payment of Additional Amounts means the date on which such payment in respect thereof first becomes due or, if the full amount of the money payable has not been received by the Paying Agent or the Trustee on or prior to such due date, the date on which notice is duly given to the Noteholders in accordance with the Indenture that such moneys have been so received and are available for payment. For purposes of the calculation of the Additional Amounts, references to "principal" shall be deemed to include redemption amounts and any premium, if any, payable in respect of the Notes and any reference to "principal" and/or "interest" shall be deemed to include any Additional Amounts or any undertaking given in addition to or in substitution for them under the Indenture.

Redemption

Optional Redemption by the Issuer

Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required), the Issuer may at its option redeem the Notes, in whole but not in part, on the Call Date at a redemption price equal to the Base Redemption Price; *provided* that the Issuer is then and, immediately following such redemption, will then be in compliance with the minimum requirements for Regulatory Capital and satisfies the Additional Principal Capital (*Adicional de Capital Principal*) requirements under CMN Resolution 4,193 and other operational limits.

Optional Tax Redemption by the Issuer

On and after the Call Date, and subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), the Issuer may redeem the Notes, in whole but not in part, following the occurrence of a Tax Event; *provided* that the Issuer is then and, immediately following such redemption, will then be in compliance with the minimum requirements for Regulatory Capital and satisfies the Additional Principal Capital (*Adicional de Capital Principal*) requirements under CMN Resolution 4,193 and other operational limits. In the case of redemption following a Tax Event, the Issuer will redeem the Notes at a redemption price equal to the Base Redemption Price.

Optional Regulatory Redemption by the Issuer

On and after the Call Date, and subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority for such redemption (if such approval is then required), the Issuer may redeem the Notes, in whole but not in part, following the occurrence of a Regulatory Event; *provided* that the Issuer is then and, immediately following such redemption, will then be in compliance with the minimum requirements for Regulatory Capital and satisfies the Additional Principal Capital (*Adicional de Capital Principal*) requirements under CMN Resolution 4,193 and other operational limits. In the case of redemption following a Regulatory Event, the Issuer will redeem the Notes at a redemption price equal to the Base Redemption Price.

In the case of a Tax Event or a Regulatory Event, the Issuer is required, prior to exercising the right of redemption, to deliver to the Trustee a notice together with a written legal Opinion of Brazilian Counsel or counsel in the jurisdiction of the applicable Tax Event selected by the Issuer, in a form satisfactory to the Trustee, confirming that the Issuer is entitled to exercise such right of redemption.

No Right to Require Redemption

The Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes prior to the Maturity Date. The Notes are redeemable only at the Issuer’s option as described above.

Redemption Procedures

General

In the event that the Issuer exercises its option to redeem the Notes as described above (subject to obtaining the approval of the Central Bank or any other applicable Brazilian Governmental Authority (if such approval is then required)), the Issuer will give the Trustee (and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF and the rules of that exchange so require, either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or published in English in a leading newspaper with general circulation in Luxembourg (which is expected to be Luxemburger Wort) or, if such publication is not practicable, in another leading English language daily newspaper with general circulation in Europe) written notice of redemption not less than 45 days prior to the proposed Redemption Date (unless a shorter period of time is agreed upon) and the Noteholders written notice not less than 30 nor more than 60 days prior to the Redemption Date.

Form of Notice

Notice of redemption will be given as described in the Indenture. If the redemption price in respect of any Notes is improperly withheld or refused and is not paid by the Issuer, interest on the Notes will continue to be payable until the redemption price is paid in full.

Notices to be given to Noteholders of a global security will be given only to DTC in accordance with its applicable policies as in effect from time to time. Notices to be given to Noteholders of Notes not in global form, if any, will be sent by mail to the respective addresses of the Noteholders as they appear in the registrar's records, and will be deemed given when mailed. Neither the failure to give notice to a particular Noteholder, nor the defect in a notice given to a particular Noteholder, will affect the sufficiency of any notice given to another Noteholder.

Purchases of Notes by the Issuer

Subject to the prior approval of the Central Bank or any other applicable Brazilian Governmental Authority, if such approval is then required, and to the conditions set forth in CMN Resolution 4,192, the Issuer or any legal entity related to the Issuer within the same financial conglomerate or non-financial entity controlled by the Issuer (as defined under applicable Brazilian laws and regulations) may, at any time subsequent to the Call Date, repurchase any Notes, in whole or in part, in open market transactions or otherwise in any manner and at any price, *provided* that the Issuer is then and immediately following such repurchase, will then be in compliance with the minimum requirements for Regulatory Capital and satisfies the Additional Principal Capital (*Adicional de Capital Principal*) requirements under CMN Resolution 4,193 and other operational limits. The repurchased Notes need not be cancelled and may be held in treasury or resold; *provided* that any resale thereof is in compliance with all relevant laws, regulations and directives.

The Issuer or any legal entity related to the Issuer within the same financial conglomerate or non-financial entity controlled by the Issuer (as defined under applicable Brazilian laws and regulations) may at any time purchase any Notes, in whole or in part, that are not qualified as Tier 2 Capital in open market transactions or otherwise in any manner and at any price and without the prior approval of the Central Bank. The repurchased Notes need not be cancelled and may be held in treasury or resold in accordance with applicable law; *provided* that any resale thereof is in compliance with all relevant laws, regulations and directives.

Certain Covenants

For so long as any of the Notes are outstanding and any amount remains unpaid under the Indenture and the Notes, the Issuer will comply with the terms of the covenants described below, among others:

Performance of Obligations Under the Notes and the Indenture

The Issuer will pay all amounts owed by it under the terms of the Notes and the Indenture.

Maintenance of Approvals

The Issuer will obtain and maintain in full force and effect all governmental approvals, consents or licenses of any applicable Brazilian Governmental Authority under the laws of Brazil or any other jurisdiction having jurisdiction over it, its business or the transactions contemplated herein, as well as of any third party under any agreement to which the Issuer may be subject, in connection with its execution, delivery and performance of the Notes and the Indenture or validity or enforceability thereof.

Maintenance of Books and Records

The Issuer will maintain books, accounts and records as may be necessary to comply with all applicable laws and to enable its financial statements to be prepared, and it will allow the Trustee access to those books, accounts and records at reasonable times.

Maintenance of Office or Agency

The Issuer will maintain an office or agency in the Borough of Manhattan, The City of New York where Notes may be presented for payment or for exchange, transfer or redemption and where notices to and demands upon the Issuer in respect of the Indenture and the Notes may be served. Initially this office will be the corporate trust office of the Trustee, Deutsche Bank Trust Company Americas located at 60 Wall Street, New York, New York 10005, and the Issuer will agree not to change the designation of such office without prior notice to the Trustee and designation of a replacement office, in the Borough of Manhattan, The City of New York.

Notice of Certain Events and Reporting Obligations

The Issuer will give notice to the Trustee, promptly and in any event within ten days after it becomes aware of the occurrence of an event of default under the Indenture or event that, with the giving of notice, lapse of time or other conditions, would become an event of default.

If a responsible officer of the Trustee has written notice of an event of default or an event that, with the giving of notice, lapse of time or other conditions, would become an event of default, the Trustee will give notice of that event to the Noteholders within 30 days after it is actually known to the Trustee. The Trustee may withhold notice to the Noteholders of such an event (except the non-payment of principal, interest or other amounts) if its Board of Directors or a committee of its trust officers determines in good faith that withholding notice is in the interests of the Noteholders.

Within 90 days after the end of each fiscal quarter of each fiscal year (other than the final fiscal quarter of any fiscal year) and 150 days after the end of each fiscal year of the Issuer ending December 31, the Issuer shall provide to the Trustee for further delivery to any Noteholder, upon such Noteholder's written request, copies of unaudited (with respect to a fiscal quarter) or audited (with respect to a fiscal semester or a fiscal year) consolidated financial statements in English, in each case accompanied by an opinion from an independent auditor; *provided* that any such financial statements will be deemed to have been delivered on the date on which the Issuer has posted such financial statements on its publicly available website (it being understood that the Issuer shall promptly provide such other information as the Trustee may reasonably request and that the Issuer may provide without violating any applicable law).

The Issuer will provide to the Trustee, on the delivery date of the financial statements described above, a compliance certificate stating that it has fulfilled its agreements under the Indenture and the Notes and that no event of default has occurred during that period or, if one or more have actually occurred, specifying those events and what actions have been taken and will be taken with respect to each such event.

The Trustee shall have no obligation to monitor or determine whether or not the Issuer has complied with its obligations in respect of the foregoing provisions.

Further Actions

The Issuer will, at its own cost and expense, take any action at any time required, as necessary or as reasonably requested by the Trustee, in accordance with applicable laws and regulations, to be taken in order:

- to enable it to lawfully to enter into, exercise its rights and perform its obligations under the Notes and the Indenture;
- to ensure that its obligations under the Notes and the Indenture are legally binding and enforceable;
- to make the Notes and the Indenture admissible in evidence in the courts of the State of New York or Brazil;
- to enable the Trustee to exercise and enforce its rights under and carry out the terms, provisions and purposes of the Indenture and the Notes;

- to provide, if requested by a Noteholder, information required under Rule 144A (d) (4) of the Securities Act;

- to take any and all actions necessary to preserve the enforceability of, and maintain the Trustee's rights under, the Indenture and the Notes; and

- to assist the Trustee, to the extent reasonably practicable, in the Trustee's performance of its obligations under the Notes and the Indenture.

Appointment to Fill a Vacancy in the Office of the Trustee

Whenever necessary to avoid or fill a vacancy in the office of the Trustee, the Issuer will appoint a successor trustee so that there will at all times be a trustee with respect to the Notes.

Maintenance of Existence

Except as otherwise permitted under the covenant described in "—Consolidation, Merger, Conveyance or Transfer," the Issuer will take all actions in its power that are necessary to maintain and keep in full force and effect its corporate existence and rights; *provided, however*, that the Issuer will not be required to take any such actions if its Board of Directors determines that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Noteholders.

Consolidation, Merger, Conveyance or Transfer

The Issuer shall not consolidate with or merge into any other corporation or convey or transfer, in one transaction or a series of transactions, all or substantially all of its properties or assets to any other Person unless:

(i) the resulting, surviving or transferee Person (if not the Issuer) (the "Successor Corporation") shall be a Person organized and existing under the laws of the Cayman Islands, Brazil, the United States, any state thereof or the District of Columbia, or any other country that is a member of the European Union or of the Organization for Economic Co-operation and Development on the date of the Indenture and shall agree in a supplement to the Indenture to assume all the obligations of the Issuer under the Indenture and the Notes;

(ii) the Successor Corporation, if not organized and existing under the laws of the Cayman Islands or Brazil, shall undertake, in such supplemental indenture, to pay Additional Amounts, subject to the same exceptions set forth under clauses (a) through (i) under "—Additional Amounts," treating the country in which the Successor Corporation is organized as a Taxing Jurisdiction;

(iii) immediately after giving effect to such transaction, no event of default with respect to any Note shall have occurred and be continuing; and

(iv) the Issuer, or the Successor Corporation, as the case may be, shall have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture (if any) comply with the Indenture.

No Successor Corporation shall have the right to redeem any Notes unless the Issuer would have been entitled to redeem such Notes in similar circumstances.

Upon any consolidation, merger, conveyance or transfer in accordance with the Indenture, if the resulting, surviving or transferee Person is not the Issuer, the Issuer will be discharged from all obligations under the Notes and the Indenture and the Successor Corporation shall succeed to, and be substituted for, and may exercise every right and power of, and shall assume all of the obligations of the Issuer under the Notes and the Indenture, with the same effect as if the Successor Corporation had been party to the Indenture at the date of its execution and named therein as the Issuer of the Notes.

Events of Default and Limitation of Remedies

The following events will each be an event of default under the terms of the Notes and the Indenture:

(i) the Issuer fails to make any principal payment on any of the Notes, whether on the Maturity Date, upon redemption or otherwise (a "Principal Payment Default");

(ii) the Issuer fails to make any interest payment or any payment of Additional Amounts in accordance with the terms of the Notes and the Indenture, and this non-payment continues for 15 days (an "Interest Payment Default" and, together with a Principal Payment Default, a "Payment Default"); or

(iii) a Dissolution Event with respect to the Issuer occurs (a "Dissolution Default").

If a Dissolution Default occurs and is continuing, the principal of and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Noteholder. However, the Issuer will only be required to make the payments described in this paragraph pursuant to Brazilian applicable laws, and those payments will be subject to the subordination provisions of the Indenture. See "—Ranking." In addition, if the Issuer makes payments described in this paragraph from Brazil, it shall be required to comply with all then-applicable regulations of the Central Bank and other Brazilian authorities for the remittance of funds outside Brazil. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Notes, your remedies will be limited."

In the event of a Payment Default or a breach of any of the Issuer's obligations under the Indenture not constituting a Dissolution Default, a Noteholder will have the right, subject to the procedures described below, to institute judicial proceedings against the Issuer, including for payment of unpaid principal of and accrued and unpaid interest on the Notes or for enforcement of any obligations under the Indenture, *provided*, *however*, that, such Noteholder will not be entitled to accelerate any amounts due under the Notes and, accordingly, in no event shall the Issuer be, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

No Noteholder will have any right to institute any proceeding with respect to the Indenture or the Notes or for any remedy thereunder unless: (i) the Noteholder has previously given written notice to the Trustee of an event of default or continuing breach of a covenant contained in the Indenture, as applicable; (ii) the Noteholders of at least 25% in aggregate principal amount of the outstanding Notes have made a written request to the Trustee to institute proceedings in respect of such event of default or continuing breach of a covenant contained in the Indenture, as applicable, in its own name as Trustee; (iii) the Noteholders have offered to the Trustee indemnity and/or security satisfactory to the Trustee; (iv) the Trustee for 60 days after its receipt of such notice has failed to institute any such proceeding; and (v) no direction inconsistent with that request has been given to the Trustee during that 60-day period by the Noteholders of a majority in aggregate principal amount of the outstanding Notes.

The Noteholders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, subject to the limitations specified in the Indenture. The Trustee will be under no obligation to exercise any of its rights and powers under the Indenture unless it has been offered an indemnity and/or security to its reasonable satisfaction against the costs, expenses and liabilities it may reasonably incur.

By purchasing the Notes, each Noteholder will be deemed to have waived any right of setoff or counterclaim with respect to the Notes or the Indenture (or between the Issuer's obligations in respect of the Notes and any liability owed by a Noteholder to the Issuer) that they might otherwise have against the Issuer.

Modification of the Indenture

Changes Not Requiring Noteholder Approval

The Issuer will apply to the Central Bank to treat the Notes as Tier 2 Capital. The Issuer and the Trustee may one time, without the prior consent of Noteholders, amend the terms and conditions of the Notes solely to comply with the requirements of the Central Bank to qualify the Notes as Tier 2 Capital pursuant to CMN Resolution 4,192.

The Trustee will require an opinion from Brazilian counsel to the Issuer describing the amendments to the terms and conditions of the Notes required by the Central Bank in order to qualify the Notes as Tier 2 Capital. Upon receipt of such opinion of counsel, the Issuer and the Trustee will execute a supplemental Indenture, a new form of Note and any other document necessary to implement the amendments required by the Central Bank.

The Issuer and the Trustee may also, without the consent of the Noteholders, modify the Indenture for certain specific purposes, including, among other things, providing for the issuance of Additional Notes, curing ambiguities, defects or inconsistencies or including any other provisions with respect to matters or questions arising under the Indenture, so long as such added provision will not adversely affect the rights of the Noteholders in any material respect.

Changes Requiring Noteholder Approval

The Indenture may be modified by the Issuer and the Trustee with the written consent of the Noteholders of at least a majority in aggregate principal amount of the Notes then outstanding, and any event of default and its consequences may be waived with the consent of the Noteholders of at least a majority in aggregate principal amount of the Notes then outstanding. However, without the consent of the Noteholder of each outstanding Note affected thereby, no modification may:

- change the maturity of any payment of principal of or any installment of interest on any Note;
- reduce the principal amount or the rate of interest, or change the method of computing the amount of principal or interest payable on any date;
- change any place of payment where the principal of or interest on the Notes is payable;
- change the coin or currency in which the principal of or interest on the Notes is payable;
- impair the right of the Noteholders to institute suit for the enforcement of any payment on or after the date due;
- modify the subordination provisions of the Indenture in a manner adverse to the Noteholders;
- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required for any modification of or waiver of compliance with any provision of the Indenture or defaults under the Indenture and their consequences; or
- modify the provisions summarized in this paragraph or the provisions of the Indenture regarding waivers of past defaults, except to increase any percentage or to provide that other provisions of the Indenture cannot be modified or waived without the consent of each Noteholder affected thereby.

After an amendment described in the preceding paragraph, the Issuer is required to give (through the Trustee), to the Noteholders a notice briefly describing the amendment. However, the failure to give that notice to all the Noteholders, or any defect in the notice, will not affect the validity of the amendment.

A meeting of the Noteholders may be called by the trustee at any time. The Issuer or the holders of at least 10% in aggregate principal amount of the outstanding Notes may call a meeting if the Issuer or said holders have requested the trustee in writing to call such a meeting and the trustee has not given notice of such a meeting within 20 days of receiving the request. Notices of meetings must include times and place of the meeting and a general description of the action proposed to be taken at the meeting and must be given not less than 30 days nor more than 60 days before the date of the meeting, except that notices of meetings reconvened after adjournment must be given not less than 10 days nor more than 60 days before the date of the meeting. At any meeting, the presence of Noteholders holding Notes in an aggregate principal amount sufficient to take the action for which the meeting was called will constitute a quorum. Any modifications to or waivers of the Indenture or the Notes will be conclusive and binding on all Noteholders, whether or not they have given their consent (unless required under the Indenture) or were present at any duly held meeting.

Notes owned by the Issuer or any legal entity related to the Issuer within the same financial conglomerate or non-financial entity controlled by the Issuer (as defined by applicable Brazilian laws and regulations), and a responsible officer of the Trustee has actual knowledge or written notice of such ownership, will not be considered outstanding for the purpose of determining whether the requisite aggregate principal amount of Notes has concurred in any request, demand, notice, consent or waiver under the Indenture.

It is not necessary for the Noteholders to approve the particular form of any proposed modification of the Indenture, but it is sufficient if that consent approves the substance of the proposed modification.

Modification of Subordination Provisions

The amendment, change or revocation of any of the terms of the Indenture or the Notes affecting the Terms of Subordination, including the execution of any supplemental indenture in connection therewith, shall require the prior authorization of the Central Bank or any other applicable Brazilian Government Authority if then required pursuant to any law, rule or regulation then in effect applicable to the Issuer.

Defeasance

The Issuer may, at its option at any time, with the prior approval of the Central Bank, defease its obligations with respect to the Notes by "legal defeasance" or "covenant defeasance." In general, upon legal defeasance, the Issuer will be deemed to have paid and discharged all its indebtedness under the Notes and to have satisfied all of its obligations under the Notes and the Indenture except that the following will survive: (1) the rights of the Noteholders to receive payments of principal, interest or other amounts due on the Notes when the payments are due, (2) the Issuer's obligations relating to the transfer and exchange of Notes, the payment of Additional Amounts, maintenance of a Paying Agent and a registrar and certain other matters specified in the Indenture and (3) the rights, powers, trusts, duties, immunities and indemnities of the Trustee.

In addition, through covenant defeasance, the Issuer may defease its obligations under the covenants described above under the caption "—Certain Covenants," other than the covenants described under "—Certain Covenants —Performance of Obligations Under the Notes and the Indenture" and certain covenants relating to the deposit of amounts to pay principal and interest on the Notes, actions with respect to the Paying Agent, the return of unclaimed monies and other matters. Following covenant defeasance, the Issuer may omit to comply with any defeased covenant, and the subordination provisions of the Indenture will cease to be effective.

In order to exercise either legal defeasance or covenant defeasance, the Issuer must satisfy the following conditions:

- the Issuer must irrevocably deposit with the Trustee cash in: (i) U.S. Dollars; or (ii) U.S. government obligations; or (iii) a combination thereof, in an amount sufficient, in the written opinion of an internationally recognized firm of independent public accountants delivered to the Trustee, to pay and discharge the principal of and each installment of interest on the Notes in accordance with the terms of the Indenture and the Notes;

- no Payment Default, or event which with notice or lapse of time or other conditions would become a Payment Default, has occurred and is continuing on the date of the deposit and, with respect to a Dissolution Default, at any time during the period ending on the 123rd day after the date of that deposit or, if longer, ending on the day after the longest applicable preference period relating to that deposit expires;

- the Issuer must deliver to the Trustee either a ruling received from the U.S. Internal Revenue Service and any other relevant taxing authority (covering each Taxing Jurisdiction), or an opinion of counsel to the effect that payment of amounts deposited in trust with the Trustee will not be subject to withholding Taxes or other governmental charges imposed by any Taxing Jurisdiction to a greater extent than it would have been if such deposit and defeasance had not occurred, except to the extent that Additional Amounts in respect thereof have been deposited in trust with the Trustee, *provided* that, in the case of the United States, the opinion of counsel shall state that (a) the Issuer has received from, or there has been published by the U.S. Internal Revenue Service a ruling, or (b) since the date of execution of the Indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that the Noteholders will not recognize income, gain or loss for United States federal income tax purposes as a result of such legal defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;

- such defeasance will not result in a breach or violation of any other agreement or instrument to which the Issuer is a party or by which the Issuer is bound;
- such defeasance will not result in the trust arising from that deposit constituting an investment company as defined under the U.S. Investment Company Act of 1940, as amended;
- the Issuer has delivered an officer's certificate and an opinion of counsel stating that all the conditions to defeasance have been complied with; and
- no default in the payment of principal, premium, if any, or interest on any of the Senior Indebtedness has occurred and is continuing, such Senior Indebtedness has not been accelerated and no other event of default under the Senior Indebtedness has occurred and is continuing that would permit acceleration of those obligations.

Satisfaction and Discharge

The Notes will be deemed to be paid for all purposes under the Indenture, and the Issuer's indebtedness under the Notes will be deemed to have been satisfied and discharged if the following conditions are met, among others:

- either the Issuer has given a notice of redemption and all other conditions to redemption have been met or the Notes have otherwise become due and payable or will become due and payable within one year;
- the Issuer has irrevocably deposited money in trust with the Trustee that will be sufficient to pay when due all the principal of and interest on the Notes to maturity or redemption;
- no event of default or event that, with the giving of notice, lapse of time or other conditions, would become an event of default has occurred and is continuing on the date of the deposit, and the deposit will not breach any other instrument to which the Issuer is a party or by which the Issuer is bound; and
- the Trustee has received an opinion of counsel to the effect that the satisfaction and discharge of the Issuer's indebtedness under the Notes will not be deemed to be a taxable event for the Noteholders for United States income tax purposes, unless the Trustee has received documentary evidence that each Noteholder is either not subject to or is exempt from United States income taxation.

The Indenture will cease to be of further effect when:

- either (1) all the Notes have been delivered to the Trustee for cancellation (other than destroyed, lost or stolen Notes that have been replaced or paid in accordance with the Indenture, Notes that are deemed to have been paid as described in the preceding paragraph and Notes for whose payment money has been deposited in trust or held in trust by the Issuer and have thereafter been returned to the Issuer) or (2) all Notes that have not been delivered to the Trustee for cancellation have been deemed to have been paid as described in the preceding paragraph;
- all other amounts due and payable under the Indenture have been paid; and

- the Issuer has delivered to the Trustee an officer's certificate and an opinion of counsel stating that the conditions to satisfaction and discharge of the Indenture have been complied with.

Notwithstanding the satisfaction and discharge of the Notes and/or the Indenture, the Issuer's obligations under specified provisions of the Indenture relating to the transfer and exchange of Notes, payment of Additional Amounts, maintenance of a Paying Agent and a note registrar and certain other matters specified in the Indenture will survive.

Replacement of Notes

If any Note becomes mutilated, destroyed, lost or stolen, the Issuer will execute and, upon the Issuer's request, the Trustee will authenticate and deliver a new Note of like tenor, interest rate and principal amount in exchange and substitution for that Note, so long as the Noteholder delivers to the Issuer, the note registrar and the Trustee satisfactory evidence of its ownership and of the destruction, loss or theft of the Note and provides such security or indemnity as they may require to hold them harmless. However, if a mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Issuer may pay the outstanding amounts due under the Note instead of issuing a new Note. Mutilated or defaced Notes must be surrendered before replacements will be issued. The Issuer may require that the Noteholder pay any Taxes or other expenses in connection with the replacement of the Note.

The Trustee

Deutsche Bank Trust Company Americas is the Trustee under the Indenture and has been appointed by the Issuer as note registrar and a Paying Agent with respect to the Notes. The address of the Trustee is 60 Wall Street, New York, New York 10005.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility. The obligations of the Trustee to any Noteholder are subject to the immunities and rights set forth in the Indenture.

The Issuer and its affiliates may from time to time enter into banking, trust or other transactions with the Trustee and its affiliates in the ordinary course of business.

The Trustee and its affiliates may hold Notes in their own names.

Paying Agents; Transfer Agents; Registrar

The Issuer has initially appointed the Trustee as Paying Agent and note registrar. The Issuer may at any time appoint other Paying Agents, transfer agents and note registrars. However, the Issuer will at all times maintain a Paying Agent in New York until the Notes are paid.

The Issuer has appointed Deutsche Bank Luxembourg S.A. as Luxembourg listing agent.

Notices

Unless the Indenture specifies otherwise, whenever the Indenture requires notice to the Noteholders, such notice to Noteholders of a global security will be given only to DTC in accordance with its applicable policies as in effect from time to time. Notices to be given to Noteholders will be sent by mail to the respective addresses of the Noteholders as they appear in the registrar's records, and will be deemed given when mailed. Neither the failure to give notice to a particular Noteholder, nor the defect in a notice given to a particular Noteholder, will affect the sufficiency of any notice given to another Noteholder.

So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, such notice will also be given by publication in English on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in English in a leading newspaper of general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if that is not practicable, in another English language daily newspaper of general circulation in Europe.

Governing Law

The Indenture and the Notes are governed by the laws of the State of New York, except for the subordination provisions thereof and the Terms of Subordination, which are governed by the laws of Brazil.

Jurisdiction

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan, The City of New York, and any appellate court from any of those courts. Service of process in any such action or proceeding may be served upon the Issuer at BTG Pactual US Capital LLC, located at 601 Lexington Avenue, 57th floor, New York, N.Y. 10022. The Notes and the Indenture provide that if the Issuer no longer maintains an office in New York City, then the Issuer will appoint a new process agent in New York City.

Currency Rate Indemnity

The U.S. Dollar is the sole currency of account for each tranche of the Notes and payment for all sums payable by the Issuer under the Indenture and that tranche of the Notes, including damages. Any amount received or recovered in a currency other than U.S. Dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the Issuer's winding-up or dissolution or otherwise) by the Noteholders or the Trustee with respect to any amount due to them under the Notes will constitute a discharge to the Issuer only to the extent that the recipient is able to purchase with the amount it receives or recovers the relevant amount in U.S. Dollars (or if it is not practicable to make a purchase of U.S. Dollars on that date, on the first date on which it is practicable to do so). If the amount in U.S. Dollars is less than the amount expressed to be due to the recipient, the Issuer will indemnify the recipient against any loss sustained as a result. In any event, the Issuer will indemnify the recipient against the cost of any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the recipient to certify in a satisfactory manner (indicating sources of information used) that it would have suffered a loss had it made an actual purchase of U.S. Dollar with the amount it received or recovered in the other currency on the date it received or recovered that amount (or, if a purchase of U.S. Dollars on that date had not been practicable, on the first date on which it would have been practicable, so long as the Noteholder certifies the need for the change of date).

These indemnities are a separate and independent obligation from the Issuer's other obligations, will give rise to a separate and independent cause of action, will apply regardless of any waiver or extension granted by the Trustee or any Noteholder and will continue in full force and effect in spite of any other judgment or order or the filing of any proof of claim in the winding-up of the Issuer's company for a liquidated sum.

Definitions

For the purposes hereof, capitalized terms and expressions used herein and not otherwise defined shall have the following meanings:

"**Additional Amounts**" shall have the meaning assigned to it in "—Additional Amounts" above;

"**Additional Principal Capital (*Adicional de Capital Principal*)**" means the additional principal capital required pursuant to CMN Resolution 4,193;

"**Additional Notes**" means any additional Notes issued pursuant to the Indenture after the Issue Date;

"**Additional Tier 1 Capital (*Capital Complementar*)**" means the capital determined pursuant to Article 6 CMN Resolution 4,192, which has been authorized and will become authorized by the Central Bank to be eligible to Tier 1 Capital;

"**Arrears Rate**" shall have the meaning ascribed to it in "—General" above;

"**Base Redemption Price**" means (i) 100% of the aggregate principal amount of the Notes, plus (ii) accrued and unpaid interest, if any, thereon through the Redemption Date, including Additional Amounts;

"**Benchmark Reset Date**" means the third Business Day preceding the fifth anniversary of the Issue Date;

"**Benchmark Reset Rate**" means (i) the rate per annum corresponding to the semi-annual equivalent yield to maturity, under the heading that represents the average for the week immediately prior to the Benchmark Reset Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the U.S. Federal Reserve and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities", for the 5-Year U.S. Treasury Bond or (ii) if such release (or any successor release) is not published during the week preceding the applicable Benchmark Reset Date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the 5-Year U.S. Treasury Bond, calculated by the Independent Investment Banker using a price for the 5-Year U.S. Treasury Bond (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the applicable Benchmark Reset Date. The Benchmark Reset Rate will be determined by the Independent Investment Banker at 3:30pm (New York City time) on the Benchmark Reset Date and notified to the calculation agent in writing within one Business Day;

"**Board of Directors**" when used with respect to a corporation, means either the board of directors of such corporation or any committee of that board duly authorized to act for it, and when used with respect to a limited liability company, partnership or other entity other than a corporation, any Person or body authorized by the organizational documents or by the voting equity owners of such entity to act for them;

"**Brazil**" means the Federative Republic of Brazil;

"**Brazilian GAAP**" means generally accepted accounting principles in Brazil, which are in effect from time to time;

"**Brazilian Governmental Authority**" means the government of Brazil or any political subdivision thereof, whether federal, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other Person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government over the Issuer;

"**Business Day**" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York City, Cayman Islands or São Paulo;

"**Call Date**" means February 15, 2024;

"**Central Bank**" means *Banco Central do Brasil*, the Central Bank of Brazil;

"**Clearstream**" means Clearstream Banking, *société anonyme*;

"**CMN**" means Conselho Monetário Nacional, the National Monetary Council of Brazil;

"**CMN Resolution 4,192**" means CMN Resolution No. 4,192, issued by the CMN on March 1, 2013, as amended, modified, supplemented or superseded from time to time;

"**CMN Resolution 4,193**" means CMN Resolution No. 4,193, issued by the CMN on March 1, 2013, as amended, modified, supplemented or superseded from time to time;

"**Code**" shall have the meaning assigned to it in "—Additional Amounts" above;

"**Common Equity Tier 1 Capital (*Capital Principal*)**" means capital determined pursuant to Articles 4 et seq. of CMN Resolution 4,192 and included in Tier I Capital;

"**Comparable Treasury Issue**" means the United States Treasury security or securities selected by a Comparable Treasury Price as having an actual or interpolated maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of 5 years;

"**Comparable Treasury Price**" means: (i) the average of four Reference Treasury Dealer quotations for the Comparable Treasury Issue, after excluding the highest and lowest of such Reference Treasury Dealer quotations, or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer quotations, the average of all such quotations;

"**Credit Spread**" means 525.7 basis points;

"**Current Principal Amount**" means, in respect of each Note, at any time, the outstanding principal amount of each Note, being the amount of the denomination of such Note on the Issue Date as such amount may be reduced, on one or more occasions, as a result of a Write-Off;

"**Dissolution Default**" shall have the meaning ascribed to it in "—Events of Default and Limitation of Remedies" above;

"**Dissolution Event**" shall have the meaning ascribed to it in "—Ranking" above;

"**DTC**" means The Depository Trust Company;

"**Euroclear**" means Euroclear Bank S.A./N.V.;

"**Indenture**" shall have the meaning ascribed to it in "—General" above;

"**Independent Investment Banker**" means one of the Reference Treasury Dealers appointed by the Issuer;

"**Interest Payment Date**" shall have the meaning ascribed to it in "—General" above;

"**Interest Payment Default**" shall have the meaning assigned to it in "—Events of Default and Limitation of Remedies" above;

"**Issue Date**" shall have the meaning ascribed to it in "—General" above;

"**Issuer**" means Banco BTG Pactual S.A., acting through its Cayman Islands branch;

"**Junior Instruments**" means any Liabilities approved or to be approved by the Central Bank and to be classified as Tier 1 Capital of the Issuer, pursuant to CMN Resolution No. 4.192;

"**Liabilities**" means (i) any statutory claim, (ii) any amount payable (whether as a direct obligation or indirectly through a guarantee of a liability by such Person) pursuant to an agreement or instrument (including deposits) involving or evidencing money borrowed or received, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase or pursuant to a lease with substantially the same economic effect as any such agreement or instrument and which, under Brazilian GAAP, would constitute a capitalized lease obligation and (iii) any other claim of a creditor of the Issuer;

"**Maturity Date**" shall have the meaning ascribed to it in "—General" above;

"**Note Rate**" shall have the meaning ascribed to it in "—General" above;

"**Noteholder**" means a Person in whose name a Note is registered in the Note register;

"**Notes**" means, collectively, the Original Notes and any Additional Notes, treated as a single class of securities ranking *pari passu* among themselves, as amended or supplemented from time to time in accordance with the terms hereof, that are issued pursuant to the Indenture and includes Global Notes where the context so permits or requires;

"**Opinion of Brazilian Counsel**" means a written opinion of a Brazilian counsel whether or not such counsel is an employee of the Issuer;

"**Original Notes**" means the "7.750% Subordinated Notes due 2029" in the aggregate principal amount of US$600,000,000, which are to be issued pursuant to the Indenture;

"**Paying Agent**" means any Person appointed as paying agent by the Issuer in accordance with the Indenture, including Deutsche Bank Trust Company Americas;

"**Payment Date**" means any of the Interest Payment Dates, any Redemption Date, the Maturity Date or any other date on which payments on the Notes in respect of principal, interest or other amounts, including as a result of any acceleration of the Notes, are required to be paid pursuant to the Indenture and the Notes;

"**Payment Default**" shall have the meaning assigned to it in "—Events of Default and Limitation of Remedies" above;

"**Person**" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof;

"**Principal Payment Default**" shall have the meaning assigned to it in "—Events of Default and Limitation of Remedies" above;

"**Purchase Agreement**" means the purchase agreement, dated as of February 12, 2019 among the Issuer, BTG Pactual US Capital, LLC, Banco Bradesco BBI S.A., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Nomura Securities International, Inc. and UBS Securities LLC;

"**Record Date**" means, with respect to any payment to be made on a Payment Date, the day prior to such Payment Date;

"**Redemption Date**" means the date of redemption of the Notes pursuant to the terms and conditions of the Indenture;

"**Reference Treasury Dealer**" means not less than four leading primary United States government securities dealers in New York City reasonably designated by the Issuer; *provided*, *however*, that if any of the foregoing or their affiliates ceases to be a primary U.S. Government securities dealer in the City of New York (a "Primary Treasury Dealer"), the Issuer will substitute therefor another Primary Treasury Dealer;

"**Regulatory Capital**" means Tier 1 Capital and Tier 2 Capital;

"**Regulatory Event**" means, at any time, (i) the Central Bank or any applicable Brazilian Governmental Authority provides written notice to the Issuer that the Notes may not be included in whole or in part within the Issuer's capital base as Tier 2 Capital and/or (ii) the amendment to the applicable regulations or to their form of construction by the Central Bank or by any other applicable Brazilian Governmental Authority, that results in the Notes no longer being classified, in whole or in part, as Tier 2 Capital of the Issuer;

"**Relevant Date**" shall have the meaning assigned to it in "—Additional Amounts" above;

"**Senior Indebtedness**" means all Liabilities of the Issuer other than the Tier 2 Pari Passu Liabilities and Junior Instruments;

"**Reset Rate**" shall have the meaning ascribed to it in "—General" above;

"**Successor Corporation**" shall have the meaning ascribed to it in "—Certain Covenants—Consolidation, Merger, Conveyance or Transfer" above;

"**Tax Event**" means a determination by the Issuer that, on the relevant Interest Payment Date, the Issuer would, for reasons outside its control, be obligated to pay Additional Amounts in excess of Additional Amounts which the Issuer would be obligated to pay if payments of interest under the Notes were subject to withholding or deduction at a rate of (a) 15% in case of any Taxes imposed by Brazil; (b) 25% in case of Taxes imposed by Brazil on amounts paid to residents of countries in which income is either tax-exempt or subject to an income tax rate capped at 20% or where the laws of that country or location impose restrictions on the disclosure of (i) shareholding composition, (ii) the ownership of the investment, or (iii) the beneficial ownership of income paid to non-resident persons, pursuant to Law No. 9,779, dated January 19, 1999; (c) 0% in case of any Taxes imposed by the Cayman Islands; or (d) the applicable tax rate in effect with respect to any other jurisdiction in which a Paying Agent is located on the date the Issuer appoints such Paying Agent;

"**Taxes**" shall have the meaning assigned to it in "—Additional Amounts" above;

"**Taxing Jurisdiction**" shall have the meaning assigned to it in "—Additional Amounts" above;

"**Terms of Subordination**" means the *núcleo de subordinação* annexed to the Indenture;

"**Tier 1 Capital**" means capital (or similar instruments) comprised of the Common Equity Tier I Capital (*Capital Principal*) and Additional Tier 1 Capital (*Capital Complementar*) of the Issuer qualifying as Tier 1 capital, as set forth in CMN Resolution 4,192;

"**Tier 2 Capital**" means capital (or similar instruments) qualifying as Tier 2 capital, as set forth in CMN Resolution 4,192;

"**Tier 2 Pari Passu Liabilities**" means any Liabilities approved or to be approved by the Central Bank and to be classified, in whole or in part, in the Tier 2 Capital of the Issuer pursuant to CMN Resolution No. 4.192;

"**Trustee**" means Deutsche Bank Trust Company Americas; and

"**Write-Off**" shall have the meaning assigned to it in "—Write-Off by the Issuer" above.

Book Entry, Delivery and Form

Notes sold pursuant to Regulation S will be represented by a Global Note in fully registered form without interest coupons (the "Regulation S Global Note") and will be registered in the name of a nominee of DTC. Notes sold pursuant to Rule 144A will be represented by a Global Note in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes") and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC. See "Transfer Restrictions" for more information.

Exchanges between the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note to a transferee, who takes delivery of that interest through a Note offered and sold in the United States to qualified institutional buyers pursuant to Restricted Global Note, will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferee of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a "qualified purchaser" within the meaning of Section 2(A)(51) of the U.S. Investment Company Act of 1940 that is also a qualified institutional buyer within the meaning of Rule 144A in a transaction complying with the requirements of Rule 144A. Transfers by an owner of a beneficial interest in a Restricted Global Note to a transferee who takes delivery of the interest through a Regulation S Global Note will be made only upon receipt by the Trustee of a certification from the transferor that the transfer is being made outside the United States to a non-US person in accordance with Regulation S.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Global Notes

Upon receipt of the Regulation S Global Note and the Restricted Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("DTC Participants"), including Euroclear and Clearstream, or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. Except as described in "—Certificated Notes," owners of beneficial interests in a Global Note will not be entitled to have any portions of such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered the owners or holders of the Global Note (or any notes represented thereby) under the Indenture or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture referred to herein and, if applicable, those of Euroclear and Clearstream.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their accountholders through customers' securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in the Global Notes in customers' securities accounts in the depositaries' names on the books of DTC.

Payments of the principal of and interest on Global Notes will be made to DTC or its nominee as the registered owner thereof. Neither we nor any Initial Purchaser will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We anticipate that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note representing any Notes held by its nominee, will credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. We also expect that payments by DTC Participants to owners of beneficial interests in a Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificated note in respect of such interest. Transfers between accountholders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream accountholders may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream accountholder purchasing an interest in a Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream accountholder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream accountholder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by a Noteholder (including the presentation of Notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described above, DTC will exchange the Global Notes for certificated Notes (bearing a restrictive legend, unless the Company determines otherwise in compliance with applicable law), which will be distributed to its participants. Holders of indirect interests in the Global Notes through DTC Participants have no direct rights to enforce such interests while the Notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a Global Note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a Clearing Agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("indirect participants").

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Restricted Global Note among participants and accountholders of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Initial Purchasers will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depositary for a Global Note and a successor depositary is not appointed by us within 90 days, (2) any of the Notes has become immediately due and payable in accordance with "—Events of Default and Limitation of Remedies" or (3) if the Company, at its sole discretion, determines that the Global Notes will be exchangeable for certificated notes and the Company notifies the Trustee thereof, the Company will issue certificated notes in registered form in exchange for the Regulation S Global Note and the Restricted Global Note, as the case may be. Upon receipt of such notice from DTC or a paying agent, as the case may be, the Company will use its best efforts to make arrangements with DTC for the exchange of interests in the Global Notes for certificated Notes and cause the requested certificated Notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to Noteholder. Persons exchanging interests in a Global Note for certificated Notes will be required to provide the registrar with (a) written instruction and other information required by the Company and the registrar to complete, execute and deliver such certificated Notes and (b) certification that such interest is being transferred in compliance with the Securities Act. In all cases, certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC. Certificated Notes will not be eligible for clearing and settlement through the DTC, Euroclear or Clearstream.

TAXATION

PROSPECTIVE PURCHASERS OF THE NOTES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF OWNING AND DISPOSING OF THE NOTES.

Brazilian Tax Considerations

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the Notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible tax consequences relating to an investment in the Notes.

Prospective purchasers should consult their tax advisors as to the specific tax consequences of acquiring, holding and disposing of the Notes, in particular with regard to notes having special features such as Notes denominated in a foreign currency as to the holder and Notes subject to currency constraint, sovereign event or credit event provisions.

Prospective purchasers should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and the country where the relevant holder is domiciled. Prospective purchasers should also note that there is no tax treaty between Brazil and the United States.

This summary does not address any tax issues that may affect solely the Issuers, such as the deductibility of expenses.

As a general rule, non-Brazilian residents are taxed in Brazil only when income is derived from Brazilian sources. The applicability of Brazilian taxes with respect to payments on the Notes will depend on the origin of such payments and the domicile of the recipient of such payments.

Interest Payments Under the Notes

Considering that the Notes will be issued by our Cayman Islands Branch, and based on the position that, as a general rule, the Cayman Islands Branch is considered to be domiciled outside of Brazil for tax purposes, payments of income made to a non-resident holder by the Issuer with respect to the notes issued through our Cayman Islands Branch will not generally be subject to withholding or deduction with respect to Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with resources held by such entities outside of Brazil. If the Cayman Islands Branch is not successfully qualified as a non-resident of Brazil and the above position does not prevail in the event of a tax dispute, the amounts remitted abroad could be subject to Brazilian withholding income tax at a rate of up to 25%, plus interest and fines, as further explained below.

Interest, fees, commissions (including any original issue discounts and any redemption premiums) and any other income payable by a Brazilian obligor to an individual, entity, trust or organization domiciled outside Brazil with respect to debt obligations derived from the issuance by a Brazilian issuer of international debt securities previously registered with the Central Bank, such as the issuance of the Notes by our principal office in Brazil, is subject to withholding income tax. The rate of withholding income tax is generally 15%, as provided for in Section 10 of the Normative Act No. 1,455, of March 6, 2014 (the "Normative Act No. 1,455/2014"). According to the Normative Act No. 1,455/2014, in the event that the beneficiary of such payments is domiciled in a tax haven jurisdiction (that is deemed to be a jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20% (or 17% provided that the requirements set forth in Normative Ruling No. 1,530 dated December 19, 2014 are met) or where the laws impose restrictions on the disclosure of ownership composition or securities ownership or do not allow for the identification of the effective beneficiary of the income attributed to non-residents, a "tax haven jurisdiction"), such payments of interest, fees, commissions (including any original issue discount and any redemption premium) and any other income may still be subject to withholding income tax in respect of Brazilian income tax at the general rate of 15%. However, it is important to mention that pursuant to Section 8 of Law No. 9,779 of January 19, 1999, if the relevant average term of credit instruments such as the Notes is of less than 96 months, the rate applicable to the beneficiary domiciled in a tax haven jurisdiction is

25%. Accordingly, there is a risk that the tax authorities may change the understanding above and apply the rate of 25% in the event that the beneficiary is domiciled in a tax haven jurisdiction. A lower income tax rate may be applicable by a tax treaty between Brazil and the other country where the recipient of the payment has its domicile.

Law No. 11,727 changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with the creation of the concept of a privileged tax regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or taxes it at a maximum rate lower than 20% (or 17% provided that the requirements set forth in Normative Ruling No. 1,530 dated December 19, 2014 are met); (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or a said territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or a said territory; (iii) does not tax or taxes proceeds generated abroad at a maximum rate lower than 20% (or 17% provided that the requirements set forth in Normative Ruling No. 1,530 dated December 19, 2014 are met) or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. Because several Brazilian regulations refer to the concepts defined in the Brazilian transfer pricing rules when referring to tax haven jurisdictions and despite the legal grounds to sustain that the changes discussed in this paragraph should apply exclusively for transfer pricing purposes and thin capitalization rules, there is a risk that a privileged tax regime will be treated similarly to a tax haven jurisdiction, and therefore the concept could be extended to the burdensome income tax rates described above.

On June 4, 2010, Brazilian tax authorities enacted Normative Ruling No. 1,037 listing (i) the countries and jurisdictions considered as tax haven jurisdictions for purposes of Brazilian law and (ii) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that the abovementioned concept of "privileged tax regime" should apply only for the purposes of Brazilian transfer pricing and thin capitalization rules, it is unclear whether such concept would also apply to payments related to the Notes to non-residents for purposes of this law. There is no judicial guidance as to the application of Law 11,727 and, accordingly, we are unable to predict whether the Brazilian Internal Revenue Service or the Brazilian courts may decide that the "privileged tax regime" concept shall be applicable to deem a non-resident Holder as a tax haven resident when carrying out investments in the applicable Notes. In the event that the "privileged tax regime" concept is interpreted to be applicable to transactions such as payments related to the Notes to non-residents, this tax law would accordingly result in the imposition of taxation to a non-resident Holder that meets the privileged tax regime requirements in the same way applicable to a tax haven resident.

Payments Under the Notes to be Made by the Issuer on Behalf of the Cayman Islands Branch with Funds Located in Brazil

In the event the Cayman Islands Branch fails to punctually pay any due amount, comprising payment of principal, interest and all other amounts that may be due and payable in respect of the Notes, our Brazilian principal office will be required to assume the guarantee obligation to pay such due amount to the holder. In spite of the lack of a clear regulation regarding the remittance of funds from Brazil abroad in connection with the execution of this type of obligation, we take the position that this transaction should be viewed as a new credit transaction between our Brazilian principal office and the Cayman Islands Branch, which is not subject to withholding income taxation in Brazil. If the above position does not prevail in case of a tax dispute, the amounts that may be remitted by the Issuer abroad in the aforementioned circumstances could be subject to Brazilian withholding income tax at a rate of 15%, or 25% if the non-resident holder is domiciled in a tax haven jurisdiction. Other tax rates may apply in case of a tax treaty between Brazil and the country of residence of the beneficiary.

In the event our Brazilian principal office is required to make any payment as a guarantor in connection with the Notes to the holder, our Brazilian principal office would be required to pay such additional amounts as may be necessary to ensure that the net amounts receivable by the holder after withholding for taxes will equal the amounts that would have been payable in the absence of such withholding.

Gains

According to Section 26 of Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a non-resident to another non-resident made outside Brazil are subject to taxation in Brazil.

Based on the fact that the Notes are issued abroad and, therefore, may not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, gains on the sale or other disposition of such Notes made outside Brazil by a non-resident holder, other than a branch or a subsidiary of a Brazilian resident, to another non-Brazilian resident would not be subject to Brazilian taxes. However, considering the general scope of Law No. 10,833 and the absence of judicial guidance in respect thereof, it is impossible to predict whether such interpretation will ultimately prevail in the Brazilian courts.

If the Notes are deemed to be "assets located in Brazil" pursuant to Law 10,833, gains recognized by non-resident holders from the sale or other disposition of the Notes will be subject to income tax in Brazil. Assuming that the beneficiary is not located in a Low Tax Jurisdiction, the applicable rates would be: (i) 15% for the part of the gain that does not exceed R$5.0 million, (ii) 17.5% for the part of the gain that exceeds R$5.0 million but does not exceed R$10.0 million, (iii) 20% for the part of the gain that exceeds R$10.0 million but does not exceed R$30.0 million and (iv) 22.5% for the part of the gain that exceeds R$30.0 million. If the beneficiary is domiciled in a Low Tax Jurisdiction, then the withholding tax would be levied at a rate of 25%. Other income tax rates may apply in case of a tax treaty between Brazil and the country of residence of the beneficiary.

Other Tax considerations

IOF/Câmbio may apply if payments are made from Brazil. Pursuant to Decree No. 6,306, of December 14, 2007, the conversion of foreign currency into Brazilian *reais* and the conversion of Brazilian *reais* into foreign currency are subject to the IOF/Câmbio. Currently, the IOF/Câmbio rate is 0.38% for most transfers of foreign currency into *reais*. According to Section 15-B of the Decree No. 6,306, the liquidation of exchange transactions in connection with foreign financing or loans, for both inflow and outflow of proceeds into and from Brazil, are subject to IOF/Câmbio at a zero percent rate for foreign loans with a minimum average term of more than 180 days. Foreign loans or notes with an average term equal to or lower than 180 days is subject to IOF/Câmbio at a 6% rate. If a foreign loan or note with a minimum average term of more than 180 days is partially or fully redeemed in a period of less than 180 days from their issuance IOF/Câmbio will be due at a 6% rate (plus applicable fines and interest). Note that the Brazilian Government may increase the current IOF/Câmbio rate at any time, up to a maximum rate of 25%. Any such new rate would only apply to future foreign exchange transactions. Under Decree No. 6,306, of December 14, 2007, IOF/ Câmbio taxpayers are the acquirers and sellers of foreign currency. In the event our Brazilian principal office is required to make any payment as a guarantor in connection with the Notes to the holder it is not clear whether section 15-B would be applicable to the remittance of funds. In case section 15-B is not applicable, IOF/Câmbio would be due at the general rate which is currently 0.38%.

Generally, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the Notes outside Brazil. Under Brazilian law, the transfer of a Note by gift made by a holder (whether or not a non-resident holder) and involving a resident of Brazil may be subject to Gift Tax (*Imposto Sobre Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos*) imposed on the donee by the state in which such Brazilian resident resides.

EU Directive on Administrative Cooperation in the Field of Taxation

European Council Directive 2011/16/EU on administrative cooperation in the field of taxation (as amended by European Council Directive 2014/107/EU, European Council Directive 2015/2376/EU and European Council Directive 2016/881/EU) (commonly referred to as the "Directive on Administrative Cooperation" or the "DAC") implements in the EU the Organization for Economic Cooperation and Development's (the "OECD") July 2014 Common Reporting Standard ("CRS") on the automatic exchange of financial account information. The DAC requires Member States to apply new measures on mandatory automatic exchange of information with effect from January 1, 2016. The CRS covers not only interest income, but also dividends and other types of capital income, and the annual balance of the accounts producing such items of income. The CRS has also been implemented outside of the EU: as of July 26, 2016, 101 jurisdictions had committed to exchanging information under the CRS, with undertaking to exchange information by 2017 and by 2018. The United States has not to date committed to exchanging information under the CRS.

Financial Transactions Tax ("FTT")

On February 14, 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). On March 16, 2016, Estonia formally withdrew from enhanced cooperation on FTT leaving ten remaining participating Member States.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal (including whether or not it comes into effect as proposed or at all) remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

Cayman Islands Tax Considerations

Payments in respect of the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The holder of any Note (or the legal personal representative of such holder) whose Note is brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

In addition to the implementation of the Tax Information Exchange Agreement entered into with the United States on November 29, 2013, the Cayman Islands has adopted CRS pursuant to the Tax Information Authority (International Tax Compliance) (Common Reporting Standard) Regulations (2015), as amended.

United States Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax consequences of the ownership and disposition of the Notes based upon the Code, its legislative history, existing and proposed regulations, administrative pronouncements and published rulings of the IRS, and court decisions, all as in existence as of the date hereof, and all of which are subject to different interpretations and may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. This summary applies only to U.S. Holders (as defined below) that hold the Notes as capital assets within the meaning of the Code (generally, property held for investment purposes). This summary is intended for general information only and does not address all of the U.S. federal income tax consequences that may be relevant to U.S. Holders in light of their particular circumstances. In addition, it does not apply to holders subject to special rules, including a broker or dealer in securities or currencies, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organization, an insurance company, a bank, thrift or other financial institution, a mutual fund or a regulated investment company, a real estate investment trust, a U.S. expatriate, a person liable for alternative minimum tax, a person that will own, or will have owned, directly, indirectly or constructively 10% or more (by vote or value) of the equity (including instruments treated as equity) of the Issuer, a person that holds the Notes as part of a hedging, integration, conversion or constructive sale transaction or a straddle, or a person whose functional currency is not the U.S. dollar. This discussion does not purport to be a complete analysis of all of the potential U.S. federal income tax considerations that may be relevant to particular U.S. Holders in light of their particular circumstances. Furthermore, it does not address the 3.8% Medicare tax imposed on certain net investment income or any aspect of foreign, state, local, estate or gift taxation.

As used herein, the term "U.S. Holder" means a beneficial owner of the Notes who, for U.S. federal income tax purposes, is a citizen or individual resident of the United States, a corporation (or other entity that is treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or a trust (i) if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes. Individuals who are not U.S. citizens are urged to consult their own tax advisors regarding whether they are residents of the United States for U.S. federal income tax purposes.

If a partnership (or other entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds the Notes, the U.S. federal income tax treatment of a partner, beneficiary, or other stakeholder will generally depend on the status of that person and the activities of the pass-through entity. A partner, beneficiary, or other stakeholder in a pass-through entity holding the Notes should consult its own tax advisor with regard to the U.S. federal income tax treatment of its investment in the Notes.

THE FOLLOWING DISCUSSION IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP AND DISPOSITION OF THE NOTES. THE TAX TREATMENT MAY VARY DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE NOTES.

Characterization of the Notes

The Issuer believes that the Notes are likely to be treated as equity in the Issuer for U.S. federal income tax purposes, and, to the extent required to do so, intends to treat the Notes as equity in the Issuer for U.S. federal income tax purposes. Nevertheless, no assurance can be given that the IRS will not assert that the Notes should be treated as indebtedness for U.S. federal income tax purposes. If the Notes were treated as indebtedness for U.S. federal income tax purposes, the timing and character of income, gain and loss recognized by a U.S. Holder could differ from the description herein. The following discussion assumes treatment of the Notes as equity for U.S. federal income tax purposes. U.S. Holders that acquire Notes pursuant to this offering hereby agree to treat such Notes as equity for U.S. federal income tax purposes.

Payment of Interest and Additional Amounts

Subject to the discussion below under "—Passive Foreign Investment Company Considerations," the gross amount of any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) to a U.S. Holder (including any foreign tax withheld or deducted, if any) will be taxable as dividend income to the extent such amounts are paid out of the current or accumulated earnings and profits of the Issuer as determined under U.S. federal income tax principles and will be includible in a U.S. Holder's gross income upon receipt. A payment in excess of the Issuer's current and accumulated earnings and profits will be treated as a non-taxable return of capital, thereby reducing a U.S. Holder's adjusted basis (but not below zero) in the Notes on which the payment is made and, thereafter, as a capital gain to the extent it exceeds a U.S. Holder's basis in such Notes. The Issuer, however, does not intend to maintain calculations of its earnings and profits for U.S. federal income tax purposes. Therefore, U.S. Holders should expect that any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) will generally be treated as dividends for U.S. federal income tax purposes. Dividends will not be eligible for the dividends-received-deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations and will not be eligible for the preferential dividend rate currently applicable to certain "qualified dividend income" received by individuals. Any payments of interest on the Notes (and any Additional Amounts paid by the Issuer) will generally be treated as foreign source income for U.S. foreign tax credit purposes.

Sale, Exchange or Other Taxable Disposition of Notes

A U.S. Holder will generally recognize gain or loss upon a sale or exchange of the Notes in an amount equal to the difference between the amount realized on such sale or exchange and the U.S. Holder's adjusted tax basis in such Notes. Subject to the discussion below under "—Passive Foreign Investment Company Considerations," any gain or loss recognized by a U.S. Holder will be treated as capital gain or loss. Such gain or loss will be long-term capital gain or loss to the extent that a U.S. Holder's holding period exceeds one year. Long-term capital gain of a non-corporate U.S. Holder is generally subject to preferential rates. Gain or loss, if any, recognized by a U.S. Holder will generally be treated as U.S. source gain or loss and will generally be treated as "passive category income" for U.S. Holders for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations under the Code.

Foreign Tax Credits

Subject to certain generally applicable limitations, including a holding period requirement, that may vary depending upon a U.S. Holder's circumstances, a U.S. Holder may be entitled to a credit against its U.S. federal income tax liability for foreign income taxes withheld from payments on the Notes. Instead of claiming a credit, a U.S. Holder may, at its election, deduct such otherwise creditable foreign income taxes in computing taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. U.S. Holders should consult their tax advisors as to the availability of a credit or deduction in light of their particular circumstances.

A U.S. Holder must satisfy minimum holding period requirements in order to be eligible to claim a foreign tax credit for foreign taxes withheld on dividends. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors to determine whether they are subject to any special rules that limit their ability to make effective use of foreign tax credits. If a foreign tax is withheld on the sale or other disposition of Notes, a U.S. Holder's amount realized will include the gross amount of proceeds of the sale or disposition before the deduction of the foreign tax. U.S. Holders should consult their tax advisors as to whether these foreign taxes may be creditable against such holders' U.S. federal income tax on foreign-source income from other sources or are otherwise deductible, particularly in light of the fact that income recognized on a sale or other disposition of the Notes will generally constitute U.S.-source income.

Passive Foreign Investment Company Considerations

In general, the PFIC rules are designed to eliminate the benefit of deferral of U.S. federal income tax that a U.S. Holder could derive from investing in certain foreign corporations that derive substantial passive income and/or hold substantial passive assets and that do not distribute all their earnings on a current basis. A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income."

The determination of whether the Issuer is classified as a PFIC is a factual determination that is made annually based on the categories and amounts of income that the Issuer earns and the categories and valuation of its assets, all of which are subject to change. Passive income for these purposes generally includes dividends, interest, rents, royalties and gains from commodities and securities transactions. In the case of a company engaged in an active banking business, special rules apply for determining the character of income and assets. The IRS has issued a notice (the "Notice") that would classify a non-U.S. bank as an "active bank" if, among other things, deposits from unrelated persons represent at least 50% of the non-U.S. bank's liabilities, at least 1,000 unrelated depositors are citizens or residents of the country in which the non-U.S. bank is licensed to accept deposits, loans to unrelated persons represent at least 50% of the outstanding principal of all loans, and at least 60% of the non-U.S. bank's gross income is derived from bona fide banking activities. Subsequent to the issuance of the Notice, the U.S. Department of Treasury issued the Proposed Regulations, not yet in effect, which would markedly modify the Notice and which, if finalized, would apply retroactively from taxable years beginning after December 31, 1994. In order to be an active bank under the Proposed Regulations, a foreign corporation must meet certain licensing, deposit-taking, and lending and gross income requirements.

We believe that the Issuer should meet the standards necessary to be treated as an active bank under the Proposed Regulations, but may not meet the standards necessary to be treated as an active bank under the Notice. Assuming the Issuer meets the active bank standards described above, under the Proposed Regulations, we do not believe that it should be classified as a PFIC for the taxable year ending December 31, 2019 and any subsequent taxable year, based upon its current and projected income, assets and activities. If the Notice were to apply, however, the Issuer might be treated as a PFIC for the taxable year ending December 31, 2019. We intend to take the position that the Issuer is not a PFIC for U.S. federal income tax purposes under the Proposed Regulations. We believe that the Proposed Regulations are meant to supersede the Notice, and, therefore, that we may rely only on the Proposed Regulations to determine whether the Issuer is properly classified as a PFIC.

Because a PFIC determination is a factual determination that must be made following the close of each taxable year and is based on, among other things, the market value of the Issuer's assets and shares, and because the Proposed Regulations (although proposed to be retroactive in application) are not currently in force, there can be no assurance that the Issuer will not be considered a PFIC for the current taxable year or any subsequent taxable year. Further, although the Proposed Regulations would generally apply retroactively, there can be no assurance that the Proposed Regulations will be finalized in their current form.

If the Issuer were a PFIC, a U.S. Holder of Notes would generally be subject to special rules which could impose certain onerous tax consequences. Additionally, a U.S. Holder of Notes would generally be required to file IRS Form 8621. U.S. Holders should consult their tax advisors regarding the tax consequences that would arise if the Issuer were treated as a PFIC under the Notice or the Proposed Regulations and the application of the reporting requirements on IRS Form 8621 to their particular situation.

Foreign Asset Reporting

U.S. individuals (and to the extent provided in Treasury regulations, certain domestic entities) that hold an interest in a "specified foreign financial asset," including any interest in a foreign entity, such as the Issuer, are generally required to attach a disclosure statement to their income tax return for any year in which the aggregate value of all such assets exceeds US$50,000, and certain penalties are imposed for noncompliance. U.S. Holders should consult their independent tax advisors regarding the consequences of these reporting requirements in connection with owning the Notes.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the acquisition of the Notes (including any interest in a Note) by (i) "employee benefit plans" (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, (ii) "plans" (as defined in Section 4975(e)(1) of the Code), that are subject to Section 4975 of the Code, and (iii) entities or accounts whose underlying assets are deemed to include the assets of any such employee benefit plan or other plan (each, a "Plan"). In addition, certain employee benefit plans, such as plans maintained by a non-U.S. employer, governmental plans (as defined in Section 3(32) of ERISA) and church plans (as defined in Section 3(33) of ERISA) (if no election has been made under Code Section 410(d) by the church plan), while not subject to the fiduciary responsibility and prohibited transaction provisions of ERISA or Section 4975 of the Code (discussed below), may be subject to Similar Laws.

General Fiduciary Matters

ERISA imposes certain duties on Plans and persons who are fiduciaries of such Plans, and ERISA and the Code prohibit certain transactions involving the assets of a Plan and certain persons (referred to as "parties in interest" or "disqualified persons"), unless a statutory or administrative exemption applies to the transaction. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of a Plan or the management or disposition of the assets of a Plan, or who renders investment advice for a fee or other compensation to a Plan, is generally considered to be a fiduciary of the Plan.

In considering an investment in the Notes of a portion of the assets of any Plan or a plan subject to Similar Law, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the plan and the applicable provisions of ERISA, the Code or any Similar Law relating to the fiduciary's duties to the plan, including without limitation the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any applicable Similar Law. The fiduciary should consult with its counsel and other advisors, as it deems appropriate, regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that the acquisition and holding of the Notes will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA, the Code or any Similar Law. None of the Issuer, the initial purchasers, the Trustee nor their respective affiliates (the "Transaction Parties") has undertaken or will undertake to provide impartial investment advice, or has given or will give advice in a fiduciary capacity in connection with a plan's investment in the Notes.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit Plans from engaging in specified transactions involving plan assets of an ERISA Plan with persons or entities who are "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of Section 4975 of the Code, unless an exemption is available. Such parties in interest or disqualified persons could include, without limitation, without limitation, the Issuer, the initial purchasers, the Trustee, their agents or any of their respective affiliates. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an Plan with respect to which the Issuer or certain of its affiliates is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor (the "DOL") has issued prohibited transaction class exemptions ("PTCEs"), that may apply to the acquisition and holding of the Notes. There can be no assurance that all of the conditions of any such exemption will be satisfied in connection with an ERISA Plan's acquisition and holding of the Notes, or that the scope of relief provided by any such exemption will cover all acts that might be construed as prohibited transactions.

By its acquisition and holding of any Notes (including any interest in a Note), the acquiror thereof will be deemed to have represented and warranted that either: (i) it is not and for so long as it holds the Notes (or any interest therein) will not be (and is not acquiring the Notes or any interest therein directly or indirectly with the assets of a person who is or while the Notes or any interest therein are held will be) a Plan or a plan subject to

Similar Law, or (ii) its acquisition and holding of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Law.

Each purchaser of the Notes (including any interest in a note) that is an ERISA Plan by acceptance of a note (including any interest in a note), will be deemed to have represented and warranted that a fiduciary acting on its behalf is causing it to purchase the Notes and that such fiduciary: (a) is independent (for purposes of 29 CFR Section 2510.3-21(c)(1)) of the Transaction Parties; (c) is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, including the purchaser's transactions with the Transaction Parties hereunder; (d) has been advised that none of the Transaction Parties has undertaken or will undertake to provide impartial investment advice, or has given or will give advice in a fiduciary capacity, in connection with the purchaser's transactions with the Transaction Parties contemplated hereby; (e) is a "fiduciary" under Section 3(21) of ERISA or Section 4975(e)(3) of the Code, or both, as applicable, with respect to, and is responsible for exercising independent judgment in evaluating, the purchaser's transactions with the Transaction Parties contemplated hereby; and (f) understands and acknowledges the existence and nature of the discounts, commissions and fees, and any other related fees, compensation arrangements or financial interests of the Transaction Parties in connection with the purchaser's transactions with the Transaction Parties contemplated hereby.

Consultation with Counsel

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that a Plan fiduciary consult with its counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Law to the acquisition and holding of the Notes and whether an exemption would be applicable to the acquisition and holding of the Notes.

The sale of Notes (including an interest in a Note) to a Plan is in no respect a representation or recommendation by the Transaction Parties or any other person that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan or that such an investment is appropriate for Plans generally or for any particular Plan.

PLAN OF DISTRIBUTION

Under the terms and subject to conditions set forth in the purchase agreement, dated February 12, 2019 between us and BTG Pactual US Capital, LLC, Banco Bradesco BBI S.A., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Nomura Securities International, Inc. and UBS Securities LLC, as initial purchasers, we have agreed to sell to the initial purchasers and the initial purchasers have agreed, severally and not jointly, subject to certain conditions, to buy from us the principal amount of the Notes set forth opposite their names in the table below:

Initial Purchasers	Principal Amount of Notes
BTG Pactual US Capital, LLC	US$100,000,000
Banco Bradesco BBI S.A.(1)	US$100,000,000
Citigroup Global Markets Inc.	US$100,000,000
Deutsche Bank Securities Inc.	US$100,000,000
Nomura Securities International, Inc.	US$100,000,000
UBS Securities LLC	US$100,000,000
Total	**US$600,000,000**

(1) Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the Notes in the United States. Banco Bradesco BBI S.A. is not a broker-dealer registered with the SEC, and therefore may not make sales of any Notes in the United States to U.S. persons. Banco Bradesco BBI S.A. and Bradesco Securities Inc. are affiliates of Banco Bradesco S.A.

The purchase agreement provides that the obligations of the initial purchasers are subject to certain conditions precedent and the initial purchasers are obligated to purchase all of the Notes if any are purchased. The purchase agreement also provides that if any of the initial purchasers defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the Notes initially at the offering price on the cover page of this Offering Memorandum, and may also offer the Notes to initial purchasers at the offering price less a concession. After the initial offering, the offering price may be changed. The initial purchasers may offer and sell the Notes through certain of their affiliates.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless they are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S), except to certain "qualified institutional buyers" (as defined under Rule 144A), or QIBs, that are also "qualified purchasers" (as defined in Section 2(A)(51) of the Investment Company Act, or QPSs, in reliance on exemptions from registration provided under the Securities Act and to certain non–U.S. persons in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and the exemption from the provisions of the Investment Company Act provided by Section 3(c)(7), or (3)(c)(7). See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

We expect that delivery of the Notes against payment thereof will be made to investors on or about February 15, 2019, which will be the third business day following the date of this Offering Memorandum (such settlement being referred to as "T+3"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

We have agreed to indemnify the initial purchasers against certain liabilities in connection with the offering including liabilities under the Securities Act or to contribute to payments that the initial purchasers may be required to make in that respect.

General

None of the Notes has been offered, sold or delivered nor will they be offered, sold or delivered, directly or indirectly, and neither this Offering Memorandum nor any other offering material relating to the Notes in or from any jurisdiction will be distributed, except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this Offering Memorandum.

The initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Prior to this offering, there has been no established market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF. The initial purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the continuation or liquidity of any market for the Notes.

In connection with the issue of the Notes, the initial purchaser or initial purchasers (if any) named as Stabilizing Manager(s) (the “Stabilizing Manager(s)”) (or persons acting on behalf of any Stabilizing Manager(s)) may over-allot notes (provided that, in the case of any Notes to be admitted to trading on the Euro MTF, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes subject to the issue) or effect transactions with a view to supporting the market price of the Notes during the stabilization period at a level higher than that which might otherwise prevail. However, stabilization action may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offering is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 calendar days after the date on which the Issuer received the proceeds of the issue and 60 calendar days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s), or persons acting on behalf of any Stabilizing Manager(s), in accordance with all applicable laws and rules. The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

These stabilizing and covering transactions may cause the price of the Notes to be higher than they would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

No Sale of Similar Securities

We have agreed that, for a period of 40 days following the date of this Offering Memorandum, we will not, without the prior written consent of the initial purchasers, directly or indirectly, issue, sell, offer, contract or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any U.S. dollar denominated debt securities of Banco BTG Pactual securities exchangeable for or convertible into U.S. dollar denominated debt securities of Banco BTG Pactual substantially similar to the Notes offered hereby in the international capital markets and having a tenor of more than one year other than the offer and sale of the Notes.

This lockup provision applies to debt securities or any securities convertible into or exercisable or exchangeable for debt securities.

Purchase of Notes by Certain of our Affiliates

Vehicles owned by some of the Partners, acting in their personal capacity, were allocated approximately US$55.4 million in the bookbuilding process of this offering.

Selling Restrictions

No action has been taken in any jurisdiction by us or the initial purchasers that would permit a public offering of the Notes offered hereby in any jurisdiction where action for that purpose is required. The Notes offered hereby may not be offered or sold, directly or indirectly, nor may this Offering Memorandum or any other offering material or advertisements in connection with the offer and sale of the Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes and the distribution of this Offering Memorandum. This Offering Memorandum does not constitute an offer to purchase or a solicitation of an offer to sell any of the Notes offered hereby in any jurisdiction in which such an offer or a solicitation is unlawful.

Prohibition of Sales to EEA Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“MiFID II”), or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "IDD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor (as defined above) in the EEA.

Each person in a Member State of the EEA who receives any communication in respect of, or who acquires any Notes under, the offers to the public contemplated in this Offering Memorandum, or to whom the Notes are otherwise made available, will be deemed to have represented, warranted, acknowledged and agreed to and with each Initial Purchaser and the Issuer that it and any person on whose behalf it acquires Notes is not a "retail investor" as defined above.

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Directive. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

The above selling restriction is in addition to any other selling restrictions set forth below.

United Kingdom

Each Initial Purchaser has severally and not jointly represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the United Kingdom Financial Services and Markets Act 2000 (as amended, the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA and the U.K. Financial Services Act 2012 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Brazil

The Notes have not been and will not be issued nor publicly placed, distributed, offered or negotiated in the Brazilian capital markets. The issuance of the Notes has not been nor will be registered with the CVM. Any public offering or distribution, as defined under Brazilian laws and regulations, of the Notes in Brazil is not legal without prior registration under Law No. 6,385/76, as amended, and Instruction No. 400, issued by the CVM on December 29, 2003, as amended. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the Notes is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil.

Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Peru

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*). However, the Notes have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be offered or sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

Chile

The offer of the Notes will begin on February 12, 2019 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, the “SVS”). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry

(*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the Notes is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los nuevos valores comienza el 12 de febrero del 2019 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la "SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Luxembourg

This Offering Memorandum has not been approved by and will not be submitted for approval to the Luxembourg financial services authority (*Commission de Surveillance du Secteur Financier*) for purposes of public offering or sale in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other offering circular, form of application, advertisement or other material related to such notes may be distributed, or otherwise be made available in or from, or published in, Luxembourg except in circumstances which do not constitute an offer of securities to the public, subject to the prospectus requirements, in accordance with the Luxembourg Law of 10 July 2005 on prospectuses for securities, as amended.

Cayman Islands

The Notes may not be offered or sold to nor may an invitation be made to offer or sell, and no offer or sale or invitation to offer or sell the Notes will be made, to the public in the Cayman Islands. Notes may be issued to ordinary non-resident and exempted companies of the Cayman Islands. The Issuer will comply with any direction of the Registrar of Companies in and for the Cayman Islands or the Cayman Islands Monetary Authority prohibiting (a) the sale of Notes to the public in the Cayman Islands or (b) any invitation to the public in the Cayman Islands to subscribe for the Notes.

Singapore

This Offering Memorandum has not been registered with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor. The securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

i. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

ii. where no consideration is or will be given for the transfer;

iii. where the transfer is by operation of law; or

iv. as specified in Section 276(7) of the SFA.

Singapore SFA Product Classification: In connection with Section 309B SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

TRANSFER RESTRICTIONS

The Notes have not been registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except in accordance with an applicable exemption from the registration requirements thereof. Accordingly, the Notes are being offered and sold only (1) to certain QIBs (as defined in Rule 144A) in compliance with Rule 144A that are also qualified purchasers (as defined in Section 2(a)(51) of the Investment Company Act), or (2) outside the United States to non-U.S. persons in reliance upon Regulation S. As used in this section, the terms "United States," "U.S. person" and "offshore transactions" have the meanings given to them in Regulation S.

Each purchaser of Notes or beneficial owner of the Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the initial purchasers as follows:

1. It is:

    - (i) a qualified institutional buyer that is also a qualified purchaser, (ii) not a broker-dealer that owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (iii) aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iv) is acquiring the Notes for its own account or for the account of a qualified institutional buyer that is also a qualified purchaser; or

    - not a U.S. person (and is not purchasing for the account or benefit of a U.S. person) and is purchasing the Notes outside the United States in compliance with Regulation S.

2. It understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the Notes have not been registered under the Securities Act.

3. It will not offer, resell, pledge or otherwise transfer Notes except: (i) to a qualified institutional buyer that is also a qualified purchaser (as defined in Section 2(a)(51) of the Investment Company Act) in a transaction that is exempt from registration under the Securities Act or (ii) outside the United States to non-U.S. persons in offshore transactions in accordance with Rule 903 or Rule 904 of Regulations S.

in each case in accordance with any applicable securities laws of any state of the United States and other jurisdictions. In addition, it will, and each subsequent holder is required to, notify any subsequent purchaser of those notes from it of the resale restrictions referred to above.

4. If it is acquiring the Notes in a sale being made in reliance upon Rule 144A, it understands that the Notes will, unless otherwise decided by us, bear a legend substantially to the following effect:

    > **"This security has not been registered under the Securities Act or the securities laws of any state or other jurisdiction. Neither this security nor any interest or participation herein may be reoffered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of within the United States, or for the account or benefit of U.S. persons, in the absence of such registration or unless such transaction is exempt from, or not subject to, such registration.**
    >
    > **The holder of this security by its acceptance hereof: (1) represents that it is a "qualified institutional buyer" (as defined in Rule 144A) that it is also a "qualified purchaser"(as defined in Section 2(a)(51) of the Investment Company Act) purchasing this security for its own account or for the account of one or more qualified institutional buyers; (2) agrees to offer, sell or otherwise transfer such security, only (a) to the issuer or any affiliate thereof, (b) pursuant to a registration statement that has been declared effective under the Securities Act, (c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a "qualified institutional buyer" that is also a "qualified purchaser" purchasing for its own account or for the account of a qualified institutional buyer to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States in compliance with Rule 903 or 904**

under Regulation S under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction; and (3) agrees that it will deliver to each person to whom this security is transferred a notice substantially to the effect of this restrictive legend. This legend will be removed only at the option of the issuer.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (I) NO ASSETS OF AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("THE CODE"), APPLIES, OR, AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH PLAN, OR A NON-U.S. PLAN, GOVERNMENTAL PLAN, CHURCH PLAN, OR OTHER PLAN HAVE BEEN USED TO ACQUIRE THIS NOTE OR ANY INTEREST HEREIN, OR (II) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE, OR ANY INTEREST HEREIN, WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, (OR, IN THE CASE OF A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. OR OTHER PLAN, A VIOLATION OF ANY FEDERAL, NON-U.S., STATE OR LOCAL LAWS, REGULATIONS OR RULES THAT ARE SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE)."

5. If it is acquiring the Notes in a sale being made in reliance upon Regulation S, it understands that the Notes will bear a legend substantially to the following effect:

"This security has not been registered under the Securities Act, or the securities laws of any state or other jurisdiction, and, accordingly, may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except as set forth in the following sentence. By its acquisition hereof, the holder (1) represents that it is not a U.S. person, is not acquiring this security for the account or benefit of a U.S. person and is acquiring this security in an offshore transaction, (2) by its acceptance hereof, agrees to offer, sell or otherwise transfer such security only (a) to the issuer or any affiliate thereof, (b) pursuant to a registration statement that has been declared effective under the Securities Act, (c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a "qualified institutional buyer" as defined in Rule 144A that is also a "qualified purchaser" purchasing for its own account or for the account of a qualified institutional buyer to whom notice is given that the transfer is being made in reliance on Rule 144A in a transaction meeting the requirements of Rule 144A or (d) pursuant to offers and sales that occur outside the United States in compliance with Rule 903 or 904 under Regulation S under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction and (3) agrees that it will deliver to each person to whom this security is transferred a notice substantially to the effect of this restrictive legend. This legend will be removed only at the option of the issuer. As used herein, the terms "offshore transaction," "United States" and "U.S. person" have the meanings given to them by Regulation S under the Securities Act.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (I) NO ASSETS OF AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("THE CODE"), APPLIES, OR, AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH PLAN, OR A NON-U.S. PLAN, GOVERNMENTAL PLAN, CHURCH PLAN, OR OTHER PLAN HAVE BEEN USED TO ACQUIRE THIS NOTE OR ANY INTEREST HEREIN, OR (II)

THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE, OR ANY INTEREST HEREIN, WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, (OR, IN THE CASE OF A GOVERNMENTAL PLAN, CHURCH PLAN, NON-U.S. OR OTHER PLAN, A VIOLATION OF ANY FEDERAL, NON-U.S., STATE OR LOCAL LAWS, REGULATIONS OR RULES THAT ARE SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE)."

6. If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it agrees that no offer or sale of the Notes shall be made by it to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(o) of the Securities Act except to a qualified institutional buyer that is also a qualified purchaser and in compliance with the applicable restrictions set forth in paragraph (4) above.

7. It will be deemed to have represented and agreed that either: (i) no assets of a Plan or of a non-U.S. plan, governmental plan, church plan or other plan have been used to acquire the Notes or any interest therein or (ii) the acquisition, holding and disposition of the Notes, or any interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan, non-U.S. or other plan, a violation of any Similar Law).

8. If it is an ERISA Plan it will be deemed to have represented and agreed that a fiduciary acting on its behalf is causing it to purchase the Notes and that such fiduciary: (a) is independent (for purposes of 29 CFR Section 2510.3-21(c)(1)) of the Issuer, the initial purchasers, the Trustee and their respective affiliates (the "Transaction Parties"); (b) is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, including the purchaser's transactions with the Transaction Parties hereunder; (c) has been advised that none of the Transaction Parties has undertaken or will undertake to provide impartial investment advice, or has given or will give advice in a fiduciary capacity, in connection with the purchaser's transactions with the Transaction Parties contemplated hereby; (d) is a "fiduciary" under Section 3(21) of ERISA or Section 4975(e)(3) of the Code, or both, as applicable, with respect to, and is responsible for exercising independent judgment in evaluating, the purchaser's transactions with the Transaction Parties contemplated hereby; and (e) understands and acknowledges the existence and nature of the discounts, commissions and fees, and any other related fees, compensation arrangements or financial interests of the Transaction Parties in connection with the purchaser's transactions with the Transaction Parties contemplated hereby.

9. It acknowledges that we and the initial purchasers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by its purchase of Notes are no longer accurate, it will promptly notify us and the initial purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that is has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

10. It understands that the issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

The legends described above (including the restrictions on resale specified therein) may be removed solely in our discretion and at our direction.

Each purchaser of Notes will be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Notes, as well as Noteholders.

Each person purchasing Notes from the initial purchasers or through an affiliate of the initial purchasers, by accepting delivery of this Offering Memorandum, acknowledges that: (i) it has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of the information contained in this Offering Memorandum or its investment decision; and (ii) no person has been authorized to give any information or to make any representation concerning us or the Notes other than those contained in this Offering Memorandum and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

Any resale or other transfer, or attempted resale of other transfer, made other than in compliance with the above stated restrictions shall not be recognized by us.

INDEPENDENT AUDITORS

The consolidated financial statements of Banco BTG Pactual S.A. as of and for the years ended December 31, 2017, 2016 and 2015 included elsewhere in this Offering Memorandum have been audited by Ernst & Young Auditores Independentes S.S., independent auditors, as stated in their reports appearing herein.

With respect to the unaudited interim consolidated financial statements of Banco BTG Pactual S.A. as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017, included in this Offering Memorandum, Ernst & Young Auditores Independentes S.S., independent auditors, reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated November 5, 2018 included in this Offering Memorandum, states that they did not audit and do not express an opinion on the interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

LEGAL MATTERS

Skadden, Arps, Slate, Meagher & Flom LLP, our U.S. counsel, Campos Mello Advogados, our Brazilian counsel, and Ogier, our special Cayman Islands counsel, will pass on the validity of the Notes for us. Shearman & Sterling LLP, U.S. counsel to the Initial Purchasers, and Machado, Meyer, Sendacz e Opice Advogados, Brazilian counsel to the Initial Purchasers, will pass on the validity of the Notes for the Initial Purchasers.

GENERAL INFORMATION

1. The Notes have been accepted for clearance and settlement through DTC, and its direct and indirect participants, including Euroclear and Clearstream. The CUSIP, ISIN and Common Code numbers for the notes are as follows:

	Restricted Global Note	**Regulation S Global Note**
CUSIP	05890B AE7	P07790 AE1
ISIN	US05890BAE74	USP07790AE14
Common codes	195384070	195378240

2. We are a corporation (*sociedade por ações*) duly incorporated on January 18, 1979 under the laws of Brazil with an indefinite term of duration. Our registered office in Brazil and principal administrative establishment is located at Praia de Botafogo, 501, 5th and 6th floor, Rio de Janeiro, RJ–22250-040, Brazil. The registered office of our Cayman Islands Branch is located at PO Box 1353, Harbour Place, 5th Floor, 103 South Church Street, Grand Cayman KY1-1108, Cayman Islands. None of our directors and executive officers are residents of the United States, nor are we a resident of the United States, and all or a substantial portion of our assets and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon us or such persons, or to enforce against any of them in United States courts judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

3. Copies of our latest audited annual financial statements and unaudited quarterly financial statements may be obtained during normal business hours at our executive offices, the offices of the Trustee and any paying agent at our and their respective addresses listed on the back cover of this Offering Memorandum. Copies of our bylaws (*estatuto social*), as well as the Indenture (including forms of the Notes), will be available during normal business hours at our executive offices, the offices of the Trustee and any other paying agent at our and their respective addresses listed on the back cover of this Offering Memorandum.

4. Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial position since September 30, 2018, the date of our latest financial statements included in this Offering Memorandum.

5. Application has been made to admit the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF. The Luxembourg Stock Exchange takes no responsibility for the contents of this Offering Memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

6. The issuance of the notes was authorized by the Board of Directors of the Issuer on February 12, 2019.

7. Except as disclosed in this Offering Memorandum, we are not involved in any legal, administrative or arbitration proceeding that is material in the context of the issuance of the notes. We are not aware of any material legal, administrative or arbitration proceeding that is pending or threatened against us except as disclosed in this Offering Memorandum.

ANNEX A: PRINCIPAL DIFFERENCES BETWEEN BRAZILIAN GAAP AND IFRS

We maintain our books and records in *reais*, the official currency of Brazil, and prepare our consolidated financial statements for regulatory purposes in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank("Brazilian GAAP"), which are based on:

- Brazilian Law No. 6,404/76, as amended by Law No. 8,021/90, Law No. 9,457/97, Law No. 10,303/01, Law No. 11,638/07 and Law No. 11,941/09 (the "Brazilian Corporations Law"); and the accounting standards established by the Standard Chart of Accounts for Financial Institutions (*Plano Contábil das Instituições do Sistema Financeiro Nacional*) ("COSIF"), the Central Bank and the CMN.

Law No. 11,638/07 and Law No. 11,941/09 amended the Brazilian Corporations Law and introduced the process of conversion of financial statements into International Financial Reporting Standards ("IFRS"). However, the Central Bank did not fully adopt, as part of the accounting practices applicable to financial institutions, the provisions of Law No. 11,638. Instead, pursuant to Central Bank Communication No. 14,259, financial institutions that meet certain criteria are required to prepare supplemental consolidated financial statements in accordance with IFRS as originally issued by IASB and that are effective as of December 31, 2011. We are not including in this Offering Memorandum our supplemental financial statements prepared in accordance with IFRS.

There are certain differences between the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS (which incorporates existing International Financial Reporting Standards, IAS, as well as IFRIC and SIC interpretations) which may be relevant to the financial information presented herein. This section makes no attempt to identify or quantify the impact of these differences, nor can we give you any assurances that all differences have been identified. The following is a summary of certain differences; however, this summary does not purport to be complete and should not be construed as exhaustive.

In reading this summary, prospective investors in the Notes should also have regard to the considerations:

This summary includes differences between accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS as of December 31, 2017. Differences resulting from changes in accounting standards that will become effective after December 31, 2017 have not been considered in this summary.

Differences among accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS resulting from future changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and no attempt has been made to identify any future events, ongoing work and decisions of the regulatory bodies that promulgate accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS that could affect future comparisons among accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS. The current differences disclosed in this summary are not intended to be complete and are subject to, and qualified in their entirety by, reference to the respective pronouncements of Brazilian professional accounting bodies and those of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

As differences among accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS may be significant to the financial position or results of operations of the Bank, prospective investors unfamiliar with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank should consult their own professional advisors for an understanding of the differences between accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank and IFRS and how those differences might impact the financial information presented herein.

Unlike IFRS, under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, there are no specific principles relating to certain matters such as business combinations and financial instruments.

This summary does not address differences related solely to the classification of amounts in the financial statements or footnote disclosures.

Foreign Currency Translation

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, the financial statements of subsidiaries operating in non-hyper inflationary currency environments are translated using the current exchange rate. Financial statements presented in hyper inflationary currency environments are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statement until the year ended December 31, 2016. From January 1, 2017, the assets and liabilities are translated using the closing (year-end) rate. Amounts in the income statement are translated using the average rate for the accounting period and the difference for the end of period rate is reported in equity (under the caption "asset valuation adjustment").

Under IFRS, when translating financial statements into a different presentation currency (for example, for consolidation purposes), IFRS requires the assets and liabilities to be translated using the closing (year-end) rate. Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. Any translation differences are reported in equity (other comprehensive income).

Consolidation and Proportional Consolidation

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, financial statements should consolidate the following entities: (a) entities on which the company has voting rights that provides it with the ability to have the majority on the social decisions and to elect the majority of the members of the Board; (b) overseas branches; and (c) companies under common control or controlled by shareholders agreements irrespective of the participation in voting stock. Joint ventures, including investees in which the company exerts significant influence through its participation in a shareholders agreement in which such group controls the investee, could be accounted for under the proportional consolidation method.

Under IFRS, the condition for consolidation is to have control, which is defined as the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control is generally presumed to exist when the parent owns, directly or indirectly through subsidiaries more than half of the voting power of the entity, and potential voting rights must be considered. Notion of "de facto control" also may be considered. The standard also requires the effects of all transactions that result in decreases in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (that is, no gain or loss is recognized). For transactions that result in a loss of control of a subsidiary or a group of assets, any retained noncontrolling investment in the former subsidiary or group of assets is re-measured to fair value on the date control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold.

Under IFRS, joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions regarding the activities require unanimous consent of the members of the joint venture. IFRS 11 does not permit the proportionate consolidation method of accounting for interests in jointly controlled entities. The fair value option is not available to investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to account for their investments in jointly controlled entities.

Under IFRS, specific guidance, is provided with respect to the consolidation of SPEs. A SPE may be created to accomplish a narrow and well defined objective. Such a special purpose entity may take the form of a corporation, trust, partnership or unincorporated entity and are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management.

The sponsor frequently transfers assets to the SPE, obtains rights to use assets held by the SPE or performs services for the SPE, while other parties may provide funding. An entity that engages in transactions with the SPE (frequently creator or sponsor) may in substance control the SPE.

SPEs shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

Beginning on January 1, 2013, IFRS 10 Consolidated Financial Statements ("IFRS 10") became effective and consolidated in one single guidance the consolidation principles. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee; Thus, the principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 also requires an investor to reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Unlike IFRS 10, under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, there are no exceptions related to the investment entity concept.

Business Combinations, Purchase Accounting and Goodwill

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, combinations are not specifically addressed by accounting pronouncements. Application of the purchase method is based on book values. Goodwill or negative goodwill recorded on the acquisition of a company is calculated as the difference between the cost of acquisition and the net book value. Goodwill is subsequently amortized to income over a period not to exceed 10 years. Negative goodwill may be recorded in income over a period consistent with the period over which the investee is expected to incur losses.

Under IFRS 3 (Revised), Business Combinations requires, among other things, that all business combinations, except those involving entities under common control be accounted for by a single method – the acquisition method.

Under IFRS 3 (Revised), the acquiring company records identifiable assets and liabilities acquired at their fair values. The shares issued in exchange for shares of other companies are accounted for at fair value based on the market price. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

In addition, IFRS 3 (Revised) sets out more detailed guidelines as to the recognition of "intangible assets." Under IFRS 3 and IAS 38, "Goodwill and Other Intangible Assets," goodwill and other intangible assets with indefinite lives are no longer amortized. If assets other than cash are distributed as part of the purchase price, such assets should be valued at fair value.

Under IFRS 3 (Revised) negative goodwill will be recognized as a gain in the statement of operations. Finite lived intangible assets are generally amortized on a straight line basis over the estimated period benefited. The intangible asset related to client deposit and relationship portfolios is recorded and amortized over a period in which the asset is expected to contribute directly or indirectly to the future cash flows.

Accounting for Guarantees by a Guarantor

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, guarantees granted to third parties are recorded in memorandum accounts. When fees are charged for issuing guarantees, the fee is recognized in income over the period of the guarantee. When the guaranteed party has not honored its commitments and the guarantor should assume a liability, a credit is recognized against the guaranteed party representing the right to seek reimbursement for such party with recognition of the related allowance for losses when considered appropriate.

Under IFRS, certain financial guarantees may be accounted for as insurance contracts if certain conditions are met. Otherwise, the guidance in IAS 39 applies: (i) record guarantee contracts at fair value upon initial recognition and (ii) subsequent measurement of the higher of the amount of expenditure needed to settle the obligation (measured under IAS 37) and the amount initially recognized less cumulative amortization, when appropriate, under IAS 18.

Securities

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, securities are classified based on the investment strategy of the financial institution as either trading securities, available for sale or held to maturity and defines the recognition of the fair market value of such securities as the basis for its presentation in the financial statements, except in the case where the investment strategy is to hold the investment until maturity. Recognition of changes in fair market value for trading securities is in income, while for available for sale securities is directly in shareholders' equity. The rules to account for securities are stated more generally and are less comprehensive than the standards to account for securities under IFRS.

Under IFRS, financial assets including debt and equity securities can be categorized and accounted for as follows:

- financial assets at fair value through profit or loss including both financial assets held for trading and any financial assets designated within this category at their inception;

- held to maturity investments held with a positive intent and ability to be held to maturity and are recorded at amortized cost. Equity securities cannot be classified as held to maturity investments;

- loans and receivables that correspond to financial assets with fixed or determinable payments not quoted in an active market and are measured at amortized costs; and

- available for sale financial assets including debt and equity securities designated as available for sale, except those equity securities classified as held for trading and those not covered in the above categories which are measured at fair value. Changes in fair value are recognized in equity and recognized in the statement of income when realized.

For example, under accounting practices adopted in Brazil, debentures (a commonly traded security in Brazil which represents a credit against the issuer to the owner in certain terms defined) must be registered in the securities group of the balance sheet. This is different from the IFRS classification. Under IFRS rules, due to the essence of the operation being a form of credit to the issuer, the buyer of the debenture (creditor) must register it as a loan to a third party and therefore perform impairment tests under IFRS rules.

Comprehensive Income

Accounting Practices Adopted in Brazil do not have the concept of comprehensive income. Also, as under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, statutory reserves are required to appropriate 5% of the annual local currency earnings, after absorbing accumulated losses, to a legal reserve, which is restricted to distribution. The reserve may be used to increase capital or absorb losses, but may not be distributed as dividends. Any income remaining after the distribution of dividends on the statutory records and appropriations to statutory reserves is transferred to the reserve for future investments. Such reserve may be distributed in the form of dividends upon approval of the shareholders. There are no similar provisions for IFRS.

Under IFRS, a statement of recognized income and expenses can be presented including net income as well as other items of income and expense recognized directly in equity such as: (i) fair value gains (losses) on lands and buildings, intangible assets, available for sale investments and certain financial instruments, (ii) foreign exchange translation differences, (iii) the cumulative effect of a change in accounting policy, and (iv) change in fair value on certain financial instruments if designated as cash flow hedges or net investment hedges.

Financial Derivative Instruments

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, for periods from June 30, 2002, the accounting principles prescribed by the Brazilian Corporate Law specifically applicable to accounting and reporting for marketable and equity securities and derivative financial instruments have been amended by accounting practices established by the Central Bank for all financial institutions. According to the accounting principles established by the Central Bank, derivative financial instruments are classified based on management's intention to use them for hedging or non-hedging purposes.

Transactions involving derivative financial instruments to meet customer needs or for own purposes that did not meet hedge accounting criteria established by the Central Bank and primary derivatives used to manage the overall exposures are accounted for at fair value with unrealized gains and losses recognized currently in earnings. Deliverable forward and foreign exchange contracts also have specific accounting procedures set by the Central Bank that differs from IFRS accounting. Under the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, these operations are registered gross, which means that the long and the short positions of the trade needs to be registered. Under IFRS, these are netted and presented only the gain or loss in the operation.

Derivative financial instruments designed for hedging or to modify characteristics of assets or liabilities and (i) highly correlated with respect to changes in fair value in relation to the fair value of the item being hedged, both at the inception date and over the life of the contract and (ii) effective at reducing the risk associated with the exposure being hedged, are classified as hedges as follows:

Fair value hedge. The financial assets and liabilities and the related derivative financial instruments are accounted for at fair value and offsetting gains or losses recognized currently in earnings; and

Cash flow hedge and net investment hedge. The effective hedge portion of the derivatives is accounted for at fair value and unrealized gains and losses recorded as a separate component of shareholders' equity, net of applicable taxes. The non-effective hedge portion is recognized currently in earnings.

IAS 39 "Financial Instruments: Recognition and Measurement" requires that a company recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income.

Certain robust conditions including specified documentation requirements must be met in order to designate a derivative as a hedge. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either: (i) offset against the change in fair value of the hedged asset, liability or firm commitment through income; or (ii) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income.

Revaluation of Property, Plant and Equipment

Revaluations may be recorded under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank providing certain formalities are complied with. The revaluation increment, normally net of deferred tax effects, is credited to a reserve account in shareholders' equity. As from July 1, 1995 companies may opt to carry property, plant and equipment at cost, monetarily adjusted up to December 31, 1995, or at appraised values, in which case the revaluations must be performed at least every four years and should not result in an amount higher than the value expected to be recovered through future operations. Deferred taxes must be recognized, on revaluation increments as from July 1, 1995. Amortization of the asset revaluation increments are charged to income and an offsetting portion is relieved from the revaluation reserve in shareholders' equity and transferred to retained earnings as the related assets are depreciated or upon disposal.

Under IFRS, companies may use either the historical cost or carry their property, plant and equipment ("PP&E") at revalued amounts (based on fair value) as the accounting basis. When the revaluation model is selected, revaluations should be made with sufficient regularity. If an item of PP&E is revalued, the entire class of PP&E to which the asset belongs is required to be revalued. All revalued assets, including land, are subject, at the effective income tax rate from the sale of the asset, to deferred income tax. Gains and losses from the sale or disposal of assets are recorded as operating expenses.

Loan Accounting and Disclosure

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, loans are generally carried at cost. Until March 31, 2000 when changes were introduced by the Central Bank, loans were classified as overdue or doubtful based on the extent to which they were secured and the length of time for which payments were in arrears. Specific minimum allowances were required based on whether they were unsecured or not and the time overdue. As from March 31, 2000, loans should be categorized in 9 categories and the minimum allowance is determined by applying specific percentages to the loans in each category.

Loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors, complying with the parameters established by CMN Resolution No. 2,682 of December 21, 1999, as amended, which requires periodic analysis of the portfolio and its classification, by risk level, in 9 categories between AA (minimum risk) and H (maximum risk – loss). The minimum allowance is determined by applying specific percentages to the loans in each category.

Income from credit operations overdue for more than 60 days, independent from their risk level, is only recognized as revenue when effectively received. Operations classified as level H remain in such classification for nine months, after which time the loan is charged against the existing allowance and remain controlled in memorandum accounts for five years, no longer appearing in the balance sheet.

At a minimum, renegotiated loans are maintained at the same level at which they were classified prior to renegotiation. Renegotiated credit operations, which had already been charged against the allowance for loan losses and were in memorandum accounts, are classified as level H and any eventual gains resulting from the renegotiation of loans previously charged off are recognized as revenue on a cash basis.

Under IFRS, according to IAS 39 "Financial Instruments: Recognition and Measurement," loans and receivables are defined as financial assets with fixed or determinable payments not quoted in an active market. Loans and receivables are measured at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables investments has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

Income Taxes

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, the methods adopted for the recording of income taxes are similar to IFRS but their practical application may lead to different results in certain circumstances. The recognition of tax credits derived from temporary differences and tax losses is an area that requires considerable judgment. In general, tax credits are recognized when there is evidence of future realization in a continuous operation, and potential effects of Provisional Measures enacted by the Brazilian Government are evaluated and the effects of increases in enacted tax rates on deferred taxes may not be integrally recognized if the related legislation is being questioned. On December 30, 2002, the Central Bank issued Central Bank Circular No. 3,171, as amended, which revoked Central Bank Circular No. 2,746, that: (i) requires specific supporting analysis to recognize deferred tax assets; (ii) requires as a condition to recognize deferred tax assets a history of profitability presenting taxable income in three out of five fiscal years (including the year being reported); and (iii) prohibits recognition of deferred tax assets if it is expected that they will be realized in more than 5 years as from the reporting date. On March 31, 2006, Resolution No. 3,355 changed the period from 5 to 10 years for the realization of such tax credit.

Under IFRS, the liability method is used to calculate the income tax provision, as specified in IAS 12, "Income Taxes." Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities to each year/period end. Deferred taxes are computed based on the enacted or substantially enacted tax rate of income taxes. Net operating loss carry forwards arising from tax losses are recognized as assets. The deferred tax asset shall be recognized to the extent that it is probable that future taxable profit will realize such deferred tax asset.

Dividends and Interest Attributable to Shareholders' Equity

Subject to certain limitations, accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank permits companies to distribute or capitalize an amount of interest on shareholders' equity based on the TJLP. Such amounts are deductible for tax purposes and are presented as a direct reduction of shareholders' equity. By the end of the year, management is required to propose payment of dividends in those years which realize a profit, unless such profit has been absorbed by any accumulated losses. The entire proposed amount is accounted for as a liability at the balance sheet date.

Under IFRS, both the minimum dividends required by law and/or included in the entity's by-laws meet the definition of present obligation and, therefore, should be accounted for at the end of the year.

Cash and Cash Equivalent

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, cash equivalents are defined in broader terms than in the context of IFRS, with no limitation of 90 days/three months original maturity. Cash equivalents in Brazil are usually readily available funds which involve cash and overnight applications and may include long term securities which can be negotiated in the secondary market.

Under IFRS, cash equivalents are defined as short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Generally, only investments with original maturities of three months or less qualify under that definition held for the purposes of meeting short term cash commitments rather than for investment or other purposes.

Held for Sale

Non-current Assets Held for Sale and Discontinued Operations: Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, Held for Sale and Discontinued Operations is applicable only for fixed assets not in use anymore or received as a guarantee, that are measured based on independent experts appraisal report and do not require specific disclosure in financials, while in IFRS it is applicable for all assets, that are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the statement of financial position with specific disclosure. In some cases, Banco BTG Pactual adopts this IFRS concept to better reflect the nature and situation of the investment.

Day One Gain and Losses

IAS 39 (IFRS 9) and IFRS 13 acknowledge that the best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received), although this will not necessarily be the case in all circumstances. Although IFRS 13 specifies how to measure fair value, IAS 39 (IFRS 9) contains restrictions on recognizing differences between the transaction price and the initial fair value as measured under IFRS 13, often called day one profits, which apply in addition to the requirements of IFRS 13.

If an entity determines that the fair value on initial recognition differs from the transaction price, the difference is recognized as a gain or loss only if the fair value is based on a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. Otherwise, the difference is deferred and recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability. Therefore, entities that trade in financial instruments are prevented from immediately recognizing a profit on the initial recognition of many financial instruments that are not quoted in active markets.

Under accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, at initial recognition, if the measurement of fair value of a financial instrument and the transaction price differs, the entity recognizes the resulting gain or loss in profit or loss, with no exceptions, different from IFRS as mentioned above.

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Banco BTG Pactual S.A. and subsidiaries

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Consolidated financial statements

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A free translation from Portuguese into English of the review report on the interim consolidated financial statements prepared in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Review report on the interim consolidated financial statements

To the Shareholders and Management of
Banco BTG Pactual S.A.
Rio de Janeiro - RJ

Introduction

We have reviewed the interim consolidated financial statements of Banco BTG Pactual S.A. ("Bank"), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of income for the three and nine-month periods then ended and the consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended, and a summary of significant accounting practices and other explanatory notes.

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil. Our responsibility is to express a conclusion on these interim consolidated financial statement based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - *Revisão de Informações Intermediárias Executada pelo Auditor da Entidade* and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements referred to above have not been prepared, in all material respects, in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Emphasis of matters

Foreign subsidiary equity pickup

As mentioned on the interim consolidated financial statements footnote n°13, the Bank holds indirect investments on EFG International ("EFG"), but has no timely access on the financial information of this subsidiary before its financial statements is released. Therefore, the equity pickup is recognized in a period longer than allowed by the rules from the Central Bank of Brazil, as well as any adjustment recorded by EFG will only be considered in a later period by the Bank. Our conclusion is not qualified in respect of this matter.

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Tax credits recorded in jointly-controlled subsidiary

As at September 30, 2018, the jointly-controlled subsidiary Banco PAN S.A. records income tax and social contribution credits totaling R$ 3 billion, substantially recognized based on study of the current and future scenarios approved by the subsidiary's Board of Directors. The key assumptions used in such study were macroeconomic indicators disclosed in the market. Realization of such tax credits depends on materialization of such projections and of the business plan, as approved by the management bodies of Banco PAN S.A.. Our conclusion is not qualified in respect of this matter.

Separate financial statements

The Bank has prepared a full set of separate financial statements for the nine-month period ended at September 30, 2018 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil on which we issued an unqualified review report containing the same emphasis paragraphs described above, dated November 5, 2018.

Other matters

Consolidated Statement of value added

We have also reviewed the consolidated statement of value added, for the nine-month period ended at September 30, 2018, prepared under the responsibility of Bank's management, which financial statement presentation mentioned above is required by Brazilian Corporate Law, as supplementary information under the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil. This consolidated statement has been subject to the same review procedures previously described. For the purposes of forming our conclusion, we evaluated whether this statement is reconciled with the interim consolidated financial statements and accounting records, as applicable, and whether their layout and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our conclusion, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria set forth in Accounting Pronouncement CPC 09 and are consistent with the interim consolidated financial statements taken as a whole.

São Paulo, November 5, 2018.

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

Flávio Serpejante Peppe
Partner

A free translation from Portuguese into English of the consolidated financial statments presented in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil and in Reais

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at September, 30, 2018 and December 31, 2017
(In thousands of reais)

	Note	30/09/2018	31/12/2017
Assets			
Current assets		128,974,954	92,212,056
Cash at banks	6	931,901	4,347,209
Short-term interbank investments	7	61,278,575	27,196,779
Open market investments		58,449,263	25,973,105
Interbank deposits		2,829,312	1,223,674
Securities and derivative financial instruments		32,822,566	34,520,034
Own portfolio	8	17,882,712	15,151,347
Subject to repurchase agreements	8	6,556,992	4,761,945
Subject to unrestricted repurchase agreements	8	63,482	144,227
Derivative financial instruments	9	5,890,996	12,585,309
Subject to guarantees	8	2,428,384	1,877,206
Interbank transactions		2,440,007	1,473,007
Deposits in the Central Bank of Brazil		2,440,007	1,473,007
Loans	10	7,042,956	5,205,606
Loans		7,185,730	5,368,754
Transferred loans with coobligation		117,715	314,572
Allowance for loan losses		(260,489)	(477,720)
Other receivables		24,394,019	19,427,313
Foreign exchange portfolio	11	15,211,300	12,007,708
Income receivable	12	1,012,393	2,509,963
Securities trading and brokerage	11	7,471,736	3,598,367
Sundry	12	725,377	1,338,588
Allowance for losses on other receivables	10	(26,787)	(27,313)
Other assets		64,930	42,108
Other assets		4,650	2,852
Prepaid expenses		60,280	39,256
Long-term-assets		28,858,231	28,842,178
Long-term interbank investments	7	47,794	595,508
Open market investments		47,794	595,508
Securities and derivative financial instruments		7,687,757	7,767,998
Own portfolio	8	1,159,804	1,059,468
Derivative financial instruments	9	1,144,624	1,859,531
Subject to repurchase agreements	8	4,265,240	3,968,413
Subject to guarantees	8	1,118,089	880,586
Interbank transactions		200,513	230,635
Restricted credits – National Housing System		200,513	230,635
Loans	10	9,920,886	7,820,597
Loans		10,247,617	7,957,839
Transferred loans with coobligation		5,665	118,955
Allowance for loan losses		(332,396)	(256,197)
Other receivables		10,831,426	12,342,353
Sundry	12	11,108,240	12,452,651
Allowance for losses on other receivables	10	(276,814)	(110,298)
Other assets		169,855	85,087
Temporary investments		100	52,249
Other assets		239,114	105,067
Prepaid expenses		11,965	9,494
Provision for losses on other assets		(81,324)	(81,723)
Permanent assets		6,022,547	5,537,378
Investments		5,696,032	5,248,783
Investments in associates and jointly controlled entities - in Brazil	13	2,003,290	1,644,342
Investments in associates and jointly controlled entities - abroad	13	3,667,317	3,575,241
Other investments		29,957	33,661
Allowance for losses in investments		(4,532)	(4,461)
Property and equipment in use		86,974	82,762
Property in use		5,879	5,177
Other property and equipment in use		290,631	257,210
Accumulated depreciation		(209,536)	(179,625)
Intangible assets	14	239,541	205,833
Other intangible assets		1,560,889	1,488,396
Accumulated amortization		(1,321,348)	(1,282,563)
Total assets		163,855,732	126,591,612

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at September, 30, 2018 and December 31, 2017
(In thousands of reais)

	Note	30/09/2018	31/12/2017
Liabilities			
Current liabilities		115,176,893	77,238,309
Deposits	15	23,982,421	8,303,306
Demand deposits		343,754	441,320
Interbank deposits		179,018	111,108
Time deposits		23,459,649	7,750,878
Open market funding	15	55,968,736	31,236,529
Own portfolio		10,980,140	8,379,518
Third-party portfolio		28,355,225	19,026,548
Free trading portfolio		16,633,371	3,830,463
Funds from securities issued and accepted	15	3,416,001	2,682,894
Real estate, mortgage, credit and similar notes		3,247,245	2,533,872
Securities issued abroad		126,238	72,753
Certificates of structured transactions		42,518	76,269
Interbank transactions		7,395	5,388
Unsettled receipts and payments		7,395	5,388
Interdependencies transactions		82,133	24,356
Unsettled third party assets		82,133	24,356
Loans and borrowings	15	3,876,234	1,302,170
Loans abroad		1,688,443	1,231,495
Borrowings in Brazil		2,187,791	70,675
Derivative financial instruments	9	3,130,308	12,221,661
Derivative financial instruments		3,130,308	12,221,661
Other liabilities		24,713,665	21,462,005
Collection and payments of tax and similar charges		6,317	8,148
Foreign exchange portfolio	11	14,199,137	11,773,803
Social and statutory	16	352,120	1,290,707
Tax and social security	16	587,657	2,480,875
Securities trading and brokerage	11	6,860,803	4,232,583
Subordinated debt	15	1,649,848	1,289,040
Sundry	16	1,057,783	386,849
Long-term liabilities		29,224,718	30,576,631
Deposits	15	1,630,227	875,007
Interbank deposits		90,388	25,732
Time deposits		1,539,839	849,275
Open market funding	15	166,945	2,653,692
Own portfolio		-	929,358
Third-party portfolio		47,789	29,190
Free trading portfolio		119,156	1,695,144
Funds from securities issued and accepted	15	10,817,747	7,606,652
Real estate, mortgage, credit and similar notes		5,573,550	3,813,695
Securities issued abroad		5,130,761	3,792,957
Certificates of structured transactions		113,436	-
Loans and borrowings	15	1,496,608	3,427,755
Loans abroad		894,219	688,623
Loans in Brazil		-	75,391
Borrowings in Brazil		602,389	2,663,741
Derivative financial instruments	9	1,104,269	1,940,111
Derivative financial instruments		1,104,269	1,940,111
Other liabilities		14,008,922	14,073,414
Tax and social security	16	146,481	91,568
Subordinated debt	15	4,282,742	5,028,197
Debt instrument eligible to capital	15	3,618,867	3,043,309
Sundry	16	5,960,832	5,910,340
Deferred income		136,657	120,573
Non-controlling interest		137,274	132,407
Shareholders' equity	19	19,180,190	18,523,692
Capital		7,392,092	7,392,092
Capital Reserve		652,515	652,515
Asset valuation adjustment		245,934	114,992
Income reserves		9,965,337	10,457,156
Treasury shares		(280,685)	(93,063)
Retained earnings		1,204,997	-
Total Liabilities and Shareholders' equity		163,855,732	126,591,612

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

Nine-month period and quarters ended September 30
(In thousands of reais, except net income per share)

	Note	Quarter ended: 30/09/2018	Quarter ended: 30/09/2017	Nine-month period ended: 30/09/2018	Nine-month period ended: 30/09/2017
Financial income		2,389,902	2,680,658	7,208,854	7,519,310
Loans		384,506	477,013	928,164	1,250,481
Securities		1,564,307	1,801,598	4,281,056	4,766,534
Derivative financial instruments		379,689	367,128	1,659,317	1,127,173
Foreign Exchange		29,894	6,093	270,913	252,073
Mandatory investments		31,506	28,826	69,404	123,049
Financial expenses		(1,732,188)	(1,320,807)	(5,475,925)	(4,478,280)
Funding operations		(1,372,931)	(1,369,817)	(3,532,889)	(4,084,490)
Borrowing and onlending		(398,090)	80,398	(1,906,886)	(187,150)
Allowance for loan losses and other receivables	10	38,833	(31,388)	(36,150)	(206,640)
Net financial income		657,714	1,359,851	1,732,929	3,041,030
Other operating expenses		(2,644)	(1,888,353)	117,029	(2,051,007)
Income from services rendered	20	493,028	310,219	1,539,556	1,080,293
Personnel expenses		(200,348)	(172,346)	(574,196)	(480,554)
Other administrative expenses	23	(327,759)	(1,909,741)	(887,998)	(2,436,127)
Tax charges		(108,735)	(63,913)	(203,168)	(177,720)
Equity earnings of associates and jointly controlled entities	13	(49,286)	6,648	(71,509)	41,300
Other operating income	21	338,908	165,133	727,912	644,466
Other operating expenses	22	(148,452)	(224,353)	(413,568)	(722,665)
Operating income		655,070	(528,502)	1,849,958	990,023
Non-operating (expenses) / income		5,342	14,468	141,028	(7,048)
Income before taxation and profit sharing		660,412	(514,034)	1,990,986	982,975
Income tax and social contribution	18	39,488	1,230,699	165,513	1,200,641
Provision for income tax		(170,473)	178,792	(719,815)	(41,957)
Provision for social contribution		(136,860)	164,526	(598,463)	89,832
Deferred income tax and social contribution		346,821	887,381	1,483,791	1,152,766
Statutory profit sharing		(108,284)	(215,001)	(338,357)	(466,099)
Non-controlling interest		(6,115)	(805)	(9,810)	5,967
Net income for the quarter / period	19	585,501	500,859	1,808,332	1,723,484
Interest on equity	19	(592,448)	-	(592,095)	(623,776)
Weighted average numbers of share outstanding		2,778,465,411	2,729,192,793	2,778,465,411	2,754,089,797
Net income per share - R$		0.21	0.18	0.65	0.63

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

BANCO BTG PACTUAL S.A. and subsidiaries

Statements of changes in shareholders' equity – parent company
Nine-month period ended September 30
(In thousands of reais, except for dividends and interest on equity per share)

					Income reserves			
	Note	Capital	Capital under approval	Capital reserve	Special earnings reserve	Legal	Unrealized	Statutory
Balances as at December 31, 2016		7,220,526	-	652,515	-	1,078,199	3,236,533	5,516,059
Capital increase under approval	19	-	171,566	-	-	-	-	-
Own shares acquired	1	-	-	-	-	-	-	-
Cancelation of treasury shares	1	-	-	-	-	-	-	(467,748)
Interest on equity received by on shares repurchase	19	-	-	-	-	-	-	-
Changes in fair value of assets available for sale		-	-	-	-	-	-	-
Changes in fair value of associates and jointly controlled	13	-	-	-	-	-	-	-
Currency translation adjustments		-	-	-	-	-	-	-
Foreign Investment hedge		-	-	-	-	-	-	-
Interest on equity (R$0.11 per share)	19	-	-	-	300,000	-	-	(300,000)
Net income for the period		-	-	-	-	-	-	-
Net income allocation								
Income reserve		-	-	-	-	49,844	-	-
Interest on equity (R$0.23 per share)	19	-	-	-	-	-	-	-
Balances as at September 30, 2017		7,220,526	171,566	652,515	300,000	1,128,043	3,236,533	4,748,311
Balances as at December 31, 2017		7,392,092	-	652,515	-	1,181,507	2,803,820	6,417,364
Own shares acquired	19b	-	-	-	-	-	-	-
Interest on equity received by on shares repurchase		-	-	-	-	-	-	-
Changes in fair value of assets available for sale		-	-	-	-	-	-	-
Changes in fair value of associates and jointly controlled	13	-	-	-	-	-	-	-
Currency translation adjustments		-	-	-	-	-	-	-
Foreign Investment hedge		-	-	-	-	-	-	-
Intermediate interest on equity (R$0.11 per share)	19	-	-	-	300,000	-	-	(300,000)
Changes in accounting practices of associates	2	-	-	-	-	-	-	(503,057)
Net income for the period		-	-	-	-	-	-	-
Net income allocation								
Income reserve		-	-	-	-	11,238	-	-
Interest on equity (R$0.22 per share)	19	-	-	-	-	-	-	-
Balances as at September 30, 2018		7,392,092	-	652,515	300,000	1,192,745	2,803,820	5,614,307

Reconciliation of net income and shareholders' equity of Banco BTG Pactual S.A. and subsidiaries is presented in Note

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows

Nine-month period ended September 30
(In thousands of reais)

	Note	30/09/2018	30/09/2017
Operating activities			
Net income for the period		1,808,332	1,723,484
Adjustments to net income		(378,488)	(138,048)
Equity pick up from associates and jointly controlled entities	13	71,509	(41,300)
Interest expense with subordinated debt		1,062,194	867,121
Deferred income tax and social contribution		(1,483,791)	(1,152,766)
Goodwill amortization	22	-	143,202
Goodwill exchange variation	14	(63,713)	(134)
Permanent assets exchange variation		(7,610)	(3,966)
Depreciation and amortization	23	42,923	49,795
Adjusted net income for the period		1,429,844	1,585,436
(Increase)/decrease in operational activities			
Short-term interbank investments		(8,014,431)	4,173,203
Securities and derivative financial instruments		(8,873,539)	2,802,447
Loans		(3,937,639)	(2,424,299)
Other receivables and other assets		(2,079,579)	5,157,865
Interbank transactions		(934,871)	693,888
Interdependencies transactions		57,777	75,646
Other liabilities		3,601,898	(2,587,691)
Deferred income		16,084	432
Deposits		16,434,335	631,919
Open market funding		22,245,460	2,731,694
Loans and borrowings		642,917	560,116
Cash provided by operating activities		20,588,256	13,400,656
Investing activities			
Sale of other investment		3,775	358
Acquisition / sale of equity interests	13	(346,626)	985,797
Dividends and interest on equity received	13	179,367	274,115
Acquisition of property		(15,004)	(9,282)
Sale of property		1,272	7,645
Acquisition of intangible assets	14	(6,663)	(26,710)
Sale of intangible assets	14	10,873	1,285
Cash (used in) / provided by investing activities		(173,006)	1,233,208
Financing activities			
Acquisition of treasury shares	19b	(187,622)	(396,914)
Funds from securities issued and accepted		3,944,202	(2,371,030)
Subordinated debt and debt instrument eligible to equity		(871,283)	(1,622,652)
Non-controlling interest		4,867	14,966
Interest on equity	19	(1,201,071)	(1,520,000)
Capital increase under approval	19	-	171,566
Cash provided by / (used in) financing activities		1,689,093	(5,724,064)
Increase in cash and cash equivalents		22,104,343	8,909,800
Balance of cash and cash equivalents	25		
At the beginning of the period		23,201,005	13,973,748
At the end of the period		45,305,348	22,883,548
Increase in cash and cash equivalents		22,104,343	8,909,800
Non-cash transaction		(180,580)	1,394,195
Interest on equity		(300,000)	(300,000)
Sale of investments		-	1,696,276
Acquisition / Increase/ Transfer of equity interests		161,499	-
Changes in fair value of assets available for sale		(42,079)	(2,081)

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added

Nine-month period ended September 30
(In thousands of reais)

	Note	30/09/2018	30/09/2017
Income		9,203,782	8,599,603
Financial brokerage		7,208,854	7,519,310
Services rendered	20	1,539,556	1,080,293
Other		455,372	-
Expenses		(5,475,925)	(4,563,527)
Financial brokerage		(5,439,775)	(4,271,640)
Allowance for loan losses and other receivables	10	(36,150)	(206,640)
Other		-	(85,247)
Inputs acquired from third parties		(780,734)	(2,325,398)
Materials, energy and other		(9,812)	(1,641,067)
Outsourced services		(770,922)	(684,331)
Gross value added		2,947,123	1,710,678
Depreciation and amortization	23	(42,923)	(49,795)
Net value added produced by the entity		2,904,200	1,660,883
Value added received through transfer		(71,509)	41,300
Equity in the earnings of associates and jointly controlled entities		(71,509)	41,300
Value added to be distributed		2,832,691	1,702,183
Distribution of value added		2,832,691	1,702,183
Personnel		912,553	946,653
Direct compensation		743,253	816,657
Benefits		96,454	68,887
FGTS – government severance pay fund		71,988	61,109
Other		858	-
Taxes, fees and contributions		37,654	(1,022,921)
Federal		(88,287)	(1,072,646)
Municipal		125,941	49,725
Remuneration of third party capital		64,342	60,934
Rent expenses		64,342	60,934
Remuneration of shareholders		1,818,142	1,717,517
Retained earnings		2,400,427	2,347,260
Interest on equiy		(592,095)	(623,776)
Non-controlling interest		9,810	(5,967)

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

1. Operations

Banco BTG Pactual S.A. (''Bank'' or “BTG Pactual”) is incorporated as a multiple Bank, operating jointly with its subsidiaries (“the Group”), offering financial products and services relating to commercial, including exchange, investment portfolios, credit, financing and investment, leasing and real estate loans.

Transactions are conducted by a group of institutions fully participating in the financial market, and may be intermediated by other institutions from the BTG Pactual Group.

The Bank have units listing on B3 S.A. in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank.

New unit programs

On February 14, 2017 the Board of Directors approved two new unit programs, whose units will be traded on the B3 S.A., representing exclusively the securities of each of the Companies: (i) units to be traded under the "BPAC11" ticker symbol, comprised of one common share and two class A preferred shares issued by the Bank, and (ii) units to be traded under the PPLA11 ticker symbol, comprised of one Brazilian depositary receipt ("BDR") representing one class A share and two BDR representing class B shares issued by PPLA Participations Ltd (previously named BTG Pactual Participations Ltd).

In August 2017, considering a notice from B3 S.A., regarding the trading price of PPLA11 units approaching R$1.00 per unit, the Companies analyzed potential structure to meet requirements of the applicable regulation.

The Boards of Directors of the Companies approved, the automatic migration of all currently remaining BBTG11 unit holders to the segregated trading structure of each of the Companies, BPAC11 for Bank investors and PPLA 11 for BTGP investors. Each holder of a BBTG11 unit as of the end of the trading session on August 18, 2017, starting from the beginning of the trading session on August 21, 2017, automatically hold one BPAC11 unit and one PPLA 11 unit for each BBTG11 unit previously held by such holder, without any other significant change to such holders.

2. Corporate reorganization and acquisitions

Corporate events

On November 2017, Banco Pan S.A. approved a capital increase in the amount of R$400 million. CaixaPar assigned to Banco its rights to subscribe the capital increase and has entered into call/put options over 50% of the capital increase. The Shareholders Agreement of Banco Pan S.A. will not be modified hence CaixaPar and BTG Pactual remain as co-controllers of Banco Pan S.A.. The capital increase was concluded on January, 2018.

On April 20, 2018, Banco Pan SA informed its shareholders and the market in general that the capital increase of the company authorized by its Board of Directors was approved by the Central Bank of Brazil on February 7, 2018. After the capital increase, BTG Pactual now holds approximately 577,662 shares issued by Banco Pan SA, corresponding to 50.6% of its Capital Stock.

On October 27, 2017, the Bank approved the merger of Thor Comercializadora de Energia S.A., a company whose main activity is the sale of energy, and BTG Pactual Serviços Energéticos Ltda, a company that provides financial administrative services involving the sale of energy. The merger was concluded on March 29, 2018.

On January 2017, the shareholders of BTG Pactual approved without qualification, the merger of BTG Pactual Comercializadora de Energia Ltda by the Bank. On May 31, 2017, the BTG Comercializadora Ltda was merged by BTG Pactual.

During the year ended December 31, 2017, as part of the commodity trading activities separation process, Engelhart CTP acquired 10.62% of its own shares held by the Bank. The total consideration paid was US$251 million and the price was equivalent to Engelhart CTP's net asset accounting value. On September 30, 2018 the Group has a stake equivalent to 19.01% of Engelhart CTP (December 31, 2017 – 19.44%). During the period ended on September 30, 2018, Engelhart CTP did not acquire its own shares held by the Bank.

Acquisitions and disposals

After the issuance of EFG International ("EFG") financial statements for the year ended December 31, 2017, on February 27, 2018, BTG Pactual became aware of EFG decision to change its accounting practices to reflect certain adjustments in its accounting practices with prospective adoption effects. Due to these changes, the EFG recognized a reduction in its shareholders 'equity corresponding to CHF493.9 million, which consequently caused a negative effect on BTG Pactual shareholders' equity in the amount of R$503 million as a reduction of the Statutory Reserve.

On March 15, 2017, BTG Pactual received a notification from EFG claiming purchase price adjustments under the documents for the sale of BSI, of approximately CHF278 million in favor of EFG International ("EFG"). After careful review of such proposed adjustments and based on available information as at this date, BTG Pactual, after taking into consideration the input from its advisers, concluded the appropriate adjustment on a risk-adjusted basis could be CHF95.7 million in favor of BTG Pactual. On July 17, 2017, after negotiation with EFG, the Bank has agreed to return CHF 89 million of the amount previously paid by EFG. The resolution of this matter includes the CHF 95 million fine previously imposed by FINMA on BSI.

On October 31, 2017, BW Properties S.A., through its subsidiary BW1 Morumbi Empreendimento Imobiliário Ltda., concluded the sale of the remaining portion of the WT Morumbi project for a total amount of R$ 231.8 million.

On October 5, 2017, the Bank acquired Novaportfólio Participações S.A., a company that holds certain NPL assets of Banco BVA S.A. in connection with its extrajudicial liquidation, for a consideration of R$211 million.

(In thousands of reais, except otherwise indicated)

3. Presentation of the financial statements

The Bank's consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the Conselho Monetário Nacional (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE), except Novaportfólio.

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by BACEN, requires management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with uncertain tax position, the provision for contingent liabilities and the fair value measurement of financial instruments. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inherent uncertainties to its determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

The consolidated financial statements were approved by the Bank's management on November 5, 2018, and they contain a true and fair view of the development and results of the Bank. management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

a. Consolidated financial statements

In the consolidated financial statements all intercompany balances of assets and liabilities, revenues, expenses and unrealized profit were eliminated, and the portions of net income (loss) and shareholders' equity relating to non-controlling interest were included.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill of investments in subsidiaries is recognized as deferred income. Goodwill and negative goodwill calculated on the acquisition of jointly controlled entities are recognized in investments.

The subsidiaries and investment funds consolidated on the Bank's financial statements, are as follows:

		Equity interest - %	
	Country	30/09/2018	31/12/2017
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Holding Participações S.A.	Brazil	99.99	99.99
BTG Pactual Holding Internacional S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00

(In thousands of reais, except otherwise indicated)

	Country	Equity interest - % 30/09/2018	Equity interest - % 31/12/2017
BW Properties S.A.	Brazil	75.54	73.93
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.70	99.70
BTG Pactual Chile International Ltd.	Cayman	100.00	100.00
Banco BTG Pactual Luxembourg S.A.	Luxembourg	100.00	100.00
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
Banco Sistema S.A.	Brazil	99.84	99.84
BTGP-BSI LIMITED	UK	100.00	100.00
Enforce Gestão de Ativos S.A.	Brazil	70.00	70.00
BTG Pactual Corretora de Resseguros Ltda.	Brazil	100.00	100.00
ZB Consultoria Ltda	Brazil	99.99	-
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	UK	100.00	100.00
BTG Pactual Asset Management US, LLC	USA	100.00	100.00
BTG Pactual US Capital, LLC	USA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	UK	100.00	100.00
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	100.00	100.00
Infra IX Empreendimentos e Participações S.A.	Brazil	100.00	100.00
Banco BTG Pactual Chile S.A.	Chile	100.00	100.00
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual Chile Capital S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos	Chile	100.00	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos	Chile	100.00	100.00
BTG Pactual Seguros de Vida	Chile	100.00	100.00
BTG Pactual Holding Delaware LLC	USA	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	Peru	100.00	100.00
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	94.50	94.50
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTG Pactual E&P S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxembourg	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	USA	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	100.00
Bamerindus Participações e Empreendimentos S.A.	Brazil	99.84	99.84
Bastec Tecnologia e Serviços Ltda.	Brazil	99.84	99.84
BTG Pactual UK Holdco Limited	UK	100.00	100.00
BTG Pactual Family Office S.A. de C.V.	Mexico	100.00	100.00
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	Mexico	100.00	100.00
Newco SEG Holding S.A.	Brazil	100.00	100.00
TTG Forestry Services LLC	USA	100.00	100.00
N.A.S.S.P.E Empreendimentos e Participacoes S.A.	Brazil	100.00	100.00
BTG Pactual Argentina S.A.	Argentina	100.00	100.00
BTG Pactual Real Estate Luxembourg Holding S.A.	Luxembourg	100.00	100.00
BTG Pactual RE Income S.A.	Colombia	100.00	100.00
BTG Pactual Chile Asesorias Financieras	Chile	100.00	100.00
PFC Consultoria e Assessoria Empresarial Eireli	Brazil	100.00	-
Engelhart CTP Absolute Return Limited	Cayman	100.00	-
Investment funds			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Absolute Return Master Fund	Cayman	100.00	100.00
FIDC NP Alternative Assets I	Brazil	100.00	100.00
BTG Pactual ARF Equities Brasi FIA IE	Brazil	100.00	100.00
BTGP Int Fund II SPC - BTGPH Corp Hedge	Brazil	100.00	100.00
BTG PACTUAL RED FIP - Multimercado Investimento no Exterior	Brazil	100.00	100.00
FIM CP Energy	Brazil	51.48	-
FIM CP Vitória Fidelis	Brazil	100.00	-
FIDC NP Alternative Assets II	Brazil	100.00	-

b. Functional currency

The amounts included in the Bank's consolidated financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R$), which is the functional currency of the Bank.

The assets and liabilities of subsidiaries with a functional currency other than Brazilian Real are translated as follows: (i) assets and liabilities are translated using the closing rate at the balance sheet date. (ii) Income and expenses are translated using monthly average exchange rates, and (iii) Investments in subsidiaries abroad are recognized as follows: for those with functional currency equal to Real; Income for the period: for those with functional currency equal to Real: a) Income for the period; portion related to the subsidiary's effective income; and b) stockholders' equity: portion related to foreign exchange adjustments arising from the translation process, net of tax effects.

The effects of foreign exchange variations on investments abroad are distributed in the fair value adjustments in the shareholders'equity.

4. Significant accounting practices

The significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are the following:

a. Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments with original maturities up to 90 days, subject to an insignificant risk of change in value.

b. Short-term interbank investments, remunerated deposits at the Central Bank of Brazil, time and interbank deposits, open market funding, funds from securities issued and accepted, loans and borrowings, subordinated debts and other asset and liability transactions

The transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a "*pro rata die basis*", based on the effective rate of the transactions.

c. Securities

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068 under the following categories:

i. Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are initially recognized at cost plus income earned, and adjusments to fair value, recognized in statements of income.

ii. Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, with interest recorded in profit or loss, and subsequently adjusted to fair value, with that amount recorded in a separate account under shareholders' equity, net of tax effects, which will only be recognized in statements of income after the effective realization.

iii. Held-to-maturity securities

These are securities that the Bank has intention and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to the statements of income. Decreases in the fair value of available for sale and held to maturity securities below their respective restated costs, related to non-temporary reasons, will be recorded in statements of income as realized losses.

According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

d. Derivative financial instruments

These are classified according to management's intention, on the transaction date, considering whether such transactions are for hedge or not.

The transactions using financial instruments of own portfolio, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or unrealized, recorded directly in statements of income.

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as hedge and are classified according to their nature:

- Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in the statements of income.

- Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.

- Net Investment Hedge of Foreign Operations - accounted for similarly to cash flow hedge, i.e. the portion of gains or losses on a hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity, and reclassified to income for the period in the event of the disposal of the foreign operation. The ineffective portion is recognized in statements of income for the period.

e. Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or based on the price determined for other financial instruments with similar characteristics. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the stock option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the maturity of their agreements.

Assets and liabilities resulting from swap and non-deliverable forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, with adjustments to fair value, recorded in statements of income.

The notional amount of the agreements recorded in memorandum accounts.

f. Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

g. Sale or transfer of financial assets with substantial retention of risks and benefits

Financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

h. Loans and other receivables (operations with credit characteristics)

Recorded at present value, calculated on a "*pro rata die*" basis on the index variation and on the agreed interest rate, updated up to 59^{th} day of default, provided the expected receipt. As from the 60^{th} day, the recognition in income occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least in the same level in which they were classified before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in the results when actually received.

i. Allowance for loan losses

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, among which:

- Allowances are recorded for loans, based on the classification of the client's risk, based on the periodical analysis of client quality and of activity industries and not only upon default.

- Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with maturity over 36 months.

- The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

j. Investment property

Investment properties held by subsidiaries, which their main activity is real estate, are initially measured at cost including transactions costs. After initial recognition, investment properties are stated at fair value, reflecting the market conditions at each balance sheet date. Adjustments to fair value are determined considering the fair value of the property, minus the attributed costs of the property, and recognized in net income.

The fair value of investment properties is determined at least on an annual basis, or when the Company deems it necessary, and may involve an independent valuation.

Investment properties are derecognized when disposed of or when they cease to be used permanently and no further economics benefit are expected from their disposal.

k. Investments

Jointly controlled and associates are accounted for under the equity method. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

l. Foreign currency translation

See note 3b.

m. Goodwill and negative goodwill

Goodwill and negative goodwill are calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill and negative goodwill, recorded according to the basis of expected future results of the acquired subsidiaries, is amortized according to cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in investments for jointly controlled entities, and in deferred income to subsidiaries.

n. Property and equipment in use and deferred charges

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line basis over the estimated period of usage and/or disposal.

o. Intangible assets

Intangible assets include acquired rights to the underlying assets designated to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642. Comprised by (i) goodwill paid in acquisition transferred to intangible asset due to incorporation of acquirer's equity by the acquired, or consolidation of the company; (ii) for acquired rights of assets management contracts; and (iii) softwares and improvements in third part property. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

p. Impairment on non-financial assets

Whenever there is clear evidence that the assets are measured at an unrecoverable amount, loss is recorded in the income or loss. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of the impairment losses that are calculated according to the bigger of value in use or fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

q. Income tax and social contribution

The provisions for income tax and social contribution are recorded based on accounting profits adjusted by additions and deductions according to the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R$240, and 20% for social contribution.

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

Recognized according to the criteria described below:

i. Contingent assets

Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

ii. Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably relevant. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions nor disclosure.

iii. Legal obligation – tax and social security

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

s. Earnings per share

Calculated based on weighted average shares outstanding for the period.

t. Revenue recognition

Revenues and expenses are recorded under the accrual method.

(In thousands of reais, except otherwise indicated)

5. Risk management

The Bank's committee/area structure allows for the inputs from the entire organization and ensures that the decisions are implemented effectively. The main committees/meetings involved in risk management activities are: (i) Management meeting, which approves policies, defines overall limits and is ultimately responsible for managing risks; (ii) Risk Management Committee which discusses policies, limits and risk monitoring; (iii) Capital and Risk Committee, composed by independent members to supervise risk management results and strategies; (iv) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products; (v) Credit Risk area, which is responsible for approving new loans according to the guidelines set forth by our CRO; (vi) Market Risk area, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (vii) Operational Risk Area, which assesses the main operational risks for the internal policies and regulatory risks established; (viii) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering; (ix) CFO and CRO, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure; (x) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. The Bank believes that the involvement of the Committees/areas (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas. Further details on risk management can be found at www.btgpactual.com.br/ri, in the Corporate Governance / Risk management section.

a. Operational limits

	30/09/2018	31/12/2017
Reference Shareholders' Equity	19,125,725	18,473,348
Consolidation adjustments	54,465	54,465
Reference Shareholders' Equity Consolidated	19,180,190	18,527,813
Tier I	12,778,821	14,773,238
Common Equity	9,184,878	11,752,635
Complementary Equity	3,593,942	3,020,603
Tier II	2,099,332	2,369,416
Reference Shareholders' Equity (PR) - (a)	14,878,153	17,142,654
Required Reference Shareholders' Equity (PRE)	7,226,975	8,787,351
Total exposure risk-weighted - (b)	83,791,009	94,998,390
Credit risk	56,119,403	56,089,429
Operational risk	4,370,623	4,615,858
Market risk	23,300,983	34,293,103
Basel ratio - (a/b)	17.8%	18.0%
Tier I capital	15.3%	15.5%
Tier II capital	2.5%	2.5%
Fixed assets ratio	58.4%	61.6%
Fixed assets to equity capital ratio	7,429,324	8,562,702
Status for fixed assets to equity capital ratio	4,336,197	5,272,947
Amount of margin (insufficiency)	3,093,127	3,289,755

The resolutions 4.192/13 and 4.278/13 issued by the CMN regulates the requirements on Minimun Required Capital for Tier I and Additional Capital and Resolution 4.193/13 institute the Additional for the Main Capital.

Credit risk was calculated based on the Circular BACEN 3.644/13, 3.652/13, 3.679/13 and 3.696/14, market risk based on Circulars 3.634, 3.635, 3.636, 3.637, 3.638, 3.639, 3.641 e 3.645, 2013 and Circular-Letter 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13.

The Bank has chosen the basic indicator approach to measure operational risk.

As at the period ended September 30, 2018 and December 31, 2017 the Bank was in compliance with all operating limits.

b. Market risk

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one day period, with level of confidence of 95.0% and one year historical data. Reliable level of 95.0% means that there is one within twenty chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Bank's daily average VaR for the period ended:

In millions of R$	September 2018	December 2017	September 2017
Daily average VaR	58.1	120.3	139.5

c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d. Liquidity risk

The Bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e. Operational risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and anticipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

6. Cash at banks

Cash at banks refers basically to deposits abroad in prime banks.

(In thousands of reais, except otherwise indicated)

7. Interbank investments

	30/09/2018					31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	58,497,057	49,830,961	8,618,302	4,179	43,615	26,568,613
Own portfolio	13,078,114	11,154,528	1,923,586	-	-	3,107,558
Federal government bonds	12,909,863	11,016,286	1,893,577	-	-	2,940,700
Corporate bonds	113,103	84,092	29,011	-	-	166,858
Corporate bonds	54,757	53,759	998	-	-	-
Foreign government bonds	391	391	-	-	-	-
Third-party portfolio	28,481,003	27,405,886	1,027,323	4,179	43,615	18,808,858
Federal government bonds	28,401,969	27,326,852	1,027,323	4,179	43,615	18,711,441
Corporate bonds	25,433	25,433	-	-	-	97,417
Foreign government bonds	53,601	53,601	-	-	-	-
Short position	16,937,940	11,270,547	5,667,393	-	-	4,652,197
Federal government bonds	12,184,285	6,516,892	5,667,393	-	-	4,652,197
Foreign private securities	4,593,362	4,593,362	-	-	-	-
Foreign government bonds	160,293	160,293	-	-	-	-
Interbank investments (*)	2,829,312	2,724,449	104,863	-	-	1,223,674
Interbank deposit certificates	358,083	253,220	104,863	-	-	497,524
Investments in foreign currency - overnight	2,471,229	2,471,229	-	-	-	726,150
Total	61,326,369	52,555,410	8,723,165	4,179	43,615	27,792,287

(*) Refers basically to interbank deposits in prime banks.

The collateral received in repurchase agreements amounts to R$58,749,291 (December 31, 2017 - R$34,410,680), whereas the collateral granted amounts to R$55,790,609 (December 31, 2017 - R$33,951,141).

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	30/09/2018							31/12/2017
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	19,196,575	19,042,516	12,968,104	2,100,837	747,672	843,646	2,382,257	16,210,815
Federal government bonds	3,232,256	3,232,672	1,014,303	1,159,580	-	262,100	796,689	1,081,671
Debentures/Eurobonds (i)	671,153	514,194	6,991	-	213,548	116,533	177,122	776,075
Investment fund quotes								
Shares	62,438	62,438	62,438	-	-	-	-	-
Multimarket	2,559,008	2,560,074	2,336,703	218,436	-	-	4,935	5,030,807
FIDC - Credit Rights	126,505	126,505	116,144	10,361	-	-	-	49,913
Real Estate	150,316	150,316	112,373	-	-	-	37,943	57,107
Equity Investment fund	311,541	311,541	311,541	-	-	-	-	398,113
Shares	8,300,472	8,298,259	8,298,259	-	-	-	-	5,524,664
Certificate of real estate receivables	41,545	39,962	-	-	11,121	1,975	26,866	380,060
Other	302,407	301,981	-	301,553	-	-	428	-
Foreign government bonds	820,262	822,775	173,079	106,130	258,318	241,657	43,591	944,887
Foreign private securities	2,618,672	2,621,799	536,273	304,777	264,685	221,381	1,294,683	1,967,518
Unrestricted portfolio	64,161	63,482	-	-	31,932	14,538	17,012	144,227
Federal government bonds	64,161	63,482	-	-	31,932	14,538	17,012	144,227
Subject to repurchase agreements	10,929,255	10,822,232	-	763,958	3,971,817	939,894	5,146,563	8,730,358
Federal government bonds	4,692,505	4,693,343	-	671,746	3,722,161	299,436	-	6,729,304
Foreign government bonds	4,724,136	4,674,388	-	57,540	-	421,569	4,195,279	1,255,784
Foreign private securities	917,558	900,901	-	34,672	85,274	12,409	768,546	162,356

(In thousands of reais, except otherwise indicated)

	30/09/2018							31/12/2017
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Debentures (i)	595,056	553,600	-	-	164,382	206,480	182,738	582,914
Subject to guarantees	3,561,240	3,546,473	1,143,964	729,930	926,796	449,681	296,102	2,757,792
Federal government bonds	1,806,117	1,806,874	-	626,117	831,498	349,259	-	1,531,613
Investment fund quotes								
Multimarket	535,404	535,404	535,404	-	-	-	-	352,549
Debentures (i)	274,724	272,842	6,458	75,204	90,758	100,422	-	-
Bank credit certificate	-	-	-	-	-	-	-	54,578
Certificate of real estate receivables	313,588	296,102	-	-	-	-	296,102	14,463
Shares	588,646	592,490	592,490	-	-	-	-	768,404
Foreign private securities	42,761	42,761	9,612	28,609	4,540	-	-	36,185
Trading securities	26,112,943	26,057,270	13,871,481	2,961,012	1,031,773	1,193,576	6,999,428	21,447,791
Available for sale securities	3,287,553	3,066,698	240,587	625,425	608,472	749,708	842,506	1,925,303
Held-to-maturity securities	4,350,735	4,350,735	-	8,288	4,037,972	304,475	-	4,470,098
Total	33,751,231	33,474,703	14,112,068	3,594,725	5,678,217	2,247,759	7,841,934	27,843,192

(i) Substantially securities issued by Brazilian companies.

b. Trading securities

	30/09/2018							31/12/2017
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	17,137,934	17,143,906	12,779,519	1,550,616	394,340	400,840	2,018,591	14,926,351
Federal government bonds	3,232,256	3,232,672	1,014,303	1,159,580	-	262,100	796,689	1,081,671
Debentures/Eurobonds	100,506	100,352	6,991	-	11,827	4,582	76,952	363,350
Investment fund quotes								
Shares	62,438	62,438	62,438	-	-	-	-	-
Multimarket	2,559,008	2,560,074	2,336,703	218,436	-	-	4,935	5,030,807
FIDC - Credit Rights	126,505	126,505	116,144	10,361	-	-	-	49,913
Real Estate	150,316	150,316	112,373	-	-	-	37,943	57,107
Equity Investment fund	124,410	124,410	124,410	-	-	-	-	229,527
Shares	8,300,472	8,298,259	8,298,259	-	-	-	-	5,524,664
Certificate of real estate receivables	1,135	1,139	-	-	-	1,139	-	44,412
Foreign government bonds	415,185	418,383	173,079	44,583	151,651	5,479	43,591	792,019
Foreign private securities	2,065,703	2,069,358	534,819	117,656	230,862	127,540	1,058,481	1,752,881
Unrestricted portfolio	64,161	63,482	-	-	31,932	14,538	17,012	144,227
Federal government bonds	64,161	63,482	-	-	31,932	14,538	17,012	144,227
Subject to repurchase agreements	6,622,559	6,556,992	-	763,958	95,795	733,414	4,963,825	4,513,147
Federal government bonds	980,865	981,703	-	671,746	10,521	299,436	-	3,095,007
Foreign government bonds	4,724,136	4,674,388	-	57,540	-	421,569	4,195,279	1,255,784
Foreign private securities	917,558	900,901	-	34,672	85,274	12,409	768,546	162,356
Subject to guarantees	2,288,289	2,292,890	1,091,962	646,438	509,706	44,784	-	1,864,066
Federal government bonds	1,167,022	1,167,779	-	617,829	505,166	44,784	-	695,812
Investment fund quotes								
Multimarket	489,860	489,860	489,860	-	-	-	-	309,087
Bank credit certificate	-	-	-	-	-	-	-	54,578
Shares	588,646	592,490	592,490	-	-	-	-	768,404
Foreign private securities	42,761	42,761	9,612	28,609	4,540	-	-	36,185
Total	26,112,943	26,057,270	13,871,481	2,961,012	1,031,773	1,193,576	6,999,428	21,447,791

(In thousands of reais, except otherwise indicated)

c. Available-for-sale securities

	30/09/2018							31/12/2017
	Cost	Market value	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market value
Own portfolio	2,058,641	1,898,610	188,585	550,221	353,332	442,806	363,666	1,284,464
Investment fund quotes								
Equity investment fund	187,131	187,131	187,131	-	-	-	-	168,586
Debentures	570,647	413,842	-	-	201,721	111,951	100,170	412,725
Certificate of real estate receivables	40,410	38,823	-	-	11,121	836	26,866	335,648
Foreign government bonds	405,077	404,392	-	61,547	106,667	236,178	-	152,868
Foreign private securities	552,969	552,441	1,454	187,121	33,823	93,841	236,202	214,637
Other	302,407	301,981	-	301,553	-	-	428	-
Subject to repurchase agreements	595,056	553,600	-	-	164,382	206,480	182,738	582,914
Debentures	595,056	553,600	-	-	164,382	206,480	182,738	582,914
Subject to guarantees	633,856	614,488	52,002	75,204	90,758	100,422	296,102	57,925
Debentures	274,724	272,842	6,458	75,204	90,758	100,422	-	-
Investment fund quotes								
Multimarket	45,544	45,544	45,544	-	-	-	-	43,462
Certificate of real estate receivables	313,588	296,102	-	-	-	-	296,102	14,463
Total	3,287,553	3,066,698	240,587	625,425	608,472	749,708	842,506	1,925,303

d. Held-to-maturity securities

	30/09/2018						31/12/2017
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Subject to re purchase	3,711,640	-	-	3,711,640	-	-	3,634,297
Federal government bonds	3,711,640	-	-	3,711,640	-	-	3,634,297
Subject to guarantees	639,095	-	8,288	326,332	304,475	-	835,801
Federal government bonds	639,095	-	8,288	326,332	304,475	-	835,801
Total	4,350,735	-	8,288	4,037,972	304,475	-	4,470,098

If measured at fair value, held-to-maturity securities would be reported as at the period ended September 30, 2018 with a positive adjustment of R$79,923 (December 31, 2017 – R$198,515 positive).

The Bank has intention and financial capacity to maintain such assets to maturity.

e. Reclassification of securities

Management classifies the securities according to its trading intention. No reclassifications or changes in intention ocurred during the period ended on September 30, 2018 and year ended on December 31, 2017.

(In thousands of reais, otherwise indicated)

9. Derivative financial instruments

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedging for its own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed through strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

Transactions conducted in Brazil are traded, registered or held in custody by B3 S.A.; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at the period ended September 30, 2018 and year ended December 31, 2017 the bank strategy of net investments in foreign operations consist of a hedge of the exposure in foreign currency arising from the functional currency of foreign operations, compared to the functional currency of the head office.

	30/09/2018		
	Hedge instrument		
	Nominal value	**Market (i)**	**Hedge assets**
Net Investment Hedge of Foreign Operations (i)	11,466,070	(1,317,069)	7,414,014

	31/12/2017		
	Hedge instrument		
	Nominal value	**Market (i)**	**Hedge assets**
Net Investment Hedge of Foreign Operations (i)	12,256,669	(313,585)	6,164,992

(i) Recorded in stockholders' equity under heading asset valuation adjustments.

To hedge the changes of the exchange variation of net investments in foreign operations, the Bank uses Futures contracts, financial assets and forward contracts or NDF contracts entered into by the subsidiaries abroad.

a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in memorandum accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, considers the provisions of BACEN Circular Letter 3641/13, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with maturity in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, Non-Deliverable Forward ("NDF") and Deliverable Forward ("DF") derivatives in the table below.

(In thousands of reais, otherwise indicated)

	30/09/2018				31/12/2017
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	5,387,599	2,784,335	8,701,760	16,873,694	124,495
Currency	160,984	-	3,140	164,124	-
Interest rate	4,769,661	2,784,335	8,696,854	16,250,850	-
Index	451,507	-	1,766	453,273	-
Equities	5,447	-	-	5,447	-
Other	-	-	-	-	124,495
Short position	23,116,635	2,544,943	1,768,252	27,429,830	95,275
Currency	1,973,867	405	-	1,974,272	-
Interest rate	18,860,538	1,425,586	1,712,138	21,998,262	-
Index	-	1,118,952	56,114	1,175,066	-
Equities	2,282,230	-	-	2,282,230	-
Other	-	-	-	-	95,275
Swap					
Long position	80,065,035	4,726,104	15,776,207	100,567,346	137,596,593
Currency	15,203,907	1,233,703	629,291	17,066,901	4,581,902
Interest rate	62,610,914	2,371,301	11,520,609	76,502,824	121,745,570
Index	866,483	562,148	2,893,626	4,322,257	6,776,035
Equities	622,813	425,569	332,815	1,381,197	520,566
Commodities	31,754	6,715	-	38,469	20,831
Other	729,164	126,668	399,866	1,255,698	3,951,689
Short position	80,065,035	4,726,104	15,776,207	100,567,346	137,596,593
Currency	15,663,897	1,525,294	1,254,133	18,443,324	4,581,903
Interest rate	61,880,051	1,862,069	10,417,910	74,160,030	124,956,799
Index	419,912	1,200,139	3,116,562	4,736,613	6,805,004
Equities	318,339	44,731	260,038	623,108	479,478
Other	1,782,836	93,871	727,564	2,604,271	773,409
Credit Derivatives					
Long position	447,636	-	201,597	649,233	138,274
Sovereign	400,390	-	101,499	501,889	-
Corporate	47,246	-	100,098	147,344	138,274
Short position	-	80,078	2,398,424	2,478,502	-
Sovereign	-	80,078	780,848	860,926	-
Corporate	-	-	1,617,576	1,617,576	-
Non-deliverable forward - NDF					
Long position	53,070,061	2,880,940	22,566,070	78,517,071	70,920,709
Currency	50,453,270	1,123,915	19,124,393	70,701,578	41,513,210
Index	2,612,927	1,757,025	3,441,677	7,811,629	-
Commodities	-	-	-	-	27,434,820
Interest rate	3,864	-	-	3,864	1,972,679
Short position	53,070,061	2,880,940	22,566,070	78,517,071	70,920,709
Currency	41,393,396	76,460	18,904,719	60,374,575	41,513,210
Index	2,612,927	1,757,025	3,441,677	7,811,629	-
Commodities	-	-	-	-	27,434,820
Interest rate	8,779,278	1,028,434	219,674	10,027,386	1,972,679
Other	284,460	19,021	-	303,481	-
Deliverable forward - DF					
Long position	-	-	-	-	9,968,321
Currency	-	-	-	-	9,968,321
Short position	-	-	-	-	9,968,321
Currency	-	-	-	-	9,968,321
Security forwards					
Long position	3,259,908	-	18,820,612	22,080,520	1,037,415
Interest rate	578,116	-	-	578,116	716,003
Government bonds	259,127	-	-	259,127	321,412
Currency	2,422,665	-	18,820,612	21,243,277	-
Short position	3,259,908	-	18,820,612	22,080,520	1,037,415
Interest rate	262,991	-	-	262,991	321,412
Government bonds	574,252	-	-	574,252	716,003
Currency	2,422,665	-	18,820,612	21,243,277	-
Options market					
Call option - long position	8,332,535	540,463	778,741	9,651,739	11,754,348
Equities	1,428,795	122,565	221,212	1,772,572	354,955
Currency	4,815,287	417,875	553,764	5,786,926	8,041,827

(In thousands of reais, otherwise indicated)

	30/09/2018				31/12/2017
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Corporate	-	-	-	-	2,492
Index	1,438,220	23	3,765	1,442,008	621,380
Interest rate	650,233	-	-	650,233	2,733,694
Put option - long position	22,389,684	39,797,294	226,926	62,413,904	38,513,893
Equities	469,250	-	194,633	663,883	274,612
Index	1,008,823	-	-	1,008,823	493,041
Corporate	6,105,269	-	-	6,105,269	224,922
Currency	7,819,789	14,278,813	32,293	22,130,895	9,927,326
Interest rate	6,986,553	25,518,481	-	32,505,034	27,593,992
Call option - short position	8,489,772	37,042	400,544	8,927,358	7,903,951
Equities	815,881	335	96,113	912,329	147,153
Currency	4,318,281	24,555	123,464	4,466,300	6,010,753
Interest rate	1,041,014	-	-	1,041,014	-
Index	1,531,834	12,152	180,967	1,724,953	1,746,045
Other	782,762	-	-	782,762	-
Put option - short position	25,082,220	39,311,527	32,316	64,426,063	31,390,297
Equities	38,252	118,581	-	156,833	336,537
Index	1,273,649	-	-	1,273,649	82,645
Corporate	10,291,483	-	-	10,291,483	-
Currency	6,502,293	13,674,465	32,316	20,209,074	5,912,423
Interest rate	6,976,543	25,518,481	-	32,495,024	25,058,692

b. By cost and market value

	30/09/2018					31/12/2017
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	6,778	6,778	6,778	-	-	101,355
Short position	7,133	7,133	7,133	-	-	83,527
Swaps						
Long position	870,833	892,061	213,726	81,856	596,479	1,204,189
Short position	1,551,407	1,412,592	212,686	191,538	1,008,368	1,437,598
Credit derivatives						
Long position	20,368	11,666	584	-	11,082	142,712
Short position	48,064	51,542	-	409	51,133	46,316
Non-deliverable forward - NDF						
Long position	3,946,912	3,828,807	2,978,099	425,811	424,897	1,901,085
Short position	1,378,948	1,365,572	1,213,329	133,164	19,079	2,252,027
Deliverable forward - DF						
Long position	-	-	-	-	-	9,738,461
Short position	-	-	-	-	-	9,796,835
Security forwards						
Long position	833,857	1,040,420	1,040,420	-	-	521,056
Short position	834,603	1,043,330	1,043,330	-	-	518,537
Options market						
Long position	1,280,536	1,255,888	924,248	219,474	112,166	835,982
Short position	354,852	354,408	297,034	31,685	25,689	26,932
Long position	**6,959,284**	**7,035,620**	**5,163,855**	**727,141**	**1,144,624**	**14,444,840**
Short position	**4,175,007**	**4,234,577**	**2,773,512**	**356,796**	**1,104,269**	**14,161,772**

(In thousands of reais, otherwise indicated)

c. Notional by counterparty

	30/09/2018					31/12/2017
	Clearing houses / stock exchange	Financial Institutions (i)	Companies	Individuals	Total	Total
Futures market						
Long position	15,553,719	1,319,975	-	-	16,873,694	124,495
Short position	21,561,654	5,868,176	-	-	27,429,830	95,275
Swap						
Long position	14,972,449	83,568,310	1,980,723	45,864	100,567,346	137,596,593
Short position	14,972,449	83,568,310	1,980,723	45,864	100,567,346	137,596,593
Credit derivatives						
Long position	-	649,233	-	-	649,233	138,274
Short position	-	2,478,502	-	-	2,478,502	-
Non-deliverable forward - NDF						
Long position	-	70,500,270	8,016,296	505	78,517,071	70,920,709
Short position	-	70,500,270	8,016,296	505	78,517,071	70,920,709
Deliverable forward - DF						
Long position	-	-	-	-	-	9,968,321
Short position	-	-	-	-	-	9,968,321
Security forwards						
Long position	-	22,080,520	-	-	22,080,520	1,037,415
Short position	-	22,080,520	-	-	22,080,520	1,037,415
Options market						
Long position	14,815,413	57,087,248	49,440	113,542	72,065,643	50,268,241
Short position	15,707,157	57,496,221	76,547	73,496	73,353,421	39,294,248
Long position	**45,341,581**	**235,205,556**	**10,046,459**	**159,911**	**290,753,507**	**270,054,048**
Short position	**52,241,260**	**241,991,999**	**10,073,566**	**119,865**	**304,426,690**	**258,912,561**

(i) Includes investments funds.

d. Credit derivatives

	30/09/2018	31/12/2017
Credit swap		
Transferred risk		
Sovereign	501,889	-
Corporate	147,344	-
Risk received		
Sovereign	(860,926)	138,274
Corporate	(1,617,576)	-
	(1,829,269)	138,274

During the period ended September 30, 2018 and year December 31, 2017, there was no credit events related to triggering facts provided for in agreements.

According to CMN’s resolutions, the effect on the calculation of the required reference shareholders’ equity (PRE) as at September 30, 2018 is R$68,202 (December 31, 2017 – R$200,725).

e. Guarantee margins

Guarantee margins in transactions traded on B3 S.A. and other stock exchanges with derivatives comprises federal government and foreign government bonds totaling R$2,277,891 (December 31, 2017 – R$1,845,811) and shares in the amount of R$592,490 (December 31, 2017 – R$768,404).

f. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on B3 S.A., Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).

- Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.

- Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. These data are obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).

- Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer's credit spread and interest rate yield curve. These data are obtained from different sources (normally market prices, Bloomberg and Reuters).

- Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company's commercial departments. Shares are calculated based on the prices informed by B3 S.A. Fund quotas are valued based on quota prices disclosed by the custodian.

- Financial assets at fair value through profit (loss): The Bank estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

(In thousands of reais, otherwise indicated)

10.Loans

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99. This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, when applicable.

The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by the same Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

Type of credit	30/09/2018 Balance	30/09/2018 Allowance	31/12/2017 Balance	31/12/2017 Allowance
Loans	11,437,540	(395,166)	9,439,841	(619,973)
Financing	1,374,275	(65,902)	913,181	(100,029)
FINAME/BNDES	3,816,666	(131,817)	2,817,560	(13,915)
Securities financing	804,866	-	156,011	-
Transfered loans with co-obligations (i)	123,380	-	433,527	-
Total	17,556,727	(592,885)	13,760,120	(733,917)

(i) Refers to transferred loans as collateral, related to repurchase agreements.

ii. By risk level and maturity

	30/09/2018						31/12/2017	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	33,784	3,463,292	849,907	4,167,047	8,514,030	-	5,565,057	-
A	2	467,894	350,713	3,115,806	3,934,415	(19,673)	3,225,616	(15,681)
B	10,180	358,124	368,310	980,401	1,717,015	(15,251)	1,488,641	(15,027)
C	-	204,692	373,480	810,454	1,388,626	(70,945)	1,138,577	(56,297)
D	68,175	411,701	60,267	969,119	1,509,262	(250,532)	1,596,454	(200,976)
E	12,528	4,487	38,805	183,694	239,514	(71,907)	91,108	(27,567)
F	9,415	145,874	3,783	22,855	181,927	(92,911)	563,173	(327,161)
G	-	-	-	906	906	(634)	964	(675)
H	24,113	26,380	17,539	3,000	71,032	(71,032)	90,530	(90,533)
Total	158,197	5,082,444	2,062,804	10,253,282	17,556,727	(592,885)	13,760,120	(733,917)

iii. By activity sector

Sector	30/09/2018	31/12/2017
Commerce	2,384,257	1,332,948
Industry	2,180,753	2,404,767
Services	11,430,859	9,101,734
Rural	811,194	397,686
Individuals	749,664	522,985
Total	17,556,727	13,760,120

(In thousands of reais, otherwise indicated)

b. Other receivables with loans characteristics and transferred loan

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and transferred loan, as follows:

i. By risk level and maturity

	30/09/2018						31/12/2017	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	-	35,604	35,604	-	4,314	-
C	-	1,816	1,626	1,447	4,889	(147)	51,621	(1,549)
F	-	-	-	-	-	-	20,547	(10,273)
Total	-	1,816	1,626	37,051	40,493	(147)	76,482	(11,822)

ii. By activity sector

Sector	30/09/2018	31/12/2017
Services	35,604	76,482
Commerce	4,889	-
Total	40,493	76,482

c. Advances in foreign exchange contracts

i. By risk level and maturity

	30/09/2018						31/12/2017	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	-	-	-	-	28,602	-
A	-	21,950	80,746	-	102,696	(513)	-	-
B	-	325,051	82,186	-	407,237	(4,072)	113,765	(1,173)
C	-	20,128	35,380	-	55,508	(1,665)	124,445	(4,836)
D	-	-	35,217	-	35,217	(9,509)	30,074	(5,869)
Total	-	367,129	233,529	-	600,658	(15,759)	296,886	(11,878)

ii. By activity sector

Sector	30/09/2018	31/12/2017
Industry	600,658	126,682
Services	-	170,204
Total	600,658	296,886

(In thousands of reais, otherwise indicated)

d. Credit concentration

	30/09/2018	%	31/12/2017	%
Largest debtors				
10 largest debtors	7,869,318	43%	6,578,322	48%
20 following largest debtors	2,212,024	12%	2,011,713	14%
50 following largest debtors	3,200,570	18%	2,138,088	15%
100 following largest debtors	2,907,455	16%	2,029,656	14%
200 following largest debtors	1,657,385	9%	1,171,901	8%
500 following largest debtors	331,926	2%	187,496	1%
Above 500 following largest debtors	19,200	0%	16,312	0%
Total	18,197,878	100%	14,133,488	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics are as follows:

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Opening balances	(1,122,532)	(1,320,759)	(871,528)	(835,069)
Reversal/(accrual) of allowance	38,833	(31,388)	(36,150)	(206,640)
Renegotiation of credits written off to loss	(9,065)	(32,622)	(83,202)	(401,706)
Allowance for guarantee	(16,208)	(43,727)	(33,894)	(51,690)
Guarantees	-	-	(80,124)	-
Exchange rate variation	(542)	(779)	(11,274)	12,549
Credits written off as loss	213,028	83,004	219,686	136,285
Closing balances	(896,486)	(1,346,271)	(896,486)	(1,346,271)
Breakdown of closing balances				
Allowance for loan losses	(592,885)	(1,045,162)	(592,885)	(1,045,162)
Allowance for other receivables (Note 10 (b))	(175,494)	(12,497)	(175,494)	(12,497)
Allowance for advances on foreign exchange contracts (Note 10 (c))	(15,759)	(38,510)	(15,759)	(38,510)
Allowance for guarantes	(112,348)	(250,102)	(112,348)	(250,102)
	(896,486)	(1,346,271)	(896,486)	(1,346,271)

f. Renegotiation/recovery of credits written off as loss

As at September 30, 2018, the amount of R$1,286,227 were due to credit renegotiation (December 31, 2017 – R$1,722,196). Also in the period ended September 30, 2018 there were R$13,158 written off loans recovered (December 31, 2017 – R$145,835).

(In thousands of reais, otherwise indicated)

11.Other receivables/obligations

a. Foreign Exchange portfolio

	30/09/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange contracts	5,179,987	9,390,403	810,886	11,177,659
Rights on foreign exchange sales	10,019,424	-	11,193,962	-
(-) Advances on foreign exchange contracts	13,277	(587,381)	2,897	(293,989)
(-) Advances in foreign currency received	(1,201)	-	-	-
(-) Advances in local currency received	(187)	-	(37)	-
Liability for foreign exchange purchase	-	5,396,115	-	890,133
Total	15,211,300	14,199,137	12,007,708	11,773,803
Current	15,211,300	14,199,137	12,007,708	11,773,803
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through B3 S.A., are represented by federal government bonds in the amount of R$676,092 (December 31, 2017 - R$143,577).

b. Securities trading and brokerage

	30/09/2018		31/12/2017	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	740,603	450,748	372,741	264,839
Unsettled financial assets / liabilities	16,348	484,861	-	64
Pending settlement	6,025,503	4,063,075	3,023,323	1,467,741
Creditors for stock loans	-	6,290	-	570,106
Other securities trading and brokerage	-	-	-	203
Commissions and brokerage payable	689,145	1,855,829	202,174	1,929,630
Swap brokerage	137	-	129	-
Total	7,471,736	6,860,803	3,598,367	4,232,583
Current	7,471,736	6,860,803	3,598,367	4,232,583
Long-term	-	-	-	-

"Pending settlement" is basically represented by amounts pending settlement, relating to transactions involving the purchase and sale of securities and financial asset agreements at B3 S.A., and abroad through prime brokers, on the Bank's behalf or on behalf of third parties, on the regular term.

"Other securities trading and brokerage" basically represents, in assets, intermediation transactions from time deposits to be settled, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled, on the regular term.

(In thousands of reais, otherwise indicated)

12. Other receivables

a. Income receivable

	30/09/2018	31/12/2017
Dividends and bonus	87,077	51,974
Receivables from services rendered	84,053	89,614
Rights on energy sales	465,979	1,925,051
Management and performance fees for investment funds and portfolio	348,184	412,319
Distribution fees	4,390	4,330
Commissions on guarantees	22,710	26,675
Total	1,012,393	2,509,963
Current	1,012,393	2,509,963
Long-term	-	-

b. Sundry

	30/09/2018	31/12/2017
Deferred tax assets - income and social contribution (note 18)	5,859,975	4,411,458
Deferred tax assets - Others	348,998	209,297
Sundry (i)	1,444,279	3,034,267
Judicial deposits	1,547,519	1,497,424
Taxes recoverable to offset	613,146	2,875,359
Securities and credits receivable		
With loan characteristics (note 10 b)	40,493	76,482
Without loan characteristics	926,447	697,091
Investment properties	495,808	554,525
Salaries advances	48,769	24,746
Advance to suppliers	779	108,237
Other	507,404	302,353
Total	11,833,617	13,791,239
Current	725,377	1,338,588
Long-term	11,108,240	12,452,651

(i) On December 31, 2018, includes receivables from sale of investmets.

(In thousands of reais, otherwise indicated)

13.Investments in associates and jointly controlled entities

	Associates and jointly-controlled entities				
	Shareholders' Equity		Net income (loss)		
			Quarter ended:		Nine-month perioc
	30/09/2018	31/12/2017	30/09/2018	30/09/2017	30/09/2018
In Brazil					
Banco Pan S.A.	4,047,182	3,555,824	49,126	111,270	147,890
Warehouse 1 Empreendimentos Imobiliários S.A.	28,893	34,337	(2,420)	28	(1,679)
Pan Seguros S.A.	522,029	616,112	9,822	7,131	34,963
Pan Corretora S.A.	42,351	54,486	2,594	2,163	6,765
Abroad					
Engelhart CTP Group S.A.	2,519,053	2,260,025	(217,895)	(238,700)	(192,388)
EFG International (i) (ii)	6,636,882	7,146,953	-	-	185,016

(i) The equity accounting result related to the investment in EFG recognized during the period ended September 30, 2018 comprises the income ge addition to the second half of 2017, as a result of the late disclosure of its financial information.

(ii) On September 30, 2018, the equity on EFG include total return swap in the amount of CHF46,686.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
September 30, 2018
(In thousands of reais, otherwise indicated)

					Changes in investments	
	31/12/2017	**Acquisition / Increase/ Transfer / (Sales)**	**Dividends paid**	**Changes in investment accounting practices (iii)**	**Fair value adjustment (iv)**	**Exchange variation**
In Brazil						
Banco Pan S.A.	1,341,299	542,698	(29,268)	-	667	-
Negative Goodwill - Banco Pan	(56,884)	(168,646)	-	-	-	-
Warehouse 1 Empreendimentos Imobiliários S.A.	12,017	-	-	-	-	-
Pan Corretora S.A.	27,787	(4,081)	(9,643)	-	-	-
Pan Seguros S.A.	314,214	-	(65,465)	-	(356)	-
Other	5,909	(923)	-	-	-	-
Total	1,644,342	369,048	(104,376)	-	311	-
Abroad						
BTG Pactual Holding S.A.R.L. (i) (ii)	-	-	-	-	-	-
Maybroke Holding S.A. (i)	-	-	-	-	-	-
Engelhart CTP Group S.A. (i)	439,972	(22,422)	-	-	-	98,557
EFG International (i)	2,105,513	-	(74,991)	(514,668)	210,807	337,458
Goodwill - EFG International (i)	1,029,756	-	-	-	-	222,809
	3,575,241	(22,422)	(74,991)	(514,668)	210,807	658,824
Total	5,219,583	346,626	(179,367)	(514,668)	211,118	658,824

(In thousands of reais, except otherwise indicated)

(i) The diference between equity pick up in subsidiaries and net income of subsidiaries refers to the exchange rate variation.
(ii)During the year ended on December 31, 2017, the investment in BTG Pactual Holding S.A.R.L., was transferred to securities.
(iii)See note 2.
(iv)Includes effects recognized by EFG in its Shareholders' Equity, comprised by cumulative translation adjustments, as well as gains related to pension plans.

14.Intangible assets

	Changes in Intangible assets					
	31/12/2017	Acquisitions / Transfer	Write off	Amortization expenses	Exchange variation	30/09/2018
Goodwill	**-**	**-**	**-**	**-**	**35,607**	**35,607**
Cost	1,057,494	-	-	-	59,121	1,116,615
Amortization	(1,057,494)	-	-	-	(23,514)	(1,081,008)
Other intangible assets	**205,833**	**6,663**	**(10,873)**	**(25,795)**	**28,106**	**203,934**
Cost	430,902	6,663	(33,873)	-	40,582	444,274
Amortization	(225,069)	-	23,000	(25,795)	(12,476)	(240,340)
Total	205,833	6,663	(10,873)	(25,795)	63,713	239,541

The intangible assets amortization period is 5 years.

15.Fund raising and loans and onlending

a. Summary

	30/09/2018						31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	25,612,648	9,160,343	14,822,078	767,259	782,970	79,998	9,178,313
Open market funding	56,135,681	49,380,064	6,588,672	13,129	43,610	110,206	33,890,221
Funds from securities issued and accepted	14,233,748	1,011,560	2,404,441	5,136,454	4,793,538	887,755	10,289,546
Loans and borrowings	5,372,842	3,773,490	102,744	1,165,415	169,238	161,955	4,729,925
Subordinated debts and subordinated debt eligible to equity	9,551,457	672,252	977,596	2,705,863	1,596,738	3,599,008	9,360,546
Total	110,906,376	63,997,709	24,895,531	9,788,120	7,386,094	4,838,922	67,448,551

b. Deposits

	30/09/2018						31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	343,754	343,754	-	-	-	-	441,320
Interbank deposits	269,406	75,009	104,009	10,390	-	79,998	136,840
Time deposits	24,999,488	8,741,580	14,718,069	756,869	782,970	-	8,600,153
Total	25,612,648	9,160,343	14,822,078	767,259	782,970	79,998	9,178,313

(In thousands of reais, except otherwise indicated)

c. Open market funding

Open market funding has collateral on the following securities:

	30/09/2018						31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	10,980,140	10,403,572	576,568	-	-	-	9,308,876
Federal government bonds	5,495,659	5,102,742	392,917	-	-	-	6,723,716
Corporate securities	5,484,481	5,300,830	183,651	-	-	-	1,245,449
Foreign securities	-	-	-	-	-	-	1,339,711
Third-party portfolio	28,403,014	28,044,668	310,557	4,179	43,610	-	19,055,738
Federal government bonds	27,537,017	27,537,017	-	-	-	-	18,598,342
Corporate bonds	865,997	507,651	310,557	4,179	43,610	-	364,836
Foreign securities	-	-	-	-	-	-	29,190
Foreign government bonds	-	-	-	-	-	-	63,370
Unrestricted portfolio (i)	16,752,527	10,931,824	5,701,547	8,950	-	110,206	5,525,607
Federal government bonds	16,684,483	10,863,780	5,701,547	8,950	-	110,206	5,144,254
Foreign securities	-	-	-	-	-	-	381,353
Foreign government bonds	68,044	68,044	-	-	-	-	-
Total	56,135,681	49,380,064	6,588,672	13,129	43,610	110,206	33,890,221

(i) From the unrestricted portfolio, R$13,731,377 (December 31, 2017 – R$4,770,136) refers to short position and R$381,150 (December 31, 2017 – R$755,471) to third-party portfolio.

d. Funds from securities issued and accepted

	30/09/2018						31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	8,976,749	977,156	2,312,607	3,046,044	2,635,916	5,026	6,423,836
Financial bills	5,940,599	343,460	1,124,584	1,884,315	2,583,214	5,026	4,772,064
Mortgage bonds/letters of credit for agribusiness	2,880,196	620,329	1,158,872	1,052,735	48,260	-	1,575,503
Certificates of structured transactions	155,954	13,367	29,151	108,994	4,442	-	76,269
Securities – abroad	5,256,999	34,404	91,834	2,090,410	2,157,622	882,729	3,865,710
Medium term notes	4,888,912	-	-	1,984,717	2,157,622	746,573	3,682,691
Fixed rate notes and others	368,087	34,404	91,834	105,693	-	136,156	183,019
Total	14,233,748	1,011,560	2,404,441	5,136,454	4,793,538	887,755	10,289,546

As at September 30, 2018, securities in Brazil were basically indexed o interest referenced rates (CDI) between 86.5% and 115% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a. (December 31, 2017 – indexed to (CDI) between 87% and 115% or inflation indexes (IPCA and IGPM) plus 1.3% p.a. to 8.4% p.a.).

On September 30, 2018, securities abroad have rates between 2.4% p.a. and 14.0% p.a. (December 31, 2017 – between 3.17% p.a. and 8.0% p.a.).

(In thousands of reais, except otherwise indicated)

e. Loans and onlending

	30/09/2018						31/12/2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	2,582,662	1,648,184	40,259	724,981	169,238	-	1,920,118
Foreign currency	1,014,772	80,294	40,259	724,981	169,238	-	147,097
Loans abroad	1,567,890	1,567,890	-	-	-	-	1,773,021
Loans - Brazil	-	-	-	-	-	-	75,391
Loans	-	-	-	-	-	-	75,391
Borrowings in Brazil	2,790,180	2,125,306	62,485	440,434	-	161,955	2,734,416
FINAME/BNDES	2,790,180	2,125,306	62,485	440,434	-	161,955	2,734,416
Total	5,372,842	3,773,490	102,744	1,165,415	169,238	161,955	4,729,925

On September 30, 2018, securities abroad have rates between 0.5% p.a. and 6.4% p.a. (December 31, 2017 – between 0.16% p.a. and 8.54% p.a.).

f. Subordinated debt and debt instrument eligible to capital

	30/09/2018					31/12/2017
Type - original currency	Issued amount (original currency)	Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R$ (i)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	4,338,858	4,808,485
Subordinated debt - US$	800,000	28/09/2012	15/09/2022	5.75%	1,593,732	1,508,752
Subordinated debt eligible to equity - US$ (ii)	1,300,000	12/09/2014	Callable at September 2019	8.75%	3,618,867	3,043,309
Total					9,551,457	9,360,546

(i) Financial bills have different maturities and have interests and principal generally amortized every six months beginning as at 2016.
(ii) The Bank cancel a total amount equivalent to US$300 million in Senior 2020 bonds and US$350 million in Tier II Subordinated 2022 bonds which have been acquired since 2015. Further, on October 2017, Banco received an authorization from Brazilian Central Bank to repurchase no later than December 1st 2017 up to US$390 million of its perpetual bond - TIER 1 Capital.

16.Other obligations

a. Social and statutory

	30/09/2018	31/12/2017
Dividends and profit sharing payable	3,474	612,403
Employees' profit sharing	348,646	678,304
Total	352,120	1,290,707
Current	352,120	1,290,707
Long term	-	-

(In thousands of reais, except otherwise indicated)

b. Tax and social security

	30/09/2018	31/12/2017
Tax and contributions to be collected	156,853	189,681
Tax and contribution payable (i)	430,467	2,301,464
Deferred social contribution and income tax (Note 18)	145,954	81,288
Deferred PIS and COFINS	864	10
Total	734,138	2,572,443
Current	587,657	2,480,875
Long term	146,481	91,568

(i) During the year ended December 31, 2017, in order to resolve tax disputes related to the administrative proceeding that deals with the partial tax amortization of goodwill arising from the acquisition of the then named Banco Pactual S.A. by UBS AG in 2006 (as described in Note 17), the Bank joined the Special Tax Regularization Program ("PERT"), pursuant to Executive Decree 783, of May 31, 2017 and Executive Decree 798, of August 31, 2017.

Pursuant to the terms of the agreements related to the Acquisition and the Private Placement agreement of 2010, the financial costs of said adherence to PERT were borne by UBS AG and BTG Pactual Holding S.A., respectively, as approved by the Meeting of BTG Pactual's Board of Directors, and there will be no financial impact on the Bank.

c. Sundry

	30/09/2018	31/12/2017
Payable for acquisition of assets and rights (i)	1,128,595	1,074,677
Accounts payable - personnel	183,798	178,929
Provision for contingent liabilities (Note 17(c))	1,627,987	2,053,233
Other creditors - Brazil	3,814,403	2,678,845
Other creditors - Abroad	21,028	20,810
Allowance for guarantees	212,320	261,855
Obligations related to transferred loans	6,318	6,318
Other	24,166	22,522
Total	7,018,615	6,297,189
Current	1,057,783	386,849
Long term	5,960,832	5,910,340

(i) Refers to amounts payable for the acquisition of investments (substantially Banco Pan S.A. and Banco Sistema S.A.).

17.Contingent assets and liabilities and legal obligations

The Bank's and its subsidiaries' management evaluate existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings. Management's judgment is based on the opinion of its internal and external legal counsel regarding the expected outcome for each proceeding.

a. Contingent assets

As at September 30, 2018 and December 31, 2017, the Bank did not record contingent assets.

(In thousands of reais, except otherwise indicated)

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are recorded based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

ii. Civil provisions

For civil lawsuits with chances of unfavourable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are recorded based on estimate of probable losses based on the opinion of internal and external legal counsel.

iii. Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counselors and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions recorded for such proceedings at December 31, 2017 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes are as follows for the period ended September 30:

	30/09/2018				30/09/2017
	Tax	**Civil**	**Labor**	**Total**	**Total**
Balance at the beginning of the period	1,727,046	275,348	50,839	2,053,233	2,066,244
Recognition	57,879	75,346	10,294	143,519	154,958
Write-off	(331,272)	(227,625)	(9,868)	(568,765)	(194,819)
Balance at the end of the period	1,453,653	123,069	51,265	1,627,987	2,026,383
Other contingencies and Provision for contingent liabilities (Note 16 (c))				1,627,987	2,026,383

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

BTG Pactual Group has been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a probable loss by the internal and external counsel is fully recorded in provision. The main legal disputes are the following:

COFINS (“Social security financing tax”) - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

As at September 30, 2018, the Bank was part to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R$481 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- Lawsuits relating to the demutualization and IPO of B3 S.A., challenging the taxation of PIS and Cofins on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$22 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- On December 2015, the Bank received tax assessment in the amount of R$2,006 million, which refers to 2010 and 2011, alleging that our use of the goodwill originated in the acquisition of Pactual by UBS, held on 2006, and in the buyback of Pactual by BTG, on 2009. In addition, on December 2017, the Bank received other tax assessment in the amount of R$836 million, which refers to 2012, which was considered undue the goodwill originated on the Bank acquisition by UBS, on 2006, the goodwill originated the repurchase byh the Bank on 2009 and the goodwill originated in the private subscription of shares made by investors through the copa Prince in 2011. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Accordingly, in no event we expect to incur any material losses in connection with this matter.

(In thousands of reais, except otherwise indicated)

- The Holding Internacional S.A. received a tax assessment of income tax paid abroad, and compensated in Brazil on 2012. The value of the booking is R$150 millions. Against the booking, Holding presented an administrative appeal, which awaits trial in first instance. On June 2018, Holding International was notified of the result of the diligence in first instance that recognized partial compensation of foreign earnings in the amount of R$43 million.

- On December 2017, the Bank received a tax assessment which it is discussed insufficient recollection of PIS and COFINS and imposes fine isolated, referring to the year of 2012, in the amount of R$181 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

- On December 2017, in the capacity of the Banco Pan S/A sponsor, the Bank received a tax assessment-IRRF infringement allegedly due to the sale of investment in Brazil by a foreigner, referring to the year of 2012, in the amount of R$72 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

- On December 2017, the Bank received a tax assessment that seeks to collect income tax on the supposed capital gains in corporate incorporation , when One Properties was incorporated by BR Properties, in the amount of R$1.041 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

ii. Provision for other contingent liabilities

As at the period ended September 30, 2018 and year ended December 31, 2017, the bank was part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

18.Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Income tax and social contribution				
Tax base	(40,320)	(729,035)	1,060,534	(106,900)
Income before taxes and profit sharing	660,412	(514,034)	1,990,986	982,975
Statutory profit sharing	(108,284)	(215,001)	(338,357)	(466,099)
Interest on equity	(592,448)	-	(592,095)	(623,776)
Total charge of income tax and social contribution at the current rates	18,163	336,481	(477,222)	52,076
Permanent (additions) / deductions in taxation calculation	98,856	(147,123)	284,835	(89,792)
Equity pick up in associated and jointly controlled companies in Brazil	68,763	(205,429)	246,558	(13,593)
Income/(loss) of foreign exchange on foreign investments	-	(127,212)	-	(127,212)
Interest on equity	-	15,929	-	15,929
Foreign earnings	-	125,956	-	-
Dividends	16,860	(14,305)	19,568	-
Foreign Investment hedge/overhedge	-	(8,212)	-	(8,212)
Other Permanent (additions) / deductions	13,233	66,150	18,709	43,296

(In thousands of reais, except otherwise indicated)

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Temporary (additions) / deductions on the taxation calculation	(520,405)	168,671	(1,002,390)	620,180
Reversal of provision for goodwill on the acquisition of investments	-	4,210	-	12,635
Interest on equity	3,606	283,500	274,039	400,500
Fair value of securities and derivatives	(403,772)	143,808	(1,170,070)	487,552
Allowance for loan losses	6,207	(57,983)	(60,506)	(107,576)
Tax contingencies and provision for suspended-payment taxes	307	(1,608)	(205)	1,095
Interest on Special Tax Regularization Program	-	(427,939)	-	(427,939)
Special Tax Regularization Program	-	314,519	-	314,519
Other provisions	(126,753)	(89,836)	(45,648)	(60,606)
Offset of tax losses carry forward - Brazil	96,053	(14,710)	(123,501)	(534,588)
Tax and social contribution expense	(307,333)	343,319	(1,318,278)	47,876
Temporary differences				
Recognition / (reversal) of the quarter / period	335,244	(275,867)	805,113	(726,242)
Interest on equity	139,071	135,052	139,071	135,052
Recognition on goodwill on investments	-	-	-	-
Recognition / (reversal) of tax losses carry forward	(100,789)	(362,764)	123,501	201,047
Recognition on foreign companies tax losses carry forward	-	(57,902)	-	240,905
Recognition / (reversal) of loss on investment abroad	27,513	530,733	429,202	530,733
Recognition of Special Tax Regularization Program	-	917,988	-	917,988
Other temporary differences	(54,218)	140	(13,096)	(146,718)
Expenses from deferred taxes	346,821	887,380	1,483,791	1,152,765
Total revenues / (expenses)	39,488	1,230,699	165,513	1,200,641

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization.

Changes in deferred tax assets presented in “Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	31/12/2017	Recognition	Realization (i)	30/09/2018
Tax loss	977,349	562,622	(13,920)	1,526,051
Interest on equity	269,968	-	(134,968)	135,000
Allowance for loan losses	618,922	68,532	(8,026)	679,428
Fair value of securities and derivatives	1,931,453	1,114,389	(264)	3,045,578
Tax contingencies and provision for suspended-payment taxes	186,124	223	(18)	186,329
Other temporary differences	427,642	-	(140,053)	287,589
Total	4,411,458	1,745,766	(297,249)	5,859,975
Income tax and social contribution	**31/12/2016**	**Recognition**	**Realization (i)**	**30/09/2017**
Tax loss carryforwards	1,380,635	722,362	(836,729)	1,266,268
Interest on equity	400,500	52	(265,500)	135,052
Allowance for loan losses	878,723	2,335	(140,727)	740,331
Fair value of securities and derivatives	1,372,210	295,017	(587,186)	1,080,041
Goodwill on the acquisition of investment	16,847	2	(12,637)	4,212
Tax contingencies and provision for suspended-payment taxes	187,143	-	(1,095)	186,048
Deferred income tax of Special Tax Regularization Program	-	427,939	-	427,939
Other temporary differences	226,853	89,240	(35,923)	280,170
	4,462,911	1,536,947	(1,879,797)	4,120,061
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	335	(197)	-	138
Total	4,463,246	1,536,750	(1,879,797)	4,120,199

(i) On September 30, 2018, the amount of R$187,145 (December 31, 2017 – R$220,213), refers to recovery paid taxes from investments abroad.

(In thousands of reais, except otherwise indicated)

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2018	1,556,890	385,005	1,941,895
2019	900,935	417,871	1,318,806
2020	491,653	171,228	662,881
2021	469,022	182,744	651,766
2022 onwards	911,424	373,203	1,284,627
Total	4,329,924	1,530,051	5,859,975
Present value	3,527,390	1,376,855	4,904,245

Deferred income tax and social contribution liabilities amounts to R$145,954 (December 31, 2017 - R$81,288), according to note 16(b).

On May 21, 2015, Provisional Measure nº 675 (MP 675/15) was published which increased the rate of the Social Contribution on Net Profit of the financial and insurance sectors from 15% to 20% of taxable profit, from September, 2015. On October 7,2015, Law 13.169 was published which decrease the rate of the Social Contribution on Net Profit from 20% to 15% from 2019.

19.Shareholders equity

a. Capital

As at September 30, 2018, fully subscribed and paid in capital consists of 2,681,601,772 shares (December 31, 2017 – 2,681,601,772), of which 1,746,065,322 common shares (December 31, 2017 – 1,746,065,322), 486,180,110 class A preferred shares (December 31, 2017 – 486,180,110), 449,356,340 class B preferred shares (December 31, 2017 – 449,356,340), registered shares.

At Meeting of BTG Pactual's Board of Directors on September 29, 2017, was approved capital increase, in the amount of R$171,567, with issuance of 1 class B preferred shares, both nominative and without par value. The capital increase was approved by BACEN on November 6, 2017.

The common shares have right to one vote each in the deliberations of the General Shareholders Meeting and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement, without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in acquisition public offer due to transfer of control of the Company, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Bank without deliberation and Board or Shareholders Meeting, provided that (i) such conversion occurs at the time of issuance of new shares by the Bank whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual Holding S.A.) (ii) upon conversion, BTG Pactual Holding S.A. (or its successor in any capacity, including by virtue of merger, division or other corporate reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Bank and (iii) conversion is in accordance with the Bank's Shareholders' Agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Bank is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the Bank Shareholders' Agreement.

b. Treasury shares

During the period ended September 30, 2018, the Bank bought own units, in connection with the approved repurchase program, in the amount of R$187,622 (December 31, 2017 - R$489,977), equivalent to 8,980,300 units (December 31, 2017 – 31,618,580 units). On the year ended December 31, 2017, there were R$467,748 ,equivalent to 32,287,880 units cancelled. On the period ended September 30, 2018 there were no units cancelled. On September 30, 2018, 14,207,900 units (December 31, 2017 – 5,227,600 units) were held in treasury, in the amount of R$280,685 (December 31, 2017 – R$93,063).

c. Special earnings reserve

The purpose of this reserve is to interest on equity, in the amount of R$300,000, declared after year ended on December 31, 2016.

d. Legal reserve

This reserve is established at the rate of 5% of net income for the year, before any other allocation, limited to 20% of capital.

e. Statutory reserve

According to the Bank's by laws, the purpose of this reserve is to maintain working capital and is limited to the balance of capital.

f. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

g. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income adjusted in accordance with Article 202 of Law 6404/76.

(In thousands of reais, except otherwise indicated)

As at August 7, 2018 the Bank has accrued R$592,500, relating to interest on equity, equivalent to R$0.22 per share, which generated R$266,625 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on August 7, 2018, and the payment occurred on August 22, 2018.

As at December 31, 2017 the Bank has accrued R$608,975, relating to interest on equity, equivalent to R$0.23 per share, which generated R$274,039 of tax benefit.

As at June 30, 2017 the Bank has accrued R$630,000, relating to interest on equity, equivalent to R$0.23 per share, which generated R$283,500 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2017, and the payment occurred on August 1, 2017.

h. Reconciliation of net income and shareholders equity

	Shareholders' equity		Net income			
			Quarter ended:		Nine-month period ended:	
	30/09/2017	31/12/2017	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Banco BTG Pactual S.A.	19,125,725	18,469,227	266,839	709,198	491,263	1,706,079
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of						
Banco Pan S.A.(i)	54,465	54,465	-	-	-	-
Others (ii)	-	-	318,662	(208,339)	1,317,069	17,405
Banco BTG Pactual S.A. Consolidated	19,180,190	18,523,692	585,501	500,859	1,808,332	1,723,484

(i) The consolidated information reported by Banco Pan S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from transferred loan transactions from Banco Pan to FIDCs are eliminated, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Pan through the equity pick up method of accounting.

(ii) The difference in net income and Stockholders' Equity between Bank financials statements and consolidated financial statements results from the record of exchange variations on investments abroad, and hedges of these investments where the functional currency is different from that of the parent company, net of the respective deferred tax assets.

20.Income from services rendered

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Management and performance fee from investment funds and portfolios	189,212	99,885	525,912	366,609
Profesional services	155,917	63,740	487,171	269,427
Brokerage	44,385	41,676	160,847	117,152
Guarantees	67,056	61,399	194,155	185,387
Commission over securities placement	34,779	40,263	165,973	130,081
Other services	1,679	3,256	5,498	11,637
Total	493,028	310,219	1,539,556	1,080,293

(In thousands of reais, except otherwise indicated)

21.Other operating income

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Adjustment of amounts receivable for acquisition of investments	9,233	55,133	105,510	120,098
Foreign exchange rate gains	96,351	33,716	232,625	175,811
Reversal of provision - contingencies	191,727	25,426	280,331	165,641
Monetary correction over judicial deposits	26,223	42,617	66,454	122,782
Recovery of charges and expenses	599	3,145	1,063	8,947
Reversal of provision - other	2,456	-	5,325	947
Other operating income	12,319	5,096	36,604	50,240
Total	338,908	165,133	727,912	644,466

22.Other operating expenses

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Tax restatement expense	23,225	63,059	64,572	111,920
Foreign exchange rate losses	79,391	(16,427)	181,337	155,376
Allowance for other receivables without loan characteristics	11,424	20,303	37,615	38,186
Adjustment of amounts payable for acquisition of investments (i)	19,159	30,114	56,269	102,402
Fair value of assets	-	(2,092)	-	63,687
Goodwill amortization (ii)	-	61,331	-	143,202
Allowance for guarantee	16,208	43,727	33,894	51,690
Other	(955)	24,338	39,881	56,202
Total	148,452	224,353	413,568	722,665

(i) Mainly due to the acquisition of Banco Pan S.A. and Banco Sistema S.A..
(ii) Mainly due to the of Celfin goodwill amortization.

23.Other administrative expenses

	Quarter ended:		Nine-month period ended:	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Outsourced services and consulting	72,340	100,063	260,547	284,237
Telecommunications and data processing	68,130	58,660	188,269	166,613
Special Tax Regularization Program	-	1,632,357	-	1,632,357
Leases and condominiums	24,845	23,474	71,982	68,243
Expenses of the financial system	92,264	34,246	171,448	101,087
Advertising and public relations	13,883	10,878	46,004	35,090
Depreciation and amortization	14,362	17,379	42,923	49,795
Travel and lodging	10,811	9,161	32,378	28,978
Allowance for contingent	21,876	-	55,480	-
Other	9,248	23,523	18,967	69,727
Total	327,759	1,909,741	887,998	2,436,127

(In thousands of reais, except otherwise indicated)

24.Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, which are all carried at arm's length, are reflected in the following accounts:

	Parent company (i)		Subsidiaries and joint controlled entities		Total	
	30/09/2018	31/12/2017	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Assets						
Open market investments	-	-	-	27,171	-	27,171
Interbank investments deposits	-	-	237,835	400,058	237,835	400,058
Securities	-	-	-	49,336	-	49,336
Derivative financial instruments	-	-	201,230	72,276	201,230	72,276
Loans and Receivables	3,166,210	2,409,687	-	-	3,166,210	2,409,687
Sundry	-	-	10,102	-	10,102	-
Liabilities						
Interbank deposits	-	-	(1,402,229)	(85,704)	(1,402,229)	(85,704)
Time deposits	(120,390)	(59,647)	-	-	(120,390)	(59,647)
Securities issued abroad	-	-	-	(755,288)	-	(755,288)
Sundry	-	-	-	-	-	-

	Parent company		Subsidiaries and joint controlled entities		Total	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Statements of income						
Financial income	-	-	185,056	361,644	185,056	361,644
Financial expenses	(12,654)	(213)	(42,571)	(84,363)	(55,225)	(84,576)
Other operating income / (expenses)	-	-	1,899	-	1,899	-

(i) Includes natural person.

Total compensation paid to key management personnel totaling this period R$45,688 (September 30, 2017 – R$23,128) which is considered short term benefit.

25.Other information

a. Cash and cash equivalents

Balances at beginning of the period	**31/12/2017**	**31/12/2016**
Cash and cash equivalents	4,347,209	674,114
Open market investments	17,683,903	11,360,730
Interbank deposits	1,169,893	1,938,904
Total	23,201,005	13,973,748

Balances of end of the period	**30/09/2018**	**30/09/2017**
Cash and cash equivalents	931,901	837,074
Open market investments	41,656,281	20,666,050
Interbank deposits	2,717,166	1,380,424
Total	45,305,348	22,883,548

(In thousands of reais, except otherwise indicated)

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	30/09/2018	31/12/2017
Co-obligation and risks for guarantees granted	51,079,712	29,531,510
Responsibility for the management of futures and investment portfolio (i)	206,245,151	165,325,497
Securities	41,567,306	36,030,558
Securities under custody	3,262,965,699	1,116,058,327
Securities trading and brokerage	1,432,864,556	1,833,298,069
Loans contract to release	1,027,586	972,000
Commitments to be released	44,000	12,900

(i) Recognized by the sum of the equity values of funds and investment portfolios

"Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or assets allocated to exchange trading securities.

"Securities under custody" reflects third-party public and private security positions under custody with SELIC and B3 S.A.

"Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

"Loans contracted to release" register amounts related to loans contracted with clients to release.

The item "Commitments to be released" registers amounts related to the financial commitments of the Bank with its investees.

26.Subsequent events

On October 26, 2018, BTG Pactual concluded a corporate reorganization through which 1,502,975,267 common shares and 449,356,340 Class B preferred shares of its issuance and held by BTG Pactual Holding S.A. - current direct controlling shareholder of the Bank - were contributed to the capital of BTG Pactual Holding Financeira Ltda., a company in which BTG Pactual Holding S.A. holds approximately 99.9% of the quotas representing its share capital, and whose corporate purpose is exclusively the equity interest in financial institutions and other institutions authorized by the Central Bank of Brazil.

The corporate reorganization aims to align BTG Pactual Holding S.A. structure, as provided for in applicable legislation, and did not entail any change in its participation in the Bank.

Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

December 31, 2017

With independent auditor's report on consolidated financial statements.

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

December 31, 2017

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A free translation from Portuguese into English of the Independent Auditors' Report on consolidated financial statement prepared in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Management of
Banco BTG Pactual S.A.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. and its subsidiaries as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the 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 consolidated financial statements*" section of our report. We are independent of the Bank and of its subsidiaries in accordance with the relevant ethical requirements established in the Accountant's Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled 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.

Emphasis of matters

Tax credits recorded in jointly-controlled subsidiary

As at December 31, 2017, the jointly-controlled subsidiary Banco PAN S.A. recorded income tax and social contribution credits totaling R$3.2 billion, substantially recognized based on study of the current and future scenarios approved by the Board of Directors. The key assumptions used in such study were macroeconomic indicators disclosed in the market. Realization of such tax credits depends on materialization of such projections and the business plan, as approved by the management bodies of Banco PAN S.A. Our opinion is not qualified with respect to this matter.

Separate financial statements

The Bank has prepared a full set of separate financial statements for the year then ended December 31, 2017 in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, on which we issued an unqualified audit opinion, containing the same emphasis paragraph described above, dated February 27, 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on accompanying consolidated financial statements.

Fair value measurement of complex and illiquid financial instruments and derivatives

The Bank and its subsidiaries have complex and illiquid financial instruments and derivatives in its investment portfolio, which are priced and recorded at fair value. The fair value measurement of these instruments requires management to use pricing models and assumptions, such as expected cash flow, risk free rate, credit risk spreads, among other inputs. Due to the nature of these instruments and the complexity and subjectivity involved in the valuation methodologies, we considered the measurement of these complex and illiquid financial instruments and derivatives as one of the key audit matters.

Our audit procedures included, among others, the involvement of specialists in complex and illiquid financial instruments and derivatives pricing to assist us in the evaluation of the pricing methodologies and the assumptions considered by management in measuring the fair value of these instruments.

Based on the evidence obtained from the procedures performed on these complex and illiquid financial instruments and derivatives, which were consistent with management evaluation, we considered that the criteria and assumptions adopted by management on the fair value measurement of these complex and illiquid financial instruments and derivatives were adequate in the context of the consolidated financial statements taken as a whole. In addition, we evaluated the adequacy of the disclosures on footnotes 8 and 9 to the consolidated financial statements of the Bank and its subsidiaries..

Allowance for loan losses

The Bank and its subsidiaries have a corporate credit portfolio, for which management uses its judgment in determining the allowance for loan losses in accordance with the CMN Resolution no. 2682/1999. We consider it as a key audit matter, due to the subjectivity involved in the determination of the allowance for loan losses, which requires the considerations of, among other factors, recoverable value of corresponding loans, both at the individual-loan and economic-group levels, financial-economic analysis of counterparties, assessment of underlying guarantees, and credit-renegotiation.

Our audit procedures included, among others, the understanding of the process established by management, tests of controls and test of details related to: (i) the totality and integrity of the database; (ii) determination of levels of provision by borrowers and subsequently the rating through models and assumptions adopted by management, based on data and market assumptions, when available; (iii) measurement of guarantees; (iv) monitoring of renegotiated transactions; and (v) the adequacy of footnote disclosures.

Based on the evidence obtained from the procedures performed on allowance for loan losses, which was consistent with management evaluation, we considered that the criteria and assumptions used by management on measurement and accounting were adequate in the context of the consolidated financial statements taken as a whole. In addition, we evaluated the adequacy of the disclosures on footnote 10 to the consolidated financial statements of the Bank and its subsidiaries.

Related party transactions

The Bank and its subsidiaries are part of an organizational structure with several legal entities, in Brazil and abroad. They carry out transactions with these related parties within their operations. Due to the number of related parties, the volume and the inherent risk associated to these transactions, we considered them one of the key audit matters.

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Our audit procedures included, among others, the understanding of the Bank and its subsidiaries' policies and procedures for identifying and mapping transactions with related parties, as well as obtaining formal representation by management with respect to the identification of all related parties with the Bank and its subsidiaries. Additionally, we audited, on a sample basis, the transactions among related parties and the respective eliminations, when applicable, on the consolidated financial statements of the Bank and its subsidiaries.

Based on the evidence obtained from the procedures performed on related party transactions, which were consistent with management evaluation, we considered that management policies and criteria in identifying and recognizing these transactions were adequate in the context of the consolidated financial statements taken as a whole. In addition, we evaluated the adequacy of the disclosures on footnote 25 to the consolidated financial statements of the Bank and its subsidiaries..

Information technology (IT) environment

Because of the volume and complexity, the operations of the Bank and its subsidiaries are highly dependent on the proper functioning of the IT structures and systems. Therefore, we considered the IT environment as one of the key audit matters.

Our audit procedures included, among others, the involvement of IT experts in conducting tests of information technology general controls for processes of managing changes and access to the systems that we deemed relevant to the preparation of the consolidated financial statements of the Bank and its subsidiaries..

Our tests over design and operation of the information technology general controls considered relevant to the audit provided support to the nature, time, and extent of our audit substantive testing.

Other matters

Consolidated statement of value added

The consolidated statement of value added (SVA), for the year ended December 31, 2017, prepared under the responsibility of Bank's management, and presented as supplementary information under the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, was subject to the same audit procedures performed in conjunction with the audit of the consolidated financial statements of the Bank and its subsidiaries. For the purposes of forming our opinion, we evaluated whether this statement was reconciled with the financial statements and accounting records, as applicable, and whether their layout and content were in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria set forth in Accounting Pronouncement CPC 09 and were consistent with the consolidated financial statements taken as a whole.

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

Bank's management is responsible for such other information, which includes the Management Report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the Management Report and, in doing so, to consider whether this report is materially inconsistent with the consolidated 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 that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' 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 and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank and its subsidiaries' financial reporting process, and includes Management, Audit Committee and Board of Directors.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an 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 the risks of material misstatement of the 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and its subsidiaries' internal control.

- 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 significant doubt on the Bank and its subsidiaries' 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 consolidated 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 and its subsidiaries to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and that we communicated to them all relationships and other matters that may be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significant in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless the law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, February 27, 2018.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP 015.199/O-6

Rodrigo de Paula
Accountant CRC – 1SP 224.036/O-8

A free translation from Portuguese into English of the consolidated financial statments presented in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil and in Reais

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31
(In thousands of reais)

	Note	2017	2016
Assets			
Current assets		90,265,059	83,553,280
Cash at banks	6	4,347,209	674,114
Short-term interbank investments	7	27,196,779	20,752,635
Open market investments		25,973,105	18,810,059
Interbank deposits		1,223,674	1,942,576
Securities and derivative financial instruments		34,520,034	33,304,289
Own portfolio	8	15,151,347	12,887,902
Subject to repurchase agreements	8	4,761,945	6,385,653
Subject to unrestricted repurchase agreements	8	144,227	185,449
Derivative financial instruments	9	12,585,309	10,897,355
Subject to guarantees	8	1,877,206	2,947,930
Interbank transactions		1,473,007	1,962,962
Deposits in the Central Bank of Brazil		1,473,007	1,962,962
Loans	10	5,205,606	3,634,223
Loans		5,368,754	4,003,998
Transferred loans with coobligation		314,572	12,848
Allowance for loan losses		(477,720)	(382,623)
Other receivables		17,480,316	23,156,354
		104,349	-
Foreign exchange portfolio	11	12,007,708	14,695,453
Income receivable	12	562,966	668,728
Securities trading and brokerage	11	3,598,367	2,790,923
Sundry	12	1,234,239	5,149,017
Allowance for losses on other receivables	10	(27,313)	(147,767)
Other assets		42,108	68,703
Other assets		2,852	1,727
Prepaid expenses		39,256	66,976
Long-term-assets		30,789,175	19,577,416
Long-term interbank investments	7	595,508	48
Open market investments		595,508	48
Securities and derivative financial instruments		7,767,998	4,181,932
Own portfolio	8	1,059,468	496,085
Derivative financial instruments	9	1,859,531	1,012,968
Subject to repurchase agreements	8	3,968,413	778,640
Subject to guarantees	8	880,586	1,894,239
Interbank transactions		230,635	272,357
Restricted credits – National Housing System		230,635	272,357
Loans	10	7,820,597	5,879,135
Loans		7,957,839	6,076,828
Transferred loans with coobligation		118,955	-
Allowance for loan losses		(256,197)	(197,693)
Other receivables		14,289,350	9,159,107
Income receivable	12	1,946,997	192,477
Sundry	12	12,452,651	8,968,038
Allowance for losses on other receivables	10	(110,298)	(1,408)
Other assets		85,087	84,837
Temporary investments		52,249	52,149
Other assets		105,067	62,576
Prepaid expenses		9,494	15,211
Provision for losses on other assets		(81,723)	(45,099)
Permanent assets		5,537,378	8,640,861
Investments		5,248,783	8,167,843
Investments in associates and jointly controlled entities - in Brazil	13	1,644,342	1,613,057
Investments in associates and jointly controlled entities - abroad	13	3,575,241	6,539,084
Other investments		33,661	19,200
Allowance for losses in investments		(4,461)	(3,498)
Property and equipment in use		82,762	92,688
Property in use		5,177	4,930
Other property and equipment in use		257,210	245,955
Accumulated depreciation		(179,625)	(158,197)
Deferred charges		-	13,595
Amortization and expansion costs		-	63,842
Accumulated amortization		-	(50,247)
Intangible assets	14	205,833	366,735
Other intangible assets		1,488,396	1,300,456
Accumulated amortization		(1,282,563)	(933,721)
Total assets		126,591,612	111,771,557

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31
(In thousands of reais)

	Note	2017	2016
Liabilities			
Current liabilities		77,238,309	70,059,411
Deposits	15	8,303,306	7,529,145
Demand deposits		441,320	128,552
Interbank deposits		111,108	171,806
Time deposits		7,750,878	7,228,787
Open market funding	15	31,236,529	24,083,428
Own portfolio		8,379,518	7,687,107
Third-party portfolio		19,026,548	12,967,472
Free trading portfolio		3,830,463	3,428,849
Funds from securities issued and accepted	15	2,682,894	5,627,207
Real estate, mortgage, credit and similar notes		2,533,872	5,273,282
Securities issued abroad		72,753	342,252
Certificates of structured transactions		76,269	11,673
Interbank transactions		5,388	5,060
Unsettled receipts and payments		5,388	5,060
Interdependencies transactions		24,356	82,602
Unsettled third party assets		24,356	82,602
Loans and borrowings	15	1,302,170	999,606
Loans abroad		1,231,495	768,480
Loans in Brazil		-	163,771
Borrowings in Brazil		70,675	67,355
Derivative financial instruments	9	12,221,661	8,430,235
Derivative financial instruments		12,221,661	8,430,235
Other liabilities		21,462,005	23,302,128
Collection and payments of tax and similar charges		8,148	3,889
Foreign exchange portfolio	11	11,773,803	14,341,764
Social and statutory	16	1,290,707	1,457,553
Tax and social security	16	2,480,875	326,911
Securities trading and brokerage	11	4,232,583	4,101,958
Subordinated debt	15	1,289,040	1,239,548
Sundry	16	386,849	1,830,505
Long-term liabilities		30,576,631	23,717,671
Deposits	15	875,007	161,672
Interbank deposits		25,732	54,329
Time deposits		849,275	107,343
Open market funding	15	2,653,692	820,545
Own portfolio		929,358	105,979
Third-party portfolio		29,190	-
Free trading portfolio		1,695,144	714,566
Funds from securities issued and accepted	15	7,606,652	4,708,495
Real estate, mortgage, credit and similar notes		3,813,695	2,556,676
Securities issued abroad		3,792,957	2,151,819
Loans and borrowings	15	3,427,755	2,545,216
Loans abroad		688,623	-
Loans in Brazil		75,391	-
Borrowings in Brazil		2,663,741	2,545,216
Derivative financial instruments	9	1,940,111	1,214,642
Derivative financial instruments		1,940,111	1,214,642
Other liabilities		14,073,414	14,267,101
Tax and social security	16	91,568	137,557
Subordinated debt	15	5,028,197	6,043,442
Debt instrument eligible to capital	15	3,043,309	4,305,202
Sundry	16	5,910,340	3,780,900
Deferred income		120,573	141,783
Non-controlling interest		128,286	125,473
Shareholders' equity	19	18,527,813	17,727,219
Capital - domiciled in Brazil		4,898,856	4,727,289
Capital - domiciled Abroad		2,493,236	2,493,237
Capital Reserve		652,515	652,515
Asset valuation adjustment		114,992	39,756
Income reserves		10,461,277	9,885,256
Treasury shares		(93,063)	(70,834)
Total Liabilities and Shareholders' equity		126,591,612	111,771,557

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

Years ended December 31

(In thousands of reais, except net income per share)

	Note	2017	2016
Financial income		9,523,750	13,451,145
Loans		1,529,696	1,809,390
Securities		5,873,294	4,969,829
Derivative financial instruments		1,596,710	4,161,800
Foreign Exchange		376,675	2,308,003
Mandatory investments		147,375	202,123
Financial expenses		(5,633,242)	(6,642,609)
Funding operations		(5,172,719)	(7,111,390)
Borrowing and onlending		(567,277)	565,757
Allowance for loan losses and other receivables	10	106,754	(96,976)
Net financial income		3,890,508	6,808,536
Other operating expenses		(2,117,374)	(2,554,141)
Income from services rendered	20	1,596,964	2,697,783
Personnel expenses		(648,870)	(1,676,613)
Other administrative expenses	23	(2,679,732)	(2,134,846)
Tax charges		(240,654)	(556,093)
Equity earnings of associates and jointly controlled entities	13	4,800	(794,040)
Other operating income	21	895,478	1,266,788
Other operating expenses	22	(1,045,360)	(1,357,120)
Operating income		1,773,134	4,254,395
Non-operating (expenses) / income	24	4,740	940,124
Income before taxation and profit sharing		1,777,874	5,194,519
Income tax and social contribution	18	1,287,192	(1,112,926)
Provision for income tax		(159,982)	(190,808)
Provision for social contribution		(42,632)	(157,053)
Deferred income tax and social contribution		1,489,806	(765,065)
Statutory profit sharing		(689,064)	(721,512)
Non-controlling interest		7,861	48,502
Net income for the year	19	2,383,863	3,408,583
Interest on equity	19	(1,223,705)	(1,390,000)
Weighted average numbers of share outstanding		2,735,818,843	2,928,585,698
Net income per share - R$		0.87	1.16

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

BANCO BTG PACTUAL S.A. and subsidiaries

Statements of changes in shareholders' equity – parent company
Years ended December 31
(In thousands of reais, except for dividends and interest on equity per share)

				Income reserves				
	Note	Capital	Capital reserve	Legal	Unrealized	Statutory	Total	Asset valuatio adjustm
Balances as at December 31, 2015		7,180,526	-	907,770	5,389,109	6,170,174	12,467,053	143
Capital Increase	19	40,000	3,960,000	-	-	(4,000,000)	(4,000,000)	
Share premium	2	-	(3,307,485)	-	-	-	-	
Own shares acquired	1	-	-	-	-	-	-	
Cancelation of treasury shares	1	-	-	-	-	(654,845)	(654,845)	
Intermediate interest on equity (R$0.19 per share)	19	-	-	-	-		-	
Changes in fair value of assets available for sale		-	-	-	-	-	-	(105,
Changes in fair value of assets available for sale - jointly controlled	13	-	-	-	-	-	-	1
Net income for the year		-	-	-	-	-	-	
Net income allocation								
Income reserve		-	-	170,429	(2,152,576)	4,000,730	2,018,583	
Interest on equity (R$0.32 per share)	19	-	-	-	-	-	-	
Balances as at December 31, 2016		7,220,526	652,515	1,078,199	3,236,533	5,516,059	9,830,791	39
Capital increase	19	171,566	-	-	-	-	-	
Own shares acquired	19b	-	-	-	-	-	-	
Cancelation of treasury shares	19b	-	-	-	-	(467,748)	(467,748)	
Interest on equity received by on shares repurchase		-	-	-	-	-	-	
Changes in fair value of assets available for sale		-	-	-	-	-	-	58
Changes in fair value of assets available for sale - jointly controlled	13	-	-	-	-	-	-	51
Currency translation adjustments		-	-	-	-	-	-	278
Foreign Investment hedge		-	-	-	-	-	-	(313,
Intermediate interest on equity (R$0.23 per share)	19	-	-	-	-	-	-	
Adjustments by previous years		-	-	-	-	-	-	
Net income for the year		-	-	-	-	-	-	
Net income allocation								
Income reserve		-	-	103,308	(432,713)	1,373,174	1,043,769	
Interest on equity (R$0.23 per share)	19	-	-	-	-	-	-	
Balances as at December 31, 2017		7,392,092	652,515	1,181,507	2,803,820	6,421,485	10,406,812	114

Reconciliation of net income and shareholders' equity of Banco BTG Pactual S.A. and subsidiaries is presented in Note

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows
Years ended December 31
(In thousands of reais)

	Note	2017	2016
Operating activities			
Net income for the year		2,383,863	3,408,583
Adjustments to net income		(146,029)	3,015,936
Equity pick up from associates and jointly controlled entities	13	(4,800)	794,040
Interest expense with subordinated debt		1,136,022	923,708
Deferred income tax and social contribution		(1,489,806)	765,065
Goodwill amortization	22	166,023	165,909
Goodwill exchange variation	14	(7,942)	73,740
Permanent assets exchange variation		(10,740)	68,001
Depreciation and amortization	23	65,214	225,473
Adjusted net income for the year		2,237,834	6,424,519
(Increase)/decrease in operational activities			
Short-term interbank investments		(1,489,745)	2,051,853
Securities and derivative financial instruments		1,302,376	(2,432,100)
Loans		(3,552,093)	14,059,939
Other receivables and other assets		2,123,170	10,650,802
Interbank transactions		532,005	(316,177)
Interdependencies transactions		(58,246)	82,602
Other liabilities		452,891	1,041,607
Deferred income		(21,210)	(168,592)
Deposits		1,491,799	(34,784,422)
Open market funding		8,986,248	5,309,572
Loans and borrowings		1,185,103	(1,755,280)
Cash provided by operating activities		13,190,132	164,323
Investing activities			
Sale of other investment		(13,498)	22,050
Sale of investments	13	1,291,849	1,854,247
Acquisition of equity interests	13	(306,025)	(6,018)
Dividends and interest on equity received	13	323,081	291,680
Acquisition of property		(11,570)	(47,617)
Sale of property		8,038	8,883
Acquisition of intangible assets		(27,395)	(33,341)
Business combination / desconsolidation, net of cash		-	(13,003,159)
Sale of intangible assets		2,795	-
Cash provided by / (used in) investing activities		1,267,275	(10,913,275)
Financing activities			
Acquisition of treasury shares		(489,977)	(593,285)
Funds from securities issued and accepted		(46,156)	(9,223,533)
Subordinated debt and debt instrument eligible to equity		(3,363,668)	(2,793,151)
Non-controlling interest		2,813	(103,897)
Interest on equity	19	(1,504,728)	(992,774)
Capital increase	19	171,566	-
Cash (used in) financing activities		(5,230,150)	(13,706,640)
Increase / (decrease) in cash and cash equivalents		9,227,257	(24,455,592)
Balance of cash and cash equivalents	26		
At the beginning of the year		13,973,748	38,429,340
At the end of the year		23,201,005	13,973,748
Increase / (decrease) in cash and cash equivalents		9,227,257	(24,455,592)
Non-cash transaction		1,160,648	(3,647,718)
Dividends and interest on equity received		-	16,009
Interest on equity received by own shares repurchase		15,272	-
Interest on equity payable		(608,977)	(890,000)
Assets transfer, held for sale		-	1,810,547
Acquisition / Increase/ Transfer of equity interests		1,696,275	(4,478,665)
Changes in fair value of assets available for sale		58,078	(105,609)

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added

Years ended December 31
(In thousands of reais)

	Note	2017	2016
Income		11,120,714	16,998,720
Financial brokerage		9,523,750	13,451,145
Services rendered	20	1,596,964	2,697,783
Other		-	849,792
Expenses		(5,778,384)	(6,642,609)
Financial brokerage		(5,739,996)	(6,545,633)
Allowance for loan losses and other receivables	10	106,754	(96,976)
		(145,142)	-
Inputs acquired from third parties		(2,532,155)	(1,753,388)
Materials, energy and other		(12,434)	(16,720)
Outsourced services		(2,519,721)	(1,736,668)
Gross value added		2,810,175	8,602,723
Depreciation and amortization	23	(65,214)	(225,473)
Net value added produced by the entity		2,744,961	8,377,250
Value added received through transfer		4,800	(794,040)
Equity in the earnings of associates and jointly controlled entities		4,800	(794,040)
Value added to be distributed		2,749,761	7,583,210
Distribution of value added		2,749,761	7,583,210
Personnel		1,337,934	2,398,125
Direct compensation		1,161,066	2,023,579
Benefits		95,675	198,801
FGTS – government severance pay fund		81,193	175,745
Taxes, fees and contributions		(1,046,538)	1,669,020
Federal		(1,113,783)	1,555,544
Municipal		67,245	113,476
Remuneration of third party capital		82,363	155,984
Rent expenses		82,363	155,984
Remuneration of shareholders		2,376,002	3,360,081
Retained earnings		3,611,687	2,018,583
Interest on equiy		(1,227,824)	1,390,000
Non-controlling interest		(7,861)	(48,502)

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

1. Operations

Banco BTG Pactual S.A. (''Bank'' or "BTG Pactual") is incorporated as a multiple Bank, operating jointly with its subsidiaries ("the Group"), offering financial products and services relating to commercial, including exchange, investment portfolios, credit, financing and investment, leasing and real estate loans.

Transactions are conducted by a group of institutions fully participating in the financial market, and may be intermediated by other institutions from the BTG Pactual Group.

The Bank have units listing on B3 S.A. in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank.

BTG Pactual concluded its strategic plan to improve liquidity and preserve capital; and the measures implemented as well as the ones planned, particularly the sale of BSI, spin-off of the commodities business as well as the cost reduction program, have brought it to levels of liquidity and capital better than its historical levels.

Special Committee

On December 4, 2015, the Board of Directors created a Special Committee, to oversee and direct an internal investigation of issues raised as a result of the arrest of Mr. André Santos Esteves. The Special Committee hired the law firms Quinn Emanuel Urquhart & Sullivan, LLP and Veirano Advogados (together, "Legal Counsel") to conduct the independent investigation on its behalf. The Board of Directors granted the Special Committee and Legal Counsel authority to require full cooperation from the Group, its management and its employees in the investigation and unlimited access to information requested by the Special Committee and Legal Counsel.

On April 7, 2016, the Special Committee, assisted by the Legal Counsel, concluded their investigation and released their final report. Based on its investigation, the Counsel found no basis to conclude that Mr. André Esteves, BTG Pactual or any of its personnel under investigation engaged in any corruption or illegality with respect to the alleged matters. In addition, in April, the Brazilian Supreme Court authorized Mr. André Esteves to return to BTG Pactual, who has been acting as Senior Partner, with no executive function.

New unit programs

On February 14, 2017 the Board of Directors approved two new unit programs, whose units will be traded on the B3 S.A., representing exclusively the securities of each of the Companies: (i) units to be traded under the "BPAC11" ticker symbol, comprised of one common share and two class A preferred shares issued by the Bank, and (ii) units to be traded under the PPLA11 ticker symbol, comprised of one Brazilian depositary receipt ("BDR") representing one class A share and one BDR representing two class B shares issued by PPLA Participations Ltd (previously named BTG Pactual Participations Ltd).

In August 2017, considering a notice from B3 S.A., regarding the trading price of PPLA11 units approaching R$1.00 per unit, the Companies analyzed potential structure to meet requirements of the applicable regulation.

The Boards of Directors of the Companies approved, the automatic migration of all currently remaining BBTG11 unit holders to the segregated trading structure of each of the Companies, BPAC11 for Bank investors and PPLA 11 for BTGP investors. Each holder of a BBTG11 unit as of the end of the trading session on August 18, 2017, starting from the beginning of the trading session on 2 August 21, 2017, automatically hold one BPAC11 unit and one PPLA 11 unit for each BBTG11 unit previously held by such holder, without any other significant change to such holders.

Units buyback Program

On November 25, 2015 the Board of Directors announced its units buyback program. Since the beginning of the program 109,419,830 units have been repurchased in the total amount of R$1,535,450 and 104,192,230 units had been canceled, in the amount of R$1,442,387. On December 31, 2017, 5,227,600 units are held in treasury.

2. Corporate reorganization and acquisitions

Corporate events

On October 27, 2017, the Bank approved the merger of Thor Comercializadora de Energia S.A., a company whose main activity is the sale of energy, and BTG Pactual Serviços Energéticos Ltda, a company that provides financial administrative services involving the sale of energy. The completion of the transaction is subject to regulatory approvals.

On January 2017, the shareholders of BTG Pactual approved without qualification, the merger of BTG Pactual Comercializadora de Energia Ltda by the Bank. On May 31, 2017, the BTG Comercializadora Ltda was merged by BTG Pactual.

On April 8, 2016, BTG Pactual decided to implement the separation of its commodity trading activities, with the exception of those activities carried out by the Brazilian energy trading desk from the operational structure of BTG Pactual and to restructure the Commodities Platform under a new Luxembourg-based company named Engelhart Commodities Trading Partners ("Engelhart CTP"), which is operating separately from BTG Pactual, with limited administrative and operational services to be provided by BTG Pactual based on arm's length contracts in accordance with market practices, including cost sharing and infrastructure sharing agreements, until such services are fully assumed by Engelhart CTP. Up to five years after the completion of the separation, Engelhart CTP have the option to acquire its remaining equity interest held by the Bank for its equity value.

Further to the process of separation of its commodity trading activities, on October 13, 2016 the Bank informed its shareholders and the market in general that (i) 596,209,676 Class A shares of Engelhart CTP were delivered to the shareholders that elected to receive equity interest in Engelhart CTP in exchange for the Bank's 596,209,676 Class C Preferred Shares ("PNCs") that were allocated to such alternative, and (ii) 59,457,673 additional BBTG11 units were added, as at October 14, 2016, to the shares registry of those shareholders that did not elect to receive equity interests in Engelhart CTP. BTG Pactual is recognizing the remaining stake as an investment in an associate entity based on the equity method.

During the year ended December 31, 2017, as part of the commodity trading activities separation process, Engelhart CTP acquired 10.62% (December 31, 2016 – 6.1%) of its own shares held by the Bank. The total consideration paid was US$251 million (December 31, 2016 - US$150 million) and the price was equivalent to Engelhart CTP's net asset accounting value. On December 31, 2017 the Group has a stake equivalent to 19.44% of Engelhart CTP.

Acquisitions and disposals

On November 2017, Banco Pan S.A. approved a capital increase in the amount of R$400 million. CaixaPar assigned to Banco its rights to subscribe the capital increase and has entered into call/put options over 50% of the capital increase. The Shareholders Agreement of Banco Pan S.A. will not be modified hence CaixaPar and BTG Pactual remain as co-controllers of Banco Pan S.A.. The capital increase was concluded on January, 2018.

On October 31, 2017, BW Properties S.A., through its subsidiary BW1 Morumbi Empreendimento Imobiliário Ltda., concluded the sale of the remaining portion of the WT Morumbi project for a total amount of R$ 231.8 million.

On October 5, 2017, the Bank acquired Novaportfólio, a company that holds certain NPL assets of Banco BVA S.A. in connection with its extrajudicial liquidation, for a consideration of R$211 million.

On November 1, 2016, BTG Pactual sold 100% of BSI to EFG, a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration comprises (i) CHF575 million in cash, (ii) 86.2 million EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG, which generated a goodwill in the amount of CHF390 million. EFG's stake were accounted for using the equity pick up method.

On March 15, 2017, BTG Pactual received a notification from EFG claiming purchase price adjustments under the documents for the sale of BSI, of approximately CHF278 million in favor of EFG International ("EFG"). After careful review of such proposed adjustments and based on available information as at this date, BTG Pactual, after taking into consideration the input from its advisers, concluded the appropriate adjustment on a risk-adjusted basis could be CHF95.7 million in favor of BTG Pactual. On July 17, 2017, after negotiation with EFG, the Bank has agreed to return CHF 89 million of the amount previously paid by EFG. The resolution of this matter includes the CHF 95 million fine previously imposed by FINMA on BSI.

In December, 2016, the bank repurchased Thor Comercializadora de Energia S.A., which had been sold on October 30, 2015. The completion of the repurchase is subject to regulatory approvals and both transactions did not impact BTG Pactual's results.

In November 2016, BTG Pactual, together with its joint-venture partner, entered into definitive agreements to sell 100% of the equity interests in Maybrooke Holdings S.A. ("Maybrooke"), the holding company of Ariel Re, for an estimated cash consideration of US$235 million. On February 6, 2017, the sale transaction of Maybrooke equity interest was completed, and generated a loss in the amount of R$35 million.

In November 2016, the Bank entered into definitive agreements to acquire 70% of the shares of Enforce Gestão de Ativos S.A. ("Enforce"), which operates in the recovery of corporate loan portfolios, in the amount of R$19 million. On December 19, 2016, the acquisiton transaction of Enforce equity interest, was approved.

In February 2016, BSI sold its remaining equity interest, equivalent to 49%, in B-Source, a business process outsourcer ("BPO"), in the amount of CHF90 million.

3. Presentation of the financial statements

The Bank's consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the Conselho Monetário Nacional (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE).

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by BACEN, requires management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with uncertain tax position, the provision for contingent liabilities and the fair value measurement of financial instruments. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inherent uncertainties to its determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

The consolidated financial statements were approved by the Bank's management on February 27, 2018, and they contain a true and fair view of the development and results of the Bank. management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

(In thousands of reais, except otherwise indicated)

a. Consolidated financial statements

In the consolidated financial statements all intercompany balances of assets and liabilities, revenues, expenses and unrealized profit were eliminated, and the portions of net income (loss) and shareholders' equity relating to non-controlling interest were included.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill of investments in subsidiaries is recognized as deferred income. Goodwill and negative goodwill calculated on the acquisition of jointly controlled entities are recognized in investments.

The subsidiaries and investment funds consolidated on the Bank's financial statements, are as follows:

		Equity interest - %	
	Country	2017	2016
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Holding Participações S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	-	99.90
BTG Pactual Holding Internacional S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
BW Properties S.A.	Brazil	77.93	73,93
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.70	99.70
BTG Pactual Chile International Ltd.	Cayman	100.00	100.00
BTG Pactual TTG Participações S.A.	Brazil	-	100.00
Banco BTG Pactual Luxembourg S.A.	Luxembourg	100.00	100.00
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
Banco Sistema S.A.	Brazil	99.84	99.84
BTG Pactual Serviços Energéticos Ltda.	Brazil	-	100.00
BTGP-BSI LIMITED	UK	100.00	100.00
Enforce Gestão de Ativos S.A.	Brazil	70.00	-
BTG Pactual Corretora de Resseguros Ltda.	Brazil	100.00	100.00
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	UK	100.00	100.00
BTG Pactual Asset Management US, LLC	USA	100.00	100.00
BTG Pactual US Capital, LLC	USA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	UK	100.00	100.00
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	100.00	100.00
Infra IX Empreendimentos e Participações S.A	Brazil	100.00	100.00
Banco BTG Pactual Chile S.A.	Chile	100.00	100.00
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual Chile Capital S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos	Chile	100.00	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos	Chile	100.00	100.00
BTG Pactual Seguros de Vida	Chile	100.00	100.00
BTG Pactual Holding Delaware LLC	USA	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	Peru	100.00	100.00

(In thousands of reais, except otherwise indicated)

		Equity interest - %	
	Country	**2017**	**2016**
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	94.50	94.50
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTG Pactual E&P S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxembourg	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	USA	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	100.00
Bamerindus Participações e Empreendimentos S.A.	Brazil	99.84	99.84
Bastec Tecnologia e Serviços Ltda.	Brazil	99.84	99.84
BTG Pactual UK Holdco Limited	UK	100.00	100.00
BTG Pactual Family Office S.A. de C.V.	Mexico	100.00	100.00
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	Mexico	100.00	100.00
Newco SEG Holding S.A.	Brazil	100.00	-
TTG Forestry Services LLC	USA	100.00	-
N.A.S.S.P.E Empreendimentos e Participacoes S.A.	Brazil	100.00	100.00
BTG Pactual Argentina S.A.	Argentina	100.00	100.00
BTG Pactual Real Estate Luxembourg Holding S.A.	Luxembourg	100.00	-
BTG Pactual RE Income S.A	Colombia	100.00	-
BTG Pactual Chile Asesorias Financieras	Chile	100.00	-
Investment funds			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Real Estate Fund Ltd	Cayman	-	100.00
BTG Pactual Absolute Return Master Fund	Cayman	100.00	100.00
BTG Pactual Intl Port Fund II SPC – Class Commodities	Cayman	-	100.00
FIDC NP Alternative Assets I	Brazil	100.00	100.00
BTG Pactual ARF Equities Brasi FIA IE	Brazil	100.00	-
BTGP Int Fund II SPC - BTGPH Corp Hedge	Brazil	100.00	-
BTG PACTUAL RED FIP - MULT. INV.	Brazil	100.00	-

b. Functional currency

The amounts included in the Bank's consolidated financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R$), which is the functional currency of the Bank.

The assets and liabilities of subsidiaries with a functional currency other than Brazilian Real are translated as follows: (i) assets and liabilities are translated using the closing rate at the balance sheet date. (ii) Income and expenses are translated using monthly average exchange rates, and (iii) Investments in subsidiaries abroad are recognized as follows: for those with functional currency equal to Real; Income for the period: for those with functional currency equal to Real: a) Income for the period; portion related to the subsidiary's effective income; and b) stockholders' equity: portion related to foreign exchange adjustments arising from the translation process, net of tax effects.

The effects of foreign exchange variations on investments abroad are distributed in the fair value adjustments in the shareholders'equity.

4. Significant accounting practices

The significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are the following:

a. Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments with original maturities up to 90 days, subject to an insignificant risk of change in value.

b. Short-term interbank investments, remunerated deposits at the Central Bank of Brazil, time and interbank deposits, open market funding, funds from securities issued and accepted, loans and borrowings, subordinated debts and other asset and liability transactions

The transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a "*pro rata die basis*", based on the effective rate of the transactions.

c. Securities

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068 under the following categories:

i. Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are initially recognized at cost plus income earned, and adjusments to fair value, recognized in statements of income.

ii. Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, with interest recorded in profit or loss, and subsequently adjusted to fair value, with that amount recorded in a separate account under shareholders' equity, net of tax effects, which will only be recognized in statements of income after the effective realization.

iii. Held-to-maturity securities

These are securities that the Bank has intention and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to the statements of income. Decreases in the fair value of available for sale and held to maturity securities below their respective restated costs, related to non-temporary reasons, will be recorded in statements of income as realized losses.

According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

d. Derivative financial instruments

These are classified according to management's intention, on the transaction date, considering whether such transactions are for hedge or not.

The transactions using financial instruments of own portfolio, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or unrealized, recorded directly in statements of income.

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as hedge and are classified according to their nature:

- Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in the statements of income.

- Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.

- Net Investment Hedge of Foreign Operations - accounted for similarly to cash flow hedge, i.e. the portion of gains or losses on a hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity, and reclassified to income for the period in the event of the disposal of the foreign operation. The ineffective portion is recognized in statements of income for the period.

e. Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, is calculated based on market price, price evaluation models, or based on the price determined for other financial instruments with similar characteristics. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the stock option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the maturity of their agreements.

Assets and liabilities resulting from swap and non-deliverable forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, with adjustments to fair value, recorded in statements of income.

The notional amount of the agreements recorded in memorandum accounts.

f. Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

g. Sale or transfer of financial assets with substantial retention of risks and benefits

Financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

h. Loans and other receivables (operations with credit characteristics)

Recorded at present value, calculated on a "*pro rata die*" basis on the index variation and on the agreed interest rate, updated up to 59th day of default, provided the expected receipt. As from the 60th day, the recognition in income occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least in the same level in which they were classified before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in the results when actually received.

i. Allowance for loan losses

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, among which:

- Allowances are recorded for loans, based on the classification of the client's risk, based on the periodical analysis of client quality and of activity industries and not only upon default.

- Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with maturity over 36 months.

- The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

j. Investment property

Investment properties held by subsidiaries, which their main activity is real estate, are initially measured at cost including transactions costs. After initial recognition, investment properties are stated at fair value, reflecting the market conditions at each balance sheet date. Adjustments to fair value are determined considering the fair value of the property, minus the attributed costs of the property, and recognized in net income.

The fair value of investment properties is determined at least on an annual basis, or when the Company deems it necessary, and may involve an independent valuation.

Investment properties are derecognized when disposed of or when they cease to be used permanently and no further economics benefit are expected from their disposal.

k. Investments

Jointly controlled and associates are accounted for under the equity method. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

l. Foreign currency translation

See note 3b.

m. Goodwill and negative goodwill

Goodwill and negative goodwill are calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill and negative goodwill, recorded according to the basis of expected future results of the acquired subsidiaries, is amortized according to cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in investments for jointly controlled entities, and in deferred income to subsidiaries.

n. Property and equipment in use and deferred charges

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line basis over the estimated period of usage and/or disposal.

o. Intangible assets

Intangible assets include acquired rights to the underlying assets designated to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642. Comprised by (i) goodwill paid in acquisition transferred to intangible asset due to incorporation of acquirer's equity by the acquired, or consolidation of the company; (ii) for acquired rights of assets management contracts; and (iii) softwares and improvements in third part property. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

p. Impairment on non-financial assets

Whenever there is clear evidence that the assets are measured at an unrecoverable amount, loss is recorded in the income or loss. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of the impairment losses that are calculated according to the bigger of value in use or fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

q. Income tax and social contribution

The provisions for income tax and social contribution are recorded based on accounting profits adjusted by additions and deductions according to the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R$240, and 20% for social contribution.

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

Recognized according to the criteria described below:

i. Contingent assets

Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

ii. Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably relevant. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions nor disclosure.

iii. Legal obligation – tax and social security

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

s. Earnings per share

Calculated based on weighted average shares outstanding for the period.

t. Revenue recognition

Revenues and expenses are recorded under the accrual method.

5. Risk management

The Bank's committee/area structure allows for the inputs from the entire organization and ensures that the decisions are implemented effectively. The main committees/meetings involved in risk management activities are: (i) Management meeting, which approves policies, defines overall limits and is ultimately responsible for managing risks; (ii) Risk Management Committee which discusses policies, limits and risk monitoring; (iii) Capital and Risk Committee, composed by independent members to supervise risk management results and strategies; (iv) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products; (v) Credit Risk area, which is responsible for approving new loans according to the guidelines set forth by our CRO; (vi) Market Risk area, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (vii) Operational Risk Area, which assesses the main operational risks for the internal policies and regulatory risks established; (viii) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering; (ix) CFO, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure; (x) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. The Bank believes that the involvement of the Committees/areas (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas. Further details on risk management can be found at www.btgpactual.com.br/ri, in the Corporate Governance / Risk management section.

(In thousands of reais, except otherwise indicated)

a. Operational limits

	2017	2016
Reference Shareholders' Equity	18,473,348	17,672,754
Consolidation adjustments	54,465	54,465
Reference Shareholders' Equity Consolidated	18,527,813	17,727,219
Tier I	14,773,238	16,216,254
Common Equity	11,752,635	11,924,484
Complementary Equity	3,020,603	4,291,770
Tier II	2,369,416	3,421,161
Reference Shareholders' Equity (PR) - (a)	17,142,654	19,637,415
Required Reference Shareholders' Equity (PRE)	8,787,351	9,571,425
Total exposure risk-weighted - (b)	94,998,390	91,156,431
Credit risk	56,089,429	55,813,608
Operational risk	4,615,858	3,385,968
Market risk	34,293,103	31,956,855
Basel ratio - (a/b)	18.0%	21.6%
Tier I capital	15.5%	17.8%
Tier II capital	2.5%	3.8%
Fixed assets ratio	61.6%	77.1%
Fixed assets to equity capital ratio	8,562,702	9,813,329
Status for fixed assets to equity capital ratio	5,272,947	7,567,019
Amount of margin (insufficiency)	3,289,755	2,246,310

The resolutions 4.192/13 and 4.278/13 issued by the CMN regulates the requirements on Minimun Required Capital for Tier I and Additional Capital and Resolution 4.193/13 institute the Additional for the Main Capital. Credit risk was calculated based on the Circular BACEN 3.644/13, 3.652/13, 3.679/13 and 3.696/14, market risk based on Circulars 3.634, 3.635, 3.636, 3.637, 3.638, 3.639, 3.641 e 3.645, 2013 and Circular-Letter 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13.

The Bank has chosen the basic indicator approach to measure operational risk.

As at the year ended December 31, 2017 and 2016 the Bank was in compliance with all operating limits.

b. Market risk

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one day period, with level of confidence of 95.0% and one year historical data. Reliable level of 95.0% means that there is one within twenty chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Bank's daily average VaR for the year ended:

In millions of R$	**December 2017**	**December 2016**	**December 2015**
Daily average VaR	120.3	141.3	125.6

c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d. Liquidity risk

The Bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e. Operational risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

(In thousands of reais, except otherwise indicated)

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and anticipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

6. Cash at banks

Cash at banks refers basically to deposits abroad in prime banks.

7. Interbank investments

	2017					2016
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	26,568,613	24,548,903	1,424,202	85,923	509,585	18,810,107
Own portfolio	3,107,558	2,682,545	261,910	-	163,103	1,293,206
Federal government bonds	2,940,700	2,550,517	253,526	-	136,657	1,204,460
Corporate bonds	166,858	132,028	8,384	-	26,446	88,746
Third-party portfolio	18,808,858	18,402,219	354,791	5,808	46,040	13,879,352
Federal government bonds	18,711,441	18,326,709	354,791	5,808	24,133	13,838,735
Corporate bonds	97,417	75,510	-	-	21,907	2,137
Foreign government bonds	-	-	-	-	-	38,480
Short position	4,652,197	3,464,139	807,501	80,115	300,442	3,637,549
Federal government bonds	4,652,197	3,464,139	807,501	80,115	300,442	3,544,580
Foreign government bonds	-	-	-	-	-	92,969
Interbank investments (*)	1,223,674	1,218,512	5,162	-	-	1,942,576
Interbank deposit certificates	497,524	492,362	5,162	-	-	530,326
Investments in foreign currency - overnight	726,150	726,150	-	-	-	1,412,250
Total	27,792,287	25,767,415	1,429,364	85,923	509,585	20,752,683

(*) Refers basically to interbank deposits in prime banks.

The collateral received in repurchase agreements amounts to R$34,410,680 (December 31, 2016 - R$19,162,823), whereas the collateral granted amounts to R$33,951,141 (December 31, 2016 - R$25,151,446).

(In thousands of reais, except otherwise indicated)

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	2017							2016
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	15,110,649	16,210,815	5,422,218	385,782	780,340	389,860	9,232,615	13,383,987
Federal government bonds	1,081,671	1,081,671	857,728	223,943	-	-	-	5,273,562
Brazilian foreign debt securities	-	-	-	-	-	-	-	9,031
Debentures/Eurobonds (i)	947,285	776,075	928	71,715	271,122	178,649	253,661	444,582
Bank certificates of deposit	-	-	-	-	-	-	-	108
Investment fund quotes								
Shares	-	-	-	-	-	-	-	130,060
Multimarket	4,755,214	5,030,807	1,647,167	-	-	-	3,383,640	1,935,931
FIDC - Credit Rights	44,021	49,913	5,891	40,672	-	-	3,350	5,892
Real Estate	57,107	57,107	-	-	-	-	57,107	4,563
Equity Investment fund	404,068	398,113	18,968	-	-	-	379,145	847,758
Shares	4,048,240	5,524,664	1,822,048	-	252,131	-	3,450,485	3,155,508
Promissory notes	-	-	-	-	-	-	-	30,546
Certificate of real estate receivables	379,331	380,060	-	4,344	-	3,536	372,180	34,120
Other	-	-	-	-	-	-	-	14,476
Foreign government bonds	1,305,157	944,887	617,648	40,181	138,831	37,638	110,589	475,605
Foreign private securities	2,088,555	1,967,518	451,840	4,927	118,256	170,037	1,222,458	1,022,245
Unrestricted portfolio	286,514	144,227	-	8,483	71,760	35,266	28,718	185,449
Federal government bonds	286,514	144,227	-	8,483	71,760	35,266	28,718	185,449
Subject to repurchase agreements	10,377,478	8,730,358	477,655	835,429	3,858,660	1,308,978	2,249,636	7,164,293
Federal government bonds	8,320,245	6,729,304	9,172	805,656	3,322,364	980,140	1,611,972	4,961,034
Brazilian foreign debt securities	-	-	-	-	-	-	-	10,076
Certificate of real estate receivables	-	-	-	-	-	-	-	314,623
Foreign government bonds	1,242,376	1,255,784	463,732	-	366,233	68,081	357,738	181,874
Foreign private securities	160,408	162,356	757	-	52,951	27,445	81,203	460,625
Debentures / Eurobonds (i)	654,449	582,914	3,994	29,773	117,112	233,312	198,723	1,236,061
Subject to guarantees	3,401,484	2,757,792	904,488	73,125	1,325,962	107,554	346,663	4,842,169
Federal government bonds	2,222,625	1,531,613	49,250	40,847	1,307,592	107,554	26,370	3,968,253
Investment fund quotes								
Multimarket	309,088	352,549	322,227	-	-	-	30,322	244,978
Debentures / Eurobonds (i)	-	-	-	-	-	-	-	101,380
Bank credit certificate	54,578	54,578	54,578	-	-	-	-	-
Certificate of real estate receivables	13,741	14,463	-	-	14,463	-	-	24,017
Shares	765,267	768,404	478,433	-	-	-	289,971	422,913
Bank certificates of deposit	-	-	-	-	-	-	-	64,886
Foreign private securities	36,185	36,185	-	32,278	3,907	-	-	15,742
Trading securities	22,437,372	21,447,791	6,595,772	1,024,474	2,513,503	488,927	10,825,115	18,258,886
Available for sale securities	2,268,655	1,925,303	208,589	63,314	218,375	402,508	1,032,517	2,378,011
Held-to-maturity securities	4,470,098	4,470,098	-	215,031	3,304,844	950,223	-	4,939,001
Total	29,176,125	27,843,192	6,804,361	1,302,819	6,036,722	1,841,658	11,857,632	25,575,898

(i) Substantially securities issued by Brazilian companies.

(In thousands of reais, except otherwise indicated)

b. Trading securities

	2017							2016
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	13,482,110	14,926,351	5,230,763	352,241	693,540	220,664	8,429,143	12,684,090
Federal government bonds	1,081,671	1,081,671	857,728	223,943	-	-	-	5,273,562
Brazilian foreign debt securities	-	-	-	-	-	-	-	9,031
Debentures/Eurobonds	353,669	363,350	-	38,174	184,322	12,754	128,100	20,953
Bank certificates of deposit	-	-	-	-	-	-	-	108
Investment fund quotes								
Shares	-	-	-	-	-	-	-	130,060
Multimarket	4,755,214	5,030,807	1,647,167	-	-	-	3,383,640	1,935,931
FIDC - Credit Rights	44,021	49,913	5,891	40,672	-	-	3,350	5,892
Real Estate	57,107	57,107	-	-	-	-	57,107	4,563
Equity Investment fund	235,482	229,527	18,968	-	-	-	210,559	717,825
Shares	4,048,240	5,524,664	1,822,048	-	252,131	-	3,450,485	3,155,508
Certificate of real estate receivables	43,682	44,412	-	4,344	-	235	39,833	-
Foreign government bonds	999,422	792,019	464,780	40,181	138,831	37,638	110,589	408,412
Foreign private securities	1,863,602	1,752,881	414,181	4,927	118,256	170,037	1,045,480	1,022,245
Unrestricted portfolio	286,514	144,227	-	8,483	71,760	35,266	28,718	185,449
Federal government bonds	286,514	144,227	-	8,483	71,760	35,266	28,718	185,449
Subject to repurchase agreements	6,160,268	4,513,147	473,661	590,625	1,272,505	125,443	2,050,913	3,038,362
Federal government bonds	4,685,948	3,095,007	9,172	590,625	853,321	29,917	1,611,972	2,385,787
Brazilian foreign debt securities	-	-	-	-	-	-	-	10,076
Foreign government bonds	1,242,376	1,255,784	463,732	-	366,233	68,081	357,738	181,874
Foreign private securities	160,408	162,356	757	-	52,951	27,445	81,203	460,625
Subject to guarantees	2,508,480	1,864,066	891,348	73,125	475,698	107,554	316,341	2,350,985
Federal government bonds	1,386,824	695,812	49,250	40,847	471,791	107,554	26,370	1,604,499
Investment fund quotes								
Multimarket	265,626	309,087	309,087	-	-	-	-	244,978
Bank credit certificate	54,578	54,578	54,578	-	-	-	-	-
Shares	765,267	768,404	478,433	-	-	-	289,971	422,913
Bank certificates of deposit	-	-	-	-	-	-	-	64,886
Foreign private securities	36,185	36,185	-	32,278	3,907	-	-	13,709
Total	22,437,372	21,447,791	6,595,772	1,024,474	2,513,503	488,927	10,825,115	18,258,886

c. Available-for-sale securities

	2017							2016
	Cost	Market value	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market value
Own portfolio	1,628,539	1,284,464	191,455	33,541	86,800	169,196	803,472	699,897
Investment fund quotes								
Equity investment fund	168,586	168,586	-	-	-	-	168,586	129,933
Debentures	593,616	412,725	928	33,541	86,800	165,895	125,561	423,629
Certificate of real estate receivables	335,649	335,648	-	-	-	3,301	332,347	34,120
Promissory notes	-	-	-	-	-	-	-	30,546
Foreign government bonds	305,735	152,868	152,868	-	-	-	-	67,193
Foreign private securities	224,953	214,637	37,659	-	-	-	176,978	14,476
Subject to repurchase agreements	582,913	582,914	3,994	29,773	117,112	233,312	198,723	1,550,684
Debentures	582,913	582,914	3,994	29,773	117,112	233,312	198,723	1,236,061
Certificate of real estate receivables	-	-	-	-	-	-	-	314,623
Subject to guarantees	57,203	57,925	13,140	-	14,463	-	30,322	127,430
Debentures	-	-	-	-	-	-	-	101,380
Investment fund quotes								
Multimarket	43,462	43,462	13,140	-	-	-	30,322	-
Certificate of real estate receivables	13,741	14,463	-	-	14,463	-	-	24,017
Promissory notes	-	-	-	-	-	-	-	2,033
Total	2,268,655	1,925,303	208,589	63,314	218,375	402,508	1,032,517	2,378,011

(In thousands of reais, except otherwise indicated)

d. Held-to-maturity securities

	2017						2016
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Subject to re purchase	3,634,297	-	215,031	2,469,043	950,223	-	2,575,247
Federal government bonds	3,634,297	-	215,031	2,469,043	950,223	-	2,575,247
Subject to guarantees	835,801	-	-	835,801	-	-	2,363,754
Federal government bonds	835,801	-	-	835,801	-	-	2,363,754
Total	4,470,098	-	215,031	3,304,844	950,223	-	4,939,001

If measured at fair value, held-to-maturity securities would be reported as at the year ended December 31, 2017 with a positive adjustment of R$198,515 (December 31, 2016 – R$36,279 negative).

The Bank has intention and financial capacity to maintain such assets to maturity.

e. Reclassification of securities

Management classifies the securities according to its trading intention. No reclassifications or changes in intention ocurred during the year ended in December 31, 2017 and 2016.

9. Derivative financial instruments

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedging for its own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed through strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

Transactions conducted in Brazil are traded, registered or held in custody by B3 S.A.; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at the year ended December 31, 2017 the bank strategy of net investments in foreign operations consist of a hedge of the exposure in foreign currency arising from the functional currency of foreign operations, compared to the functional currency of the head office. As at the year ended December 31, 2016, the Bank does not have derivative financial instruments classified as hedge accounting.

(In thousands of reais, otherwise indicated)

	2017		
	Hedge instrument		
	Nominal value	Market (i)	Hedge assets
Net Investment Hedge of Foreign Operations (i)	12,256,669	(313,585)	6,164,992

(i) Recorded in stockholders' equity under heading asset valuation adjustments.

To hedge the changes of the exchange variation of net investments in foreign operations, the Bank uses Futures contracts, financial assets and forward contracts or NDF contracts entered into by the subsidiaries abroad.

a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in memorandum accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, considers the provisions of BACEN Circular Letter 3641/13, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with maturity in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, Non-Deliverable Forward ("NDF") and Deliverable Forward ("DF") derivatives in the table below.

	2017				2016
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	118,286	1,171	5,038	124,495	81,712,301
Currency	-	-	-	-	6,766,707
Interest rate	-	-	-	-	74,840,749
Equities	-	-	-	-	22
Other	118,286	1,171	5,038	124,495	104,823
Short position	95,043	-	232	95,275	18,262,714
Currency	-	-	-	-	70
Interest rate	-	-	-	-	18,070,715
Commodities	-	-	-	-	7,549
Equities	-	-	-	-	22
Other	95,043	-	232	95,275	184,358
Swap					
Long position	42,376,204	36,092,871	59,127,518	137,596,593	63,801,633
Currency	894,793	345,518	3,341,591	4,581,902	2,116,247
Interest rate	37,221,356	33,768,044	50,756,170	121,745,570	61,192,473
Index	2,601,355	319,794	3,854,886	6,776,035	246,295
Equities	189,804	294,321	36,441	520,566	63,156
Commodities	15,804	5,027	-	20,831	-
Federal government bonds	-	-	-	-	744
Other	1,453,092	1,360,167	1,138,430	3,951,689	182,718
Short position	42,376,204	36,092,871	59,127,518	137,596,593	63,801,633
Currency	894,794	345,518	3,341,591	4,581,903	10,766,256
Interest rate	38,027,679	35,220,334	51,708,786	124,956,799	46,826,281
Index	2,614,089	324,603	3,866,312	6,805,004	4,078,690
Equities	379,483	99,995	-	479,478	1,499
Federal government bonds	-	-	-	-	744
Other	460,159	102,421	210,829	773,409	2,128,163

(In thousands of reais, otherwise indicated)

	2017				2016
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Credit Derivatives					
Long position	16,540	39,034	82,700	138,274	543,617
Sovereign	-	-	-	-	505,160
Corporate	16,540	39,034	82,700	138,274	38,457
Short position	-	-	-	-	93,048
Sovereign	-	-	-	-	11,570
Corporate	-	-	-	-	81,478
Non-deliverable forward - NDF					
Long position	40,715,403	15,385,884	14,819,422	70,920,709	41,500,091
Currency	32,503,501	8,903,155	106,554	41,513,210	20,355,769
Commodities	6,468,342	6,385,064	14,581,414	27,434,820	21,028,246
Interest rate	1,743,560	97,665	131,454	1,972,679	116,076
Short position	40,715,403	15,385,884	14,819,422	70,920,709	41,500,091
Currency	32,503,501	8,903,155	106,554	41,513,210	16,402,183
Commodities	6,468,342	6,385,064	14,581,414	27,434,820	21,028,246
Interest rate	1,743,560	97,665	131,454	1,972,679	4,069,662
Deliverable forward - DF					
Long position	9,181,192	684,629	102,500	9,968,321	11,921,236
Currency	9,181,192	684,629	102,500	9,968,321	11,921,236
Short position	9,181,192	684,629	102,500	9,968,321	11,921,236
Currency	9,181,192	684,629	102,500	9,968,321	11,921,236
Security forwards					
Long position	1,037,415	-	-	1,037,415	210,070
Interest rate	716,003	-	-	716,003	-
Government bonds	321,412	-	-	321,412	210,070
Short position	1,037,415	-	-	1,037,415	210,070
Interest rate	321,412	-	-	321,412	210,070
Government bonds	716,003	-	-	716,003	-
Options market					
Call option - long position	11,096,070	32,037	626,241	11,754,348	14,294,032
Equities	80,755	-	274,200	354,955	411,248
Currency	8,025,946	15,881	-	8,041,827	7,849,901
Corporate	-	-	2,492	2,492	-
Index	566,170	8,078	47,132	621,380	-
Interest rate	2,423,199	8,078	302,417	2,733,694	5,957,476
Other	-	-	-	-	75,407
Put option - long position	17,929,550	20,104,839	479,504	38,513,893	24,313,372
Equities	186,950	-	87,662	274,612	878,183
Index	207,158	246,254	39,629	493,041	3,818
Corporate	-	-	224,922	224,922	-
Currency	9,908,268	19,058	-	9,927,326	7,984,634
Interest rate	7,627,174	19,839,527	127,291	27,593,992	15,112,500
Other	-	-	-	-	334,237
Call option - short position	7,686,892	217,059	-	7,903,951	9,989,808
Equities	147,153	-	-	147,153	255,232
Currency	5,811,695	199,058	-	6,010,753	9,570,051
Index	1,728,044	18,001	-	1,746,045	-
Other	-	-	-	-	164,525

(In thousands of reais, otherwise indicated)

	2017				2016
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Put option - short position	11,527,011	19,862,757	529	31,390,297	22,975,619
Equities	336,008	-	529	336,537	201,889
Index	67,219	15,426	-	82,645	4,257
Currency	5,896,542	15,881	-	5,912,423	7,072,728
Interest rate	5,227,242	19,831,450	-	25,058,692	15,106,000
Other	-	-	-	-	590,745

b. By cost and market value

	2017					2016
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	101,356	101,355	72,449	20,599	8,307	-
Short position	83,526	83,527	61,060	19,429	3,038	-
Swaps						
Long position	707,558	1,204,189	213,355	157,684	833,150	942,948
Short position	782,987	1,437,598	236,233	166,565	1,034,800	1,236,207
Credit derivatives						
Long position	71,843	142,712	50,440	1,599	90,673	16,245
Short position	23,158	46,316	46,261	55	-	1,065
Non-deliverable forward - NDF						
Long position	3,310,193	1,901,085	612,186	416,676	872,223	3,498,253
Short position	2,012,234	2,252,027	771,072	607,827	873,128	1,975,584
Deliverable forward - DF						
Long position	9,738,462	9,738,461	9,328,226	388,290	21,945	5,815,375
Short position	9,781,741	9,796,835	9,387,059	387,978	21,798	5,869,432
Security forwards						
Long position	518,622	521,056	521,056	-	-	209,875
Short position	518,518	518,537	518,537	-	-	209,978
Options market						
Long position	1,314,815	835,982	798,607	4,142	33,233	1,427,627
Short position	152,275	26,932	14,938	4,647	7,347	352,611
Long position	**15,762,849**	**14,444,840**	**11,596,319**	**988,990**	**1,859,531**	**11,910,323**
Short position	**13,354,439**	**14,161,772**	**11,035,160**	**1,186,501**	**1,940,111**	**9,644,877**

(In thousands of reais, otherwise indicated)

c. Notional by counterparty

	2017					2016
	Clearing houses / stock exchange	**Financial Institutions (i)**	**Companies**	**Individuals**	**Total**	**Total**
Futures market						
Long position	-	124,495	-	-	124,495	81,712,301
Short position	-	95,275	-	-	95,275	18,262,714
Swap						
Long position	2,171,162	131,574,264	3,823,463	27,704	137,596,593	63,801,633
Short position	2,171,162	131,574,264	3,823,463	27,704	137,596,593	63,801,633
Credit derivatives						
Long position	-	138,274	-	-	138,274	543,617
Short position	-	-	-	-	-	93,048
Non-deliverable forward - NDF						
Long position	-	40,821,093	30,064,236	35,380	70,920,709	41,500,091
Short position	-	40,821,093	30,064,236	35,380	70,920,709	41,500,091
Deliverable forward - DF						
Long position	-	9,968,321	-	-	9,968,321	11,921,236
Short position	-	9,968,321	-	-	9,968,321	11,921,236
Security forwards						
Long position	-	1,037,415	-	-	1,037,415	210,070
Short position	-	1,037,415	-	-	1,037,415	210,070
Options market						
Long position	-	49,970,827	297,414	-	50,268,241	38,607,404
Short position	1,908,043	37,386,205	-	-	39,294,248	32,965,427
Long position	**2,171,162**	**233,634,689**	**34,185,113**	**63,084**	**270,054,048**	**238,296,352**
Short position	**4,079,205**	**220,882,573**	**33,887,699**	**63,084**	**258,912,561**	**168,754,219**

(i) Includes investments funds.

d. Credit derivatives

	2017	**2016**
Credit swap		
Transferred risk		
Sovereign	-	505,161
Corporate	-	38,457
Risk received		
Sovereign	138,274	(11,570)
Corporate	-	(81,478)
	138,274	450,570

During the year ended December 31, 2017 and 2016, there was no credit events related to triggering facts provided for in agreements.

According to CMN's resolutions, the effect on the calculation of the required reference shareholders' equity (PRE) as at December 31, 2017 is R$200,725 (December 31, 2016 – R$64,237).

e. Guarantee margins

Guarantee margins in transactions traded on B3 S.A. and other stock exchanges with derivatives comprises federal government and foreign government bonds totaling R$1,849,183 (December 31, 2016 – R$4,028,663) and shares in the amount of R$765,032 (December 31, 2016 – R$422,913).

f. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on B3 S.A., Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).

- Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.

- Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. These data are obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).

- Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer's credit spread and interest rate yield curve. These data are obtained from different sources (normally market prices, Bloomberg and Reuters).

- Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company's commercial departments. Shares are calculated based on the prices informed by B3 S.A. Fund quotas are valued based on quota prices disclosed by the custodians or administrators.

- Financial assets at fair value through profit (loss): The Bank estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

(In thousands of reais, otherwise indicated)

10.Loans

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99. This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, when applicable.

The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by the same Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

	2017		2016	
Type of credit	**Balance**	**Allowance**	**Balance**	**Allowance**
Loans	9,439,841	(619,973)	6,455,431	(500,124)
Financing	913,181	(100,029)	874,382	(67,174)
FINAME/BNDES	2,817,560	(13,915)	2,643,849	(13,018)
Securities financing	156,011	-	107,164	-
Transfered loans with co-obligations (i)	433,527	-	12,848	-
Total	13,760,120	(733,917)	10,093,674	(580,316)

(i) Refers to transferred loans as collateral, related to repurchase agreements.

ii. By risk level and maturity

	2017						2016	
		Maturity						
Risk level	**Overdue**	**Up to 6 months**	**6 to 12 months**	**Over 12 months**	**Total**	**Allowance**	**Total**	**Allowance**
AA	8,387	2,310,533	171,565	3,074,572	5,565,057	-	2,711,793	-
A	3,696	71,394	200,552	2,949,974	3,225,616	(15,681)	3,189,097	(15,450)
B	9,972	661,804	182,543	634,322	1,488,641	(15,027)	1,144,936	(11,326)
C	4,645	932,910	136,564	64,458	1,138,577	(56,297)	1,181,838	(49,535)
D	44,969	121,811	158,454	1,271,220	1,596,454	(200,976)	1,165,941	(156,310)
E	38,395	19,000	11,630	22,083	91,108	(27,567)	496,730	(190,354)
F	416,871	3,246	130,612	12,444	563,173	(327,161)	89,915	(48,324)
G	964	-	-	-	964	(675)	14,694	(10,287)
H	14,573	15,869	11,529	48,559	90,530	(90,533)	98,730	(98,730)
Total	542,472	4,136,567	1,003,449	8,077,632	13,760,120	(733,917)	10,093,674	(580,316)

iii. By activity sector

Sector	**2017**	**2016**
Commerce	1,332,948	234,416
Industry	2,404,767	331,499
Services	9,101,734	8,486,428
Rural	397,686	186,410
Individuals	522,985	854,921
Total	13,760,120	10,093,674

(In thousands of reais, otherwise indicated)

b. Other receivables with loans characteristics and transferred loan

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and transferred loan, as follows:

i. By risk level and maturity

	2017						2016	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	4,314	-	-	4,314	-	277	-
C	-	-	51,621	-	51,621	(1,549)	83,612	(2,547)
D	-	-	-	-	-	-	44,776	(4,473)
F	-	5,516	-	15,031	20,547	(10,273)	-	-
H	-	-	-	-	-	-	362	(362)
Total	-	9,830	51,621	15,031	76,482	(11,822)	129,027	(7,382)

ii. By activity sector

Sector	2017	2016
Industry	76,482	362
Services	-	128,665
Total	76,482	129,027

c. Advances in foreign exchange contracts

i. By risk level and maturity

	2017						2016	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	28,602	-	28,602	-	64,494	-
A	-	-	-	-	-	-	16,331	(82)
B	-	-	113,765	-	113,765	(1,173)	-	-
C	-	86,795	37,650	-	124,445	(4,836)	48,182	(1,473)
D	-	17,779	12,295	-	30,074	(5,869)	67,113	(8,380)
H	-	-	-	-	-	-	20,886	(20,886)
Total	-	104,574	192,312	-	296,886	(11,878)	217,006	(30,821)

ii. By activity sector

Sector	2017	2016
Industry	126,682	122,608
Services	170,204	94,398
Total	296,886	217,006

(In thousands of reais, otherwise indicated)

d. Credit concentration

	2017	%	2016	%
Largest debtors				
10 largest debtors	6,578,322	48%	5,535,513	53%
20 following largest debtors	2,011,713	14%	1,782,333	17%
50 following largest debtors	2,138,088	15%	1,632,127	16%
100 following largest debtors	2,029,656	14%	1,115,806	11%
200 following largest debtors	1,171,901	8%	351,508	3%
500 following largest debtors	187,496	1%	21,488	0%
Above 500 following largest debtors	16,312	0%	932	0%
Total	14,133,488	100%	10,439,707	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics are as follows:

	2017	2016
Opening balances	(835,069)	(2,288,630)
Reversal/(accrual) of allowance	106,754	(96,976)
Allowance from acquired / sale entity	-	402,913
Renegotiation/recovery of credits written off to loss	(401,706)	-
Allowance for guarantee	(73,191)	(15,505)
Exchange rate variation	845	384,497
Credits written off as loss	182,895	778,632
Closing balances	(1,019,472)	(835,069)
Breakdown of closing balances		
Allowance for loan losses	(733,917)	(580,316)
Allowance for other receivables (Note 10 (b))	(11,822)	(7,528)
Allowance for advances on foreign exchange contracts (Note 10 (c))	(11,878)	(30,821)
Allowance for guarantes (Note 16)	(261,855)	(216,404)
	(1,019,472)	(835,069)

f. Renegotiation/recovery of credits written off as loss

As at December 31, 2017, the amount of R$1,722,196 were due to credit renegotiation (December 31, 2016 – R$1,230,379). Also in the period ended December 31, 2017 there were R$145,835 written off loans recovered (December 31, 2016 – R$50,605).

(In thousands of reais, otherwise indicated)

11.Other receivables/obligations

a. Foreign Exchange portfolio

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange contracts	810,886	11,177,659	3,914,364	10,531,068
Rights on foreign exchange sales	11,193,962	-	10,781,197	-
(-) Advances on foreign exchange contracts	2,897	(293,989)	1,498	(215,508)
(-) Advances in foreign currency received	-	-	(326)	-
(-) Advances in local currency received	(37)	-	(1,280)	-
Liability for foreign exchange purchase	-	890,133	-	4,026,204
Total	12,007,708	11,773,803	14,695,453	14,341,764
Current	12,007,708	11,773,803	14,695,453	14,341,764
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through B3 S.A., are represented by federal government bonds in the amount of R$143,577 (December 31, 2016 - R$390,593).

b. Securities trading and brokerage

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	372,741	264,839	868,149	392,195
Unsettled financial assets / liabilities	-	64	8,624	13,476
Pending settlement	3,023,323	1,467,741	1,875,932	1,320,974
Creditors for stock loans	-	570,106	-	1,276,467
Other securities trading and brokerage	-	203	-	469
Commissions and brokerage payable	202,174	1,929,630	38,105	1,098,377
Swap brokerage	129	-	113	-
Total	3,598,367	4,232,583	2,790,923	4,101,958
Current	3,598,367	4,232,583	2,790,923	4,101,958
Long-term	-	-	-	-

"Pending settlement" is basically represented by amounts pending settlement, relating to transactions involving the purchase and sale of securities and financial asset agreements at B3 S.A., and abroad through prime brokers, on the Bank's behalf or on behalf of third parties, on the regular term.

"Other securities trading and brokerage" basically represents, in assets, intermediation transactions from time deposits to be settled, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled, on the regular term.

(In thousands of reais, otherwise indicated)

12.Other receivables

a. Income receivable

	2017	2016
Dividends and bonus	51,974	17,493
Receivables from services rendered	89,614	80,647
Rights on energy sales	1,925,051	455,647
Management and performance fees for investment funds and portfolio	412,319	290,405
Distribution fees	4,330	3,105
Commissions on guarantees	26,675	13,908
Total	2,509,963	861,205
Current	562,966	668,728
Long-term	1,946,997	192,477

b. Sundry

	2017	2016
Deferred tax assets - income and social contribution (note 18)	4,411,458	4,463,246
Deferred tax assets - Others	209,297	97,360
Sundry (i)	3,034,267	3,315,871
Held for sale (ii)	-	1,781,685
Judicial deposits	1,497,424	1,739,441
Taxes recoverable to offset	2,875,359	711,826
Securities and credits receivable		
With loan characteristics (note 10 b)	76,482	129,027
Without loan characteristics (iii)	697,091	548,358
Investment properties	554,525	780,447
Salaries advances	24,746	19,829
Advance to suppliers	108,237	514,152
Other	198,004	15,813
Total	13,686,890	14,117,055
Current	1,234,239	5,149,017
Long-term	12,452,651	8,968,038

(i) Includes receivables from sale of investmets.
(ii) On December 31, 2017, held for sale was transferred to securities..
(iii) On December 31, 2017, the line above has allowance losses of R$113,911 (December 31, 2016 – R$75,270), registered in “Other receivables - Allowance for losses in other receivables”.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
December 31, 2017
(In thousands of reais, otherwise indicated)

13.Investments in associates and jointly controlled entities

	Associates and jointly-controlled entities			
	Shareholders' Equity		Net income (loss)	
	2017	2016	2017	2016
In Brazil				
Banco Pan S.A.	3,555,824	3,412,162	212,606	(237,238)
Warehouse 1 Empreendimentos Imobiliários S.A.	34,337	29,758	4,583	673
Max Casa XIX Empreendimentos Imobiliários S.A.	1,592	2,679	(87)	4,879
ACS Omicron Empreendimentos Imobiliários S.A.	7,014	5,705	1,308	(452)
Pan Seguros S.A.	616,112	650,611	52,685	4,542
Pan Corretora S.A.	54,486	67,612	10,899	10,387
Abroad				
BTG Pactual Holding S.A.R.L.	-	4,373,293	-	467,898
Maybroke Holding S.A.	-	984,727	-	(10,471)
Engelhart CTP Group S.A.	2,260,025	4,565,815	(746,827)	(154,929)
EFG International (i) (ii)	7,146,953	6,411,200	71,107	-

(i) EFG International preliminary information, determined on sale date of BSI, as described on note 2.
(ii) On December 31, 2017, the equity on EFG include total return swap in the amount of CHF46,686.

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
December 31, 2017
(In thousands of reais, otherwise indicated)

	Changes in investments					
	2016	Acquisition / Increase/ Transfer / (Sales)	Dividends paid	Fair value adjustment	Exchange variation	Equity earning subsidia
In Brazil						
Banco Pan S.A.	1,283,326	-	(28,166)	935	-	85
Negative Goodwill - Banco Pan	(56,884)	-	-	-	-	
Warehouse 1 Empreendimentos Imobs S.A.	10,414	-	-	-	-	1
Max Casa XIX Empreendimentos Imobs S.A.	1,340	-	(500)	-	-	
ACS Omicron Empreendimentos Imobs S.A.	2,553	(7)	(3,132)	-	-	
BTG Pactual Vivere Participações S.A.	-	-	-	-	-	
Pan Corretora S.A.	34,482	-	(12,253)	-	-	5
Pan Seguros S.A.	331,808	-	(44,572)	502	-	26
Other	6,018	(365)	-	-	-	(
Total	1,613,057	(372)	(88,623)	1,437	-	118
Abroad						
BTG Pactual Holding S.A.R.L. (i) (iv)	1,749,318	(1,696,275)	(164,554)	-	32,518	78
Maybroke Holding S.A. (i)	494,809	(485,733)	-	-	(20,798)	11
Engelhart CTP Group S.A. (ii)	1,372,257	(805,744)	-	-	(10,135)	(116,
EFG International (ii) (iii)	1,923,361	69,206	(69,904)	51,425	112,214	19
Goodwill - EFG International (ii)	999,339	236,819	-	-	(98,839)	(107,
Other non-consolidated BSI entities	-	-	-	-	-	
	6,539,084	(2,681,727)	(234,458)	51,425	14,960	(114,
Total	8,152,141	(2,682,099)	(323,081)	52,862	14,960	4

(In thousands of reais, except otherwise indicated)

(i) The diference between equity pick up in subsidiaries and net income of subsidiaries refers to the exchange rate variation.
(ii)As of September 30, 2016, Engelhart CTP and BSI Limited entities ceased to have its assets and liabilities consolidated, starting to be treated as investments in associates and jointly controlled entities.
(iii)It was not possible to determine the amount related to the equity pick-up in the Company's investment in EFG during the semester ended December 31, 2017. BTG Pactual will recognize the results of its participation in the investee periodically, at least every six months, whenever the information is publicly disclosed by the company.
(iv)During the year ended on December 31, 2017, the investment in BTG Pactual Holding S.A.R.L., was transferred to securities.

14.Intangible assets

	Changes in Intangible assets					
	2016	**Acquisitions / Transfer**	**Write off**	**Amortization expenses**	**Exchange variation**	**2017**
Goodwill	**192,285**	**2,237**	**(2,731)**	**(166,023)**	**10,583**	**36,351**
Cost	963,916	2,237	(2,731)	-	94,072	1,057,494
Amortization	(771,631)	-	-	(166,023)	(83,489)	(1,021,143)
Other intangible assets	**174,450**	**89,968**	**(51,278)**	**(41,017)**	**(2,641)**	**169,482**
Cost	336,540	89,968	(64)	-	4,458	430,902
Amortization	(162,090)	-	(51,214)	(41,017)	(7,099)	(261,420)
Total	366,735	92,205	(54,009)	(207,040)	7,942	205,833

The intangible assets amortization period is 5 years.

15.Fund raising and loans and borrowings

a. Summary

	2017						2016
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Deposits	9,178,313	4,807,766	3,495,540	137,333	737,674	-	7,690,817
Open market funding	33,890,221	27,223,360	4,013,169	459,973	197,624	1,996,095	24,903,973
Funds from securities issued and accepted	10,289,546	1,088,452	1,594,442	3,588,373	3,226,146	792,133	10,335,702
Loans and borrowings	4,729,925	1,095,654	206,516	897,367	149,109	2,381,279	3,544,822
Subordinated debts and subordinated debt eligible to equity	9,360,546	-	1,289,040	2,882,921	2,109,837	3,078,748	11,588,192
Total	67,448,551	34,215,232	10,598,707	7,965,967	6,420,390	8,248,255	58,063,506

b. Deposits

	2017						2016
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Demand deposits	441,320	441,320	-	-	-	-	128,552
Interbank deposits	136,840	22,400	88,708	25,732	-	-	226,135
Time deposits	8,600,153	4,344,046	3,406,832	111,601	737,674	-	7,336,130
Total	9,178,313	4,807,766	3,495,540	137,333	737,674	-	7,690,817

(i) Include time deposit with special guarantee from FGC, with maturity until December 29,2017. The deposits were indexed to interest referenced rates (CDI) between 100% p.a and 120% p.a.

(In thousands of reais, except otherwise indicated)

On December 4, 2015 a Memorandum of Understanding with the Fundo Garantidor de Créditos – FGC was executed to extend a credit line up to the amount of R$6.0 billion, guaranteed by part of the Bank loan portfolio (basically Debentures and Bank Credit Certificate) and personal guarantee by the controlling shareholders (Top Seven Partners); such collateral represent 120% of the credit line. On October 19, 2016, the financial assistance line obtained from FGC, had been fully paid.

c. Open market funding

Open market funding has collateral on the following securities:

	2017						2016
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	9,308,876	7,545,012	834,506	373,972	67,969	487,417	7,793,086
Federal government bonds	6,723,716	6,723,716	-	-	-	-	4,954,568
Corporate securities	1,245,449	403,372	834,506	7,571	-	-	2,694,044
Foreign securities	1,339,711	417,924	-	366,401	67,969	487,417	-
Foreign government bonds	-	-	-	-	-	-	144,474
Third-party portfolio	19,055,738	18,941,668	84,880	5,806	7,885	15,499	12,967,472
Federal government bonds	18,598,342	18,598,342	-	-	-	-	12,894,050
Corporate bonds	364,836	279,956	84,880	-	-	-	50,747
Foreign securities	29,190	-	-	5,806	7,885	15,499	-
Foreign government bonds	63,370	63,370	-	-	-	-	22,675
Unrestricted portfolio (i)	5,525,607	736,680	3,093,783	80,195	121,770	1,493,179	4,143,415
Federal government bonds	5,144,254	736,680	3,093,783	-	-	1,313,791	4,054,539
Foreign securities	381,353	-	-	80,195	121,770	179,388	-
Foreign government bonds	-	-	-	-	-	-	88,876
Total	33,890,221	27,223,360	4,013,169	459,973	197,624	1,996,095	24,903,973

(i) From the unrestricted portfolio, R$4,770,136 (December 31, 2016 – R$3,730,531) refers to short position and R$755,471 (December 31, 2016 – R$412,884) to third-party portfolio.

d. Funds from securities issued and accepted

	2017						2016
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	6,423,836	1,072,588	1,537,553	2,107,446	1,589,762	116,487	7,841,631
Financial bills	4,772,064	586,474	775,873	1,719,068	1,574,162	116,487	6,865,263
Mortgage bonds/letters of credit for agribusiness	1,575,503	409,845	761,680	388,378	15,600	-	964,695
Certificates of structured transactions	76,269	76,269	-	-	-	-	11,673
Securities – abroad	3,865,710	15,864	56,889	1,480,927	1,636,384	675,646	2,494,071
Medium term notes (i)	3,682,691	13,508	-	1,420,717	1,636,384	612,082	2,351,264
Fixed rate notes and others	183,019	2,356	56,889	60,210	-	63,564	142,807
Total	10,289,546	1,088,452	1,594,442	3,588,373	3,226,146	792,133	10,335,702

(i) During the year ended December 31, 2017, gains in the amount of R$3,008 (December 31, 2016 – R$203,764) were was recognized by the Bank, as a result of notes acquired below par.

(In thousands of reais, except otherwise indicated)

As at December 31, 2017, securities in Brazil were basically indexed o interest referenced rates (CDI) between 87% and 115% or inflation indexes (IPCA and IGPM) plus 1.3% p.a. to 8.4% p.a. (December 31, 2016 – indexed to (CDI) between 88% and 112% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.2% p.a.).

On December 31, 2017, securities abroad have rates between 3.17% p.a. and 8.0% p.a. (December 31, 2016 – between 1.45% p.a. and 8% p.a.).

e. Loans and borrowings

	2017						2016
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	1,920,118	1,084,398	147,097	688,623	-	-	768,480
Foreign currency	147,097	-	147,097	-	-	-	63,552
Loans abroad	1,773,021	1,084,398	-	688,623	-	-	704,928
Loans - Brazil	75,391	-	-	75,391	-	-	163,771
Loans	75,391	-	-	75,391	-	-	163,771
Borrowings in Brazil	2,734,416	11,256	59,419	133,353	149,109	2,381,279	2,612,571
FINAME/BNDES	2,734,416	11,256	59,419	133,353	149,109	2,381,279	2,612,571
Total	4,729,925	1,095,654	206,516	897,367	149,109	2,381,279	3,544,822

On December 31, 2017, securities abroad have rates between 0.16% p.a. and 8.54% p.a. (December 31, 2016 – between 0.25 p.a. and 6.4% p.a.).

f. Subordinated debt and debt instrument eligible to capital

	2017					2016
Type - original currency	Issued amount (original currency)	Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R$ (i) (iii)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	4,808,485	5,842,192
Subordinated debt - US$	800,000	28/09/2012	15/09/2022	5.75%	1,508,752	1,440,798
Subordinated debt eligible to equity - US$ (ii) (iii)	1,300,000	12/09/2014	Callable at September 2019	8.75%	3,043,309	4,305,202
Total					9,360,546	11,588,192

(i) Financial bills have different maturities and have interests and principal generally amortized every six months beginning as at 2016.
(ii) During the year ended December 31, 2017, gains in the amount of R$374 (December 31, 2016 – R$43,619) were recognized by the Bank, as a result of own notes acquired below par.
(iii) The Bank cancel a total amount equivalent to US$300 million in Senior 2020 bonds and US$350 million in Tier II Subordinated 2022 bonds which have been acquired since 2015. Further, on October 2017, Banco received an authorization from Brazilian Central Bank to repurchase no later than December 1st 2017 up to US$390 million of its perpetual bond - TIER 1 Capital.

(In thousands of reais, except otherwise indicated)

16.Other obligations

a. Social and statutory

	2017	2016
Dividends and profit sharing payable	612,403	894,208
Employees' profit sharing	678,304	563,345
Total	1,290,707	1,457,553
Current	1,290,707	1,457,553
Long term	-	-

b. Tax and social security

	2017	2016
Tax and contributions to be collected	189,681	282,360
Tax and contribution payable (i)	2,301,464	98,144
Deferred social contribution and income tax (Note 18)	81,288	78,535
Deferred PIS and COFINS	10	5,429
Total	2,572,443	464,468
Current	2,480,875	326,911
Long term	91,568	137,557

(i) During the year ended December 31, 2017, in order to resolve tax disputes related to the administrative proceeding that deals with the partial tax amortization of goodwill arising from the acquisition of the then named Banco Pactual S.A. by UBS AG in 2006 (as described in Note 17), the Bank joined the Special Tax Regularization Program ("PERT"), pursuant to Executive Decree 783, of May 31, 2017 and Executive Decree 798, of August 31, 2017.

Pursuant to the terms of the agreements related to the Acquisition and the Private Placement agreement of 2010, the financial costs of said adherence to PERT were borne by UBS AG and BTG Pactual Holding S.A., respectively, as approved by the Meeting of BTG Pactual's Board of Directors, and there will be no financial impact on the Bank.

c. Sundry

	2017	2016
Payable for acquisition of assets and rights (i)	1,074,677	1,084,923
Accounts payable - personnel	178,929	183,765
Provision for contingent liabilities (Note 17(c))	2,053,233	2,066,244
Other creditors - Brazil	2,678,845	1,809,643
Other creditors - Abroad	20,810	192,482
Allowance for guarantees (Note 10(e))	261,855	216,404
Obligations related to transferred loans	6,318	15,321
Other	22,522	42,623
Total	6,297,189	5,611,405
Current	386,849	1,830,505
Long term	5,910,340	3,780,900

(i) Refers to amounts payable for the acquisition of investments (substantially Banco Pan S.A. and Banco Sistema S.A.).

17.Contingent assets and liabilities and legal obligations

The Bank's and its subsidiaries' management evaluate existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings. Management's judgment is based on the opinion of its internal and external legal counsel regarding the expected outcome for each proceeding.

a. Contingent assets

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

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are recorded based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

ii.Civil provisions

For civil lawsuits with chances of unfavourable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are recorded based on estimate of probable losses based on the opinion of internal and external legal counsel.

iii. Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counselors and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions recorded for such proceedings at December 31, 2017 are appropriate to cover probable losses arising therefrom.

(In thousands of reais, except otherwise indicated)

The provisions recognized and their changes are as follows for the year ended December 31:

	2017				2016
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the year	1,623,739	407,496	35,009	2,066,244	2,355,783
Recognition	128,355	92,573	25,848	246,776	726,859
Write-off	(25,048)	(224,721)	(10,018)	(259,787)	(1,016,398)
Balance at the end of the year	1,727,046	275,348	50,839	2,053,233	2,066,244
Other contingencies and Provision for contingent liabilities (Note 16 (c))				2,053,233	2,066,244

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

BTG Pactual Group has been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a probable loss by the internal and external counsel is fully recorded in provision. The main legal disputes are the following:

COFINS (“Social security financing tax”) - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

PIS (“Social integration program tax”) - Challenge of the levy of PIS established by Constitutional Amendments 10 of 1996 and 17 of 1997.

As at December 31, 2017, the Bank was part to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R$932 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- Lawsuits relating to the demutualization and IPO of B3 S.A., challenging the taxation of PIS and Cofins on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$21 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- In October 2012, we received a tax assessment, which in December 31, 2017 totaled R$2,439 million alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. Such goodwill was originated in connection with the acquisition of us by UBS in 2006, and in the acquisition by BTG in 2009. The amortization of such goodwill occurred from February 2007 to January 2012, although the tax assessment solely relates to the IRPJ and CSLL tax returns for the calendar years 2007, 2008 and 2009. The Bank presented a defense against this tax assessment.

On February 2013, a first instance decision was issued, providing for a partial reduction of the tax assessment amount. On June 03, 2015, a second instance decision was issued, which canceled the isolated fine in the amount of R$330 million, as of December 31, 2016. On August 31, 2017 the Bank adhered to the Tax regularization program – PERT, and 20% of the debt is being paid in cash in 5 installments and the remaining 80% will be settled with deferred tax assets, including off-balance amounts and deferred tax asset acquired below nominal value, see note 16.b. In addition, on December 2015, the Bank received other tax assessment in the amount of R$1,919 million, which refers to 2010 and 2011, alleging that our use of the goodwill originated in the acquisition of Pactual by UBS, held on 2006, and in the buyback of Pactual by BTG, on 2009. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Accordingly, in no event we expect to incur any material losses in connection with this matter.

- The Holding Internacional S.A. received a tax assessment of income tax paid abroad, and compensated in Brazil on 2012. The value of the booking is R$ 145 millions. Against the booking, Holding presented an administrative appeal, which awaits trial in first instance.

- On December 2017, the Bank received a tax assessment which it is discussed insufficient recollection of PIS and COFINS and imposes fine isolated, referring to the year of 2012, in the amount of R$ 173 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

- On December 2017, in the capacity of the Banco Pan S/A sponsor, the Bank received a tax assessment-IRRF infringement allegedly due to the sale of investment in Brazil by a foreigner, referring to the year of 2012, in the amount of R$69 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

- On December 2017, the Bank received a tax assessment that seeks to collect income tax on the supposed capital gains in corporate incorporation , when One Properties was incorporated by BR Properties, in the amount of R$1.002 millions. Against the booking, administrative appeal was presented, which awaits trial in first instance.

ii. Provision for other contingent liabilities

As at December 31, 2017 and 2016, the bank was part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

(In thousands of reais, except otherwise indicated)

18.Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

	2017	2016
Income tax and social contribution		
Tax base	(139,014)	3,083,007
Income before taxes and profit sharing	1,777,874	5,194,519
Statutory profit sharing	(689,064)	(721,512)
Interest on equity	(1,227,824)	(1,390,000)
Total charge of income tax and social contribution at the current rates	55,458	(1,499,671)
Permanent (additions) / deductions in taxation calculation	229,235	(191,770)
Equity pick up in associated and jointly controlled companies in Brazil	220,373	102,459
Income/(loss) of foreign exchange on foreign investments	215,058	(673,580)
Foreign earnings	-	147,621
Dividends	22,417	82,975
Foreign Investment hedge/overhedge	(810,126)	-
Special Tax Regularization Program	314,519	-
Other Permanent (additions) / deductions	266,994	148,755
Temporary (additions) / deductions on the taxation calculation	(447,533)	1,596,145
Reversal of provision for goodwill on the acquisition of investments	16,847	128,032
Interest on equity	130,532	(401,328)
Fair value of securities and derivatives	(458,042)	1,752,933
Allowance for loan losses	20,271	(84,128)
Tax contingencies and provision for suspended-payment taxes	1,019	(4,502)
Interest on Special Tax Regularization Program	(152,276)	-
Other provisions	(5,884)	205,138
Offset of tax losses carry forward - Brazil	(39,774)	(252,565)
Tax and social contribution expense	(202,614)	(347,861)
Temporary differences		
Recognition / (reversal) of the year	437,565	(1,596,191)
Recognition on goodwill on investments	-	362,217
Recognition / (reversal) of tax losses carry forward	13,798	532,049
Recognition on foreign companies tax losses carry forward	-	(110,989)
Recognition / (reversal) of loss on investment abroad	448,080	30,382
Recognition of Special Tax Regularization Program	491,336	-
Other temporary differences	99,027	17,467
Expenses from deferred taxes	1,489,806	(765,065)
Total revenues / (expenses)	1,287,192	(1,112,926)

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization.

(In thousands of reais, except otherwise indicated)

Changes in deferred tax assets presented in "Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	2016	Recognition	Realization (i)	2017
Tax loss	1,380,635	438,498	(841,784)	977,349
Interest on equity	400,500	-	(130,532)	269,968
Allowance for loan losses	878,723	(605)	(259,196)	618,922
Fair value of securities and derivatives	1,372,210	567,238	(7,995)	1,931,453
Goodwill on the acquisition of investment	16,847	-	(16,847)	-
Tax contingencies and provision for suspended-payment taxes	187,143	-	(1,019)	186,124
Other temporary differences	226,853	204,652	(3,863)	427,642
	4,462,911	1,209,783	(1,261,236)	4,411,458
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	335	(335)	-	-
Total	4,463,246	1,209,448	(1,261,236)	4,411,458

Income tax and social contribution	2015	Recognition	Realization (i)	2016
Tax loss carryforwards	827,919	633,964	(81,248)	1,380,635
Interest on equity	-	400,500	-	400,500
Allowance for loan losses	837,220	222,999	(181,496)	878,723
Fair value of securities and derivatives	3,042,574	15,166,041	(16,836,405)	1,372,210
Goodwill on the acquisition of investment	150,228	-	(133,381)	16,847
Tax contingencies and provision for suspended-payment taxes	187,143	-	-	187,143
Other temporary differences	569,038	105,895	(448,080)	226,853
	5,614,122	16,529,399	(17,680,610)	4,462,911
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	14,045	-	(13,710)	335
Others	107,160	-	(107,160)	-
Total	5,735,327	16,529,399	(17,801,480)	4,463,246

(i) On December 31, 2017, the amount of R$220,213 (December 31, 2016 – R$32,078), refers to recovery paid taxes from investments abroad.

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2018	2,568,919	155,283	2,724,202
2019	113,453	288,996	402,449
2020	99,921	178,497	278,418
2021	122,744	193,709	316,453
2022 onwards	529,072	160,864	689,936
Total	3,434,109	977,349	4,411,458
Present value	2,813,071	920,094	3,733,165

Deferred income tax and social contribution liabilities amounts to R$81,288 (December 31, 2016 - R$78,535), according to note 16(b).

On May 21, 2015, Provisional Measure nº 675 (MP 675/15) was published which increased the rate of the Social Contribution on Net Profit of the financial and insurance sectors from 15% to 20% of taxable profit, from September, 2015. On October 7,2015, Law 13.169 was published which decrease the rate of the Social Contribution on Net Profit from 20% to 15% from 2019.

19.Shareholders equity

a. Capital

As at December 31, 2017, fully subscribed and paid in capital consists of 2,681,601,772 shares (December 31, 2016 – 2,778,465,411), of which 1,746,065,322 common shares (December 31, 2016 – 1,778,353,202), 486,180,110 class A preferred shares (December 31, 2016 – 550,755,870), 449,356,340 class B preferred shares (December 31, 2016 – 449,356,339), registered shares.

At Meeting of BTG Pactual's Board of Directors on September 29, 2017, was approved capital increase, in the amount of R$171,567, with issuance of 1 class B preferred shares, both nominative and without par value. The capital increase was approved by BACEN on November 6, 2017.

The common shares have right to one vote each in the deliberations of the General Shareholders Meeting and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement, without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in acquisition public offer due to transfer of control of the Company, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Bank without deliberation and Board or Shareholders Meeting, provided that (i) such conversion occurs at the time of issuance of new shares by the Bank whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual Holding S.A.) (ii) upon conversion, BTG Pactual Holding S.A. (or its successor in any capacity, including by virtue of merger, division or other corporate reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Bank and (iii) conversion is in accordance with the Bank's Shareholders' Agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Bank is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the Bank Shareholders' Agreement.

b. Treasury shares

During the year ended December 31, 2017, the Bank bought own units, in connection with the approved repurchase program, in the amount of R$489,977 (December 31, 2016 - R$593,285), equivalent to 31,618,580 units (December 31, 2016 – 45,827,708). On the year ended December 31, 2017, there were R$467,748 , equivalent to 32,287,880 units cancelled (December 31, 2016 – 39,930,808 units, in the amount of R$654,845). On December 31, 2017, 5,227,600 units were held in treasury, in the amount of R$93,063.

c. Legal reserve

This reserve is established at the rate of 5% of net income for the year, before any other allocation, limited to 20% of capital.

d. Statutory reserve

According to the Bank's by laws, the purpose of this reserve is to maintain working capital and is limited to the balance of capital.

e. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

f. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income adjusted in accordance with Article 202 of Law 6404/76.

As at June 30, 2017 the Bank has accrued R$630,000 (June 30, 2016 - R$500,000), relating to interest on equity, equivalent to R$0.23 (June 30, 2016 - R$0.19) per share, which generated R$283,500 (June 30, 2016 - R$220,000) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2017, and the payment occurred on August 1, 2017.

As at December 31, 2017 the Bank has accrued R$608,975 (December 31, 2016 – R$890,000), relating to interest on equity, equivalent to R$0.23 per share (December 31, 2016 - R$ 0.32 per share), which generated R$274,039 (December 31, 2016 - R$400,500) of tax benefit.

(In thousands of reais, except otherwise indicated)

g. Reconciliation of net income and shareholders equity

	Shareholders' equity		Net income	
	2017	**2016**	**2017**	**2016**
Banco BTG Pactual S.A.	18,473,348	17,672,754	2,070,278	3,408,583
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Pan S.A.(i)	54,465	54,465	-	-
Others (ii)	-	-	313,585	-
Banco BTG Pactual S.A. Consolidated	18,527,813	17,727,219	2,383,863	3,408,583

(i) The consolidated information reported by Banco Pan S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from transferred loan transactions from Banco Pan to FIDCs are eliminated, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Pan through the equity pick up method of accounting.

(ii) The difference in net income and Stockholders' Equity between Bank financials statements and consolidated financial statements results from the record of exchange variations on investments abroad, and hedges of these investments where the functional currency is different from that of the parent company, net of the respective deferred tax assets.

20.Income from services rendered

	2017	2016
Management and performance fee from investment funds and portfolios	569,044	1,157,649
Brokerage	158,870	473,351
Profesional services	414,526	685,833
Commission over securities placement	195,840	144,675
Guarantees	244,431	226,422
Other services	14,253	9,853
Total	1,596,964	2,697,783

21.Other operating income

	2017	2016
Recovery of charges and expenses	9,589	9,723
Reversal of provision - other	6,911	69,265
Reversal of provision - contingencies	227,389	277,870
Monetary correction over judicial deposits	180,352	304,925
Foreign exchange rate gains	216,737	256,184
Warehousing revenues	-	84,996
Adjustment of amounts receivable for acquisition of investments	166,609	220,948
Other operating income	87,891	42,877
Total	895,478	1,266,788

(In thousands of reais, except otherwise indicated)

22.Other operating expenses

	2017	2016
Tax restatement expense	142,527	93,003
Foreign exchange rate losses	192,110	457,633
Monetary restatement expense	2,090	6,902
Adjustment of amounts payable for acquisition of investments (i)	116,397	147,352
Fair value of assets	63,687	-
Goodwill amortization (ii)	166,023	165,909
Discounts granted in credit renegotiation	44,548	76,419
Allowance for other receivables without loan characteristics	51,251	134,090
Allowance for guarantee	73,191	-
Net expenses of physical commodities	-	233,671
Other	193,536	42,141
Total	1,045,360	1,357,120

(i) Mainly due to the acquisition of Banco Pan S.A. and Banco Sistema S.A..
(ii) Mainly due to the of Celfin goodwill amortization.

23.Other administrative expenses

	2017	2016
Outsourced services and consulting	408,570	871,330
Telecommunications and data processing	225,983	379,438
Special Tax Regularization Program	1,632,357	-
Leases and condominiums	92,397	165,172
Travel and lodging	40,612	60,388
Expenses of the financial system	145,211	323,769
Advertising and public relations	47,930	52,489
Depreciation and amortization	65,214	225,473
Other	21,458	56,787
Total	2,679,732	2,134,846

24.Non-operating expenses / income

Refers basically to the losses/gains from sale of investments or adjustments arising from receivables from investments, as described on note 2.

(In thousands of reais, except otherwise indicated)

25.Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, which are all carried at arm's length, are reflected in the following accounts:

	Parent company (i)		Subsidiaries and joint controlled entities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Open market investments	-	-	27,171	527,100	27,171	527,100
Interbank investments deposits	-	-	400,058	435,000	400,058	435,000
Securities	-	-	49,336	237,547	49,336	237,547
Derivative financial instruments	-	8,275	72,276	3,658	72,276	11,933
Loans and Receivables	2,409,687	987,295	-	971,297	2,409,687	1,958,592
Sundry	-	564,500	-	-	-	564,500
Liabilities	-	-	-	-	-	-
Interbank deposits	-	(58)	(85,704)	-	(85,704)	(58)
Time deposits	(59,602)	(108,658)	-	(7,747)	(59,602)	(116,405)
Demand deposits	(45)	-	-	-	(45)	-
Open market funding	-	-	-	-	-	-
Securities issued abroad	-	-	(755,288)	(1,723,067)	(755,288)	(1,723,067)
Derivative financial instruments	-	(483)	-	(13,399)	-	(13,882)
Sundry	-	-	-	(3,658)	-	(3,658)

	Parent company		Subsidiaries and joint controlled entities		Total	
	2017	2016	2017	2016	2017	2016
Statements of income						
Financial income	-	74,431	228,257	471,955	228,257	546,386
Financial expenses	254	(6,887)	(7,401)	(163,175)	(7,147)	(170,062)
Other operating income	-	-	(100,700)	271	(100,700)	271

(i) Includes natural person.

Total compensation paid to key management personnel totaling this year R$16,912 (December 31, 2016 – R$5,460) which is considered short term benefit.

26.Other information

a. Cash and cash equivalents

Balances at beginning of the year	**2016**	**2015**
Cash and cash equivalents	674,114	20,490,900
Open market investments	11,360,730	9,073,969
Interbank deposits	1,938,904	8,864,471
Total	13,973,748	38,429,340

Balances of end of the year	**2017**	**2016**
Cash and cash equivalents	4,347,209	674,114
Open market investments	17,683,903	11,360,730
Interbank deposits	1,169,893	1,938,904
Total	23,201,005	13,973,748

(In thousands of reais, except otherwise indicated)

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	2017	2016
Co-obligation and risks for guarantees granted	29,531,510	35,969,487
Responsibility for the management of futures and investment portfolio (i)	165,325,497	160,360,167
Securities	36,030,558	33,533,341
Securities under custody	1,116,058,327	1,117,738,333
Securities trading and brokerage	1,833,298,069	1,324,544,222
Loans contract to release	972,000	297,675
Commitments to be released	12,900	47,700

(i) Recognized by the sum of the equity values of funds and investment portfolios

"Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or assets allocated to exchange trading securities.

"Securities under custody" reflects third-party public and private security positions under custody with SELIC and B3 S.A.

"Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

"Loans contracted to release" register amounts related to loans contracted with clients to release.

The item "Commitments to be released" registers amounts related to the financial commitments of the Bank with its investees.

Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

December 31, 2016

With independent auditors' report on consolidated financial statements

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

December 31, 2016

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working world

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A free translation from Portuguese into English of the Independent Auditors' Report on consolidated financial statement prepared in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Management of
Banco BTG Pactual S.A.

Opinion

We have audited the consolidated financial statements of Banco BTG Pactual S.A. (Bank), which comprise the balance sheet as of December 31, 2016, and the statements of income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the 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 consolidated financial statements"* section of our report. We are independent of the Bank and its subsidiaries in accordance with the relevant ethical principles of the Code of Professional Ethics of Accountant and professional standards issued by the Federal Accounting Council, 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 opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value measurement of complex and illiquid financial instruments and derivatives

The Bank has complex and illiquid financial instruments in its investment portfolio, which are priced and recorded at fair value. The fair value measurement of these instruments requires management to use pricing models and assumptions, such as expected cash flow, risk free rate, credit risk spread, among other inputs. Due to the nature of these instruments and the complexity and subjectivity involved in the valuation methodologies, we considered the measurement of these complex and illiquid financial instruments as one of the main audit matters.

Our audit procedures included, among others, the involvement of specialists in illiquid financial instruments pricing to assist us in the evaluation of the pricing methodologies and the assumptions considered by management in measuring the fair value of these instruments. In addition, we evaluated the Bank's disclosures, which are included in footnotes 8, 9 and 13.

Disposal of investments in subsidiaries and affiliates

As disclosed in the consolidated financial statements for the year ended December 31, 2015, management implemented initiatives to preserve capital and liquidity, which included, among others, the disposal of certain relevant investments in subsidiaries and affiliates and the corporate restructuring of some investments. The process of computing the results and determining the consequent accounting treatment is a complex issue because it involves implications of clauses stipulated in the Share Purchase Agreement, in addition to the magnitude of the amounts involved; being, then, considered as one of the main audit matters. These aspects were analyzed and treated by management in the consolidated financial statements, according to footnotes 2 and 13.

Our audit procedures, included, among others, the involvement of specialists to assist us on the understanding of these Share Purchase Agreements, as well as the evaluation of the related accounting treatment, including their impacts on the statement of income for the period. Moreover, we evaluated the Bank's disclosures related to these disposals, which are disclosed in the aforementioned notes.

Related party transactions

The Bank is part of an organizational structure with several legal entities, in Brazil and abroad, and it carries out, within its operations, transactions with these related parties. Due to the number of related parties, and the volume and the inherent risk associated to these transactions, we considered related parties transactions to be one of the main audit matters.

Our audit procedures included, among others, the understanding of the Bank’s procedures for identifying and mapping transactions with related parties, as well as obtaining formal representation by management with respect of the identification of all related parties with the Bank. Additionally, we audited, on a sampled basis, the transactions with related parties and the respective eliminations, when applicable, in the consolidated financial statements.

Furthermore, we evaluated the Bank's disclosures pertaining to related party transactions, disclosed in footnote 25.

Information technology (IT) environment

Because of the volume and complexity, the Bank's operations are highly dependent on the proper functioning of the IT structures and its systems. Therefore, we considered the IT environment as one of the main audit matters.

Our audit procedures included, among others, the involvement of IT experts in conducting tests of information technology general controls for processes of managing changes and access to the systems that we deemed relevant to the preparation of the consolidated financial statements, including the automated transactional controls of those systems.

Other matters

Statement of value added

The consolidated statement of value added (SVA), for the year ended December 31, 2016, prepared under the responsibility of Bank's management, and presented as supplementary information under the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, was submitted to the same audit procedures performed in accordance with the audit of the Bank's financial statements. For the purposes of forming our opinion, we evaluated whether this statement is reconciled with the financial statements and accounting records, as applicable, and whether their layout and content are in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria set forth in Accounting Pronouncement CPC 09 and are consistent with the consolidated financial statements taken as a whole.

Individual financial statements

The Bank has prepared a full set of individual financial statements for the year ended on December 31, 2016 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil for which we issued an unqualified separate independent auditors' report, without modification, dated February 14, 2017.

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

Bank's management is responsible for such other information, which includes the Management Report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the Management Report and, in doing so, to consider whether this report is materially inconsistent with the consolidated 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 consolidated financial statements

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

In preparing the consolidated 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 and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank and its subsidiaries' financial reporting process, and includes Management, Audit Committee and Board of Directors of the Bank and its subsidiaries.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an 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 the risks of material misstatement of the 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and its subsidiaries' internal control.

- 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 significant doubt on the Bank and its subsidiaries' 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 consolidated 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 and its subsidiaries to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including the applicable independence requirements, and communicate any relationships or matters that could significantly affect our independence, including, where applicable, respective safeguards.

Based on the matters that were communicated to those in charge of governance, we determine those that were considered most significant in the audit of the financial statements for the current year and, therefore, that represent the significant audit issues. We describe these matters in our audit report, unless the law or regulation has forbidden public disclosure of the matter or when in extremely rare circumstances we determine that the matter should not be included in our report because the adverse consequences from such disclosure may, within a reasonable perspective, overcome the benefits from communication to the public interest.

São Paulo, February 14, 2017.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP 015.199/F-6

Grégory Gobetti
Accountant CRC – 1PR 039.144/O-8

A free translation from Portuguese into English of the consolidated financial statments presented in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil and in Reais

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31
(In thousands of reais)

	Note	2016	2015
Assets			
Current assets		83,553,280	202,429,281
Cash at banks	6	674,114	20,490,900
Short-term interbank investments	7	20,752,635	32,584,347
Open market investments		18,810,059	17,381,711
Interbank deposits		1,942,576	15,202,636
Securities and derivative financial instruments		33,304,289	62,421,102
Own portfolio	8	12,887,902	14,421,545
Subject to repurchase agreements	8	6,385,653	3,406,152
Subject to unrestricted repurchase agreements	8	185,449	591,054
Derivative financial instruments	9	10,897,355	37,722,151
Subject to guarantees	8	2,947,930	6,280,200
Interbank transactions		1,962,962	1,594,814
Deposits in the Central Bank of Brazil		1,962,962	1,594,814
Loans	10	3,634,223	36,155,866
Loans		4,003,998	37,563,511
Transferred loans with coobligation		12,848	85,436
Allowance for loan losses		(382,623)	(1,493,081)
Other receivables		23,156,354	49,101,502
Foreign exchange portfolio	11	14,695,453	11,770,493
Income receivable	12	668,728	1,427,993
Securities trading and brokerage	11	2,790,923	12,906,141
Sundry	12	5,149,017	23,354,131
Allowance for losses on other receivables	10	(147,767)	(357,256)
Other assets		68,703	80,750
Other assets		1,727	3,371
Prepaid expenses		66,976	77,379
Provision for losses		-	-
Long-term-assets		19,577,416	43,802,303
Long-term interbank investments	7	48	2,193
Open market investments		48	-
Interbank deposits		-	2,193
Securities and derivative financial instruments		4,181,932	15,247,900
Own portfolio	8	496,085	1,173,681
Derivative financial instruments	9	1,012,968	6,430,977
Subject to repurchase agreements	8	778,640	4,852,313
Subject to guarantees	8	1,894,239	2,790,929
Interbank transactions		272,357	326,436
Restricted credits – National Housing System		272,357	326,436
Loans	10	5,879,135	19,509,185
Loans		6,076,828	19,951,536
Allowance for loan losses		(197,693)	(442,351)
Other receivables		9,159,107	8,544,765
Income receivable	12	192,477	364,442
Sundry	12	8,968,038	8,186,966
Allowance for losses on other receivables	10	(1,408)	(6,643)
Other assets		84,837	171,824
Temporary investments		52,149	52,149
Other assets		62,576	109,342
Prepaid expenses		15,211	57,502
Provision for losses		(45,099)	(47,169)
Permanent assets		8,640,861	8,317,098
Investments		8,167,843	6,659,435
Investments in associates and jointly controlled entities - in Brazil	13	1,613,057	1,728,834
Investments in associates and jointly controlled entities - abroad	13	6,539,084	4,892,849
Other investments		19,200	41,250
Allowance for losses		(3,498)	(3,498)
Property and equipment in use		92,688	738,347
Property in use		4,930	434,228
Other property and equipment in use		245,955	475,075
Accumulated depreciation		(158,197)	(170,956)
Deferred charges		13,595	25,620
Amortization and expansion costs		63,842	79,340
Accumulated amortization		(50,247)	(53,720)
Intangible assets	14	366,735	893,696
Other intangible assets		1,300,456	1,712,186
Accumulated amortization		(933,721)	(818,490)
Total assets		111,771,557	254,548,682

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets
As at December, 31
(In thousands of reais)

	Note	2016	2015
Liabilities			
Current liabilities		70,059,411	189,342,301
Deposits	15	7,529,145	81,973,054
Demand deposits		128,552	64,196,932
Interbank deposits		171,806	1,386,036
Time deposits		7,228,787	16,390,086
Open market funding	15	24,083,428	17,114,887
Own portfolio		7,687,107	8,067,513
Third-party portfolio		12,967,472	6,244,030
Free trading portfolio		3,428,849	2,803,344
Funds from securities issued and accepted	15	5,627,207	9,038,926
Real estate, mortgage, credit and similar notes		5,273,282	6,632,767
Securities issued abroad		342,252	2,388,077
Certificates of structured transactions		11,673	18,082
Interbank transactions		5,060	7,168
Unsettled receipts and payments		5,060	7,168
Interdependencies transactions		82,602	-
Unsettled third party assets		82,602	-
Loans and onlending	15	999,606	5,583,459
Loans abroad		768,480	4,882,620
Loans in Brazil		163,771	660,264
Onlending in Brazil		67,355	40,575
Derivative financial instruments	9	8,430,235	36,017,438
Derivative financial instruments		8,430,235	36,017,438
Other liabilities		23,302,128	39,607,369
Collection and payments of tax and similar charges		3,889	4,390
Foreign exchange portfolio	11	14,341,764	11,643,842
Social and statutory	16	1,457,553	1,877,809
Tax and social security	16	326,911	2,286,615
Securities trading and brokerage	11	4,101,958	12,655,340
Subordinated debt	15	1,239,548	1,048,142
Sundry	16	1,830,505	10,091,231
Long-term liabilities		23,717,671	44,953,372
Deposits	15	161,672	4,770,466
Interbank deposits		54,329	89,331
Time deposits		107,343	4,681,135
Open market funding	15	820,545	3,193,323
Own portfolio		105,979	365,049
Free trading portfolio		714,566	2,828,274
Funds from securities issued and accepted	15	4,708,495	10,520,309
Real estate, mortgage, credit and similar notes		2,556,676	6,305,926
Securities issued abroad		2,151,819	4,214,383
Loans and onlending	15	2,545,216	2,514,161
Loans abroad		-	1,622
Loans in Brazil		-	157,068
Onlending in Brazil		2,545,216	2,355,471
Derivative financial instruments	9	1,214,642	6,309,532
Derivative financial instruments		1,214,642	6,309,532
Other liabilities		14,267,101	17,645,581
Tax and social security	16	1,761,296	1,457,600
Subordinated debt	15	6,043,442	7,249,096
Debt instrument eligible to capital	15	4,305,202	5,160,397
Sundry	16	2,157,161	3,778,488
Deferred income		141,783	310,375
Non-controlling interest		125,473	229,370
Shareholders’ equity	19	17,727,219	19,713,264
Capital - domiciled in Brazil		4,727,289	4,687,290
Capital - domiciled Abroad		2,493,237	2,493,236
Capital Reserve		652,515	-
Fair value of assets available for sale		39,756	143,614
Income reserves		9,885,256	12,521,518
Treasury shares		(70,834)	(132,394)
Total Liabilities and Shareholders' equity		111,771,557	254,548,682

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income
Years ended December 31
(In thousands of reais, except net income per share)

	Note	2016	2015
Financial income		13,451,145	15,564,982
Loans		1,809,390	3,118,748
Securities		4,969,829	10,251,463
Derivative financial instruments		4,161,800	2,068,430
Foreign Exchange		2,308,003	-
Mandatory investments		202,123	126,341
Financial expenses		(6,642,609)	(15,767,389)
Funding operations		(7,111,390)	(9,236,708)
Borrowing and onlending		565,757	(5,880,030)
Foreign Exchange		-	(82,928)
Allowance for loan losses and other receivables	10	(96,976)	(567,723)
Net financial income / (loss)		6,808,536	(202,407)
Other operating income / (expenses)		(2,554,141)	1,302,893
Income from services rendered	20	2,697,783	3,505,525
Personnel expenses		(1,676,613)	(1,633,895)
Other administrative expenses	23	(2,134,846)	(2,092,746)
Tax charges		(556,093)	(191,085)
Equity in the earnings of associates and jointly controlled entities	13	(794,040)	1,506,730
Other operating income	21	1,266,788	2,236,467
Other operating expenses	22	(1,357,120)	(2,028,103)
Operating income		4,254,395	1,100,486
Non-operating income	24	940,124	2,737,108
Income before taxation and profit sharing		5,194,519	3,837,594
Income tax and social contribution	18	(1,112,926)	3,159,559
Provision for income tax		(190,808)	(1,293,737)
Provision for social contribution		(157,053)	(453,080)
Deferred income tax and social contribution		(765,065)	4,906,376
Statutory profit sharing		(721,512)	(1,534,451)
Non-controlling interest		48,502	160,796
Net income for the year		3,408,583	5,623,498
Interest on equity	19	(1,390,000)	(914,754)
Weighted average numbers of share outstanding		2,928,585,698	2,748,536,622
Net income per share - R$		1.16	2.05

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

BANCO BTG PACTUAL S.A. and subsidiaries

Statements of changes in shareholders' equity
Years ended December 31
(In thousands of reais, except for dividends and interest on equity per share)

	Note	Capital	Capital reserve	Income reserves			
				Legal	Unrealized	Statutory	Total
Balances as at December 31, 2014		6,406,863	-	626,595	2,467,107	5,137,855	8,231,557
Capital Increase	19	773,663	-	-	-	-	-
Own shares acquired	1	-	-	-	-	-	-
Own shares sold	1	-	-	-	-	(319,794)	(319,794)
Changes in fair value of assets available for sale		-	-	-	-	-	-
Changes in fair value of assets available for sale - jointly controlled	13	-	-	-	-	-	-
Intermediate interest on equity (R$0.16 per share)	19						-
Dividends paid by previous years (R$0.04 per share)	19	-		-	-	(106,130)	(106,130)
Intermediate dividends (R$0.02 per share)	19	-	-	-	-	(47,324)	(47,324)
Net income for the year		-	-	-	-	-	-
Net income allocation							
Income reserve		-	-	281,175	2,922,002	1,505,567	4,708,744
Interest on equity (R$0.18 per share)	19	-	-	-	-	-	-
Balances as at December 31, 2015		7,180,526	-	907,770	5,389,109	6,170,174	12,467,053
Capital Increase	19	40,000	3,960,000	-	-	(4,000,000)	(4,000,000)
Share premium	2	-	(3,307,485)	-	-	-	-
Own shares acquired	1	-	-	-	-	-	-
Cancelation of treasury shares	1	-	-	-	-	(654,845)	(654,845)
Intermediate interest on equity (R$0.19 per share)	19	-	-	-	-	-	-
Changes in fair value of assets available for sale		-	-	-	-	-	-
Changes in fair value of assets available for sale - jointly controlled	13	-	-	-	-	-	-
Net income for the year		-	-	-	-	-	-
Net income allocation							
Income reserve		-	-	170,429	(2,152,576)	4,000,730	2,018,583
Interest on equity (R$0.32 per share)	19	-	-	-	-	-	-
Balances as at December 31, 2016		7,220,526	652,515	1,078,199	3,236,533	5,516,059	9,830,791

Reconciliation of net income and shareholders' equity of Banco BTG Pactual S.A. and subsidiaries is presented in Note

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows

Years ended December 31
(In thousands of reais)

	Note	2016	2015
Operating activities			
Net income for the year		3,408,583	5,623,498
Adjusts to net income		1,831,362	(3,977,849)
Equity pick up from associates and jointly controlled entities	13	794,040	(1,506,730)
Subordinated debt and debt instrument eligible to equity exchange variation		(1,184,574)	-
Interest expense with subordinated debt		923,708	2,876,070
Deferred income tax and social contribution		765,065	(4,906,376)
Goodwill amortization	22	165,909	208,216
Goodwill exchange variation	14	73,740	(172,914)
Fair value of assets held for sale		-	(560,581)
Permanent assets exchande variation		68,001	(90,145)
Depreciation and amortization	23	225,473	174,611
Adjusted net income for the year		5,239,945	1,645,649
Increase/decrease in operational activities			
Short-term interbank investments		2,051,853	16,910,776
Securities and derivative financial instruments		(2,432,100)	6,540,025
Loans		14,059,939	12,357,632
Other receivables and other assets		10,650,802	(19,915,717)
Interbank transactions		(316,177)	(753,164)
Interdependencies transactions		82,602	-
Other liabilities		1,041,607	8,907,243
Deferred income		(168,592)	139,231
Deposits		(34,784,422)	(8,288,467)
Open market funding		5,309,572	(20,132,979)
Loans and onlending		(1,755,280)	1,228,993
Cash provided by / (used in) by operating activities		(1,020,251)	(1,360,778)
Investing activities			
Sale of other investment		22,050	3,739
Sale of investments	13	1,854,247	399,639
Acquisition of equity interests	13	(6,018)	(1,301,792)
Dividends and interest on equity received	13	291,680	299,458
Acquisition of property and deferred charges		(47,617)	(97,051)
Sale of property and deferred charges		8,883	54,390
Acquisition of intangible assets		(33,341)	(12,588)
Assets transfer, held for sale		-	485,614
Business combination / desconsolidation, net of cash		(13,003,159)	20,008,032
Sale of intangible assets		-	3,294
Cash (used in) / provided by investing activities		(10,913,275)	19,842,735
Financing activities			
Acquisition of treasury shares		(593,285)	(452,188)
Funds from securities issued and accepted		(9,223,533)	(1,224,534)
Subordinated debt and debt instrument eligible to equity		(1,608,577)	(334,827)
Non-controlling interest		(103,897)	(363,387)
Capital increase	19	-	773,663
Interest on equity	19	(992,774)	(720,200)
Dividends distributed	19	-	(153,454)
Cash (used in) financing activities		(12,522,066)	(2,474,927)
(Decrease) / increase in cash and cash equivalents		(24,455,592)	16,007,030
Balance of cash and cash equivalents	26		
At the beginning of the year		38,429,340	22,422,310
At the end of the year		13,973,748	38,429,340
(Decrease) / increase in cash and cash equivalents		(24,455,592)	16,007,030
Non-cash transaction			
Dividends and interest on equity received		16,009	-
Debentures converted on shares		-	(985,979)
Credit renegotiation		-	1,202,770
Interest on equity payable		890,000	492,754
Assets transfer, held for sale		1,810,547	1,200,100
Acquisition of equity interests		(4,478,665)	-
Changes in fair value of assets available for sale		(105,609)	(4,170)

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added

Years ended December 31
(In thousands of reais)

	2016	2015
Income	16,901,744	21,448,256
Financial brokerage	13,451,145	15,564,982
Services rendered	2,697,783	3,505,525
Allowance for loan losses and other receivables	(96,976)	(567,723)
Other	849,792	2,945,472
Expenses	(6,545,633)	(15,199,666)
Financial brokerage	(6,545,633)	(15,199,666)
Inputs acquired from third parties	(1,753,388)	(1,770,477)
Materials, energy and other	(16,720)	(20,244)
Outsourced services	(1,736,668)	(1,750,233)
Gross value added	8,602,723	4,478,113
Depreciation and amortization	(225,473)	(174,611)
Net value added produced by the entity	8,377,250	4,303,502
Value added received through transfer	(794,040)	1,506,730
Equity in the earnings of associates and jointly controlled entities	(794,040)	1,506,730
Value added to be distributed	7,583,210	5,810,232
Distribution of value added	7,583,210	5,810,232
Personnel	2,398,125	3,168,346
Direct compensation	2,023,579	2,818,812
Benefits	198,801	181,111
FGTS – government severance pay fund	175,745	168,423
Taxes, fees and contributions	1,669,020	(2,968,474)
Federal	1,555,544	(3,094,859)
Municipal	113,476	126,385
Remuneration of third party capital	155,984	147,658
Rent expenses	155,984	147,658
Remuneration of shareholders	3,360,081	5,462,702
Interest on equity	1,390,000	914,754
Dividends	-	47,324
Retained earnings	2,018,583	4,661,420
Non-controlling interest	(48,502)	(160,796)

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

1. Operations

Banco BTG Pactual S.A. (''Bank'' or "BTG Pactual") is incorporated as a multiple Bank, operating jointly with its subsidiaries ("the Group"), offering financial products and services relating to commercial, including exchange, investment portfolios, credit, financing and investment, leasing and real estate loans.

The transactions are conducted as part of a group of institutions fully participating in the financial market, and certain transactions are intermediated by other institutions of the BTG Pactual Group.

The Bank and BTGP (the "Companies") have units listing on NYSE Euronext in Amsterdam and BM&F BOVESPA in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank and 1 common share, class A, and 2 preferred shares, class B of BTG Pactual Participations Ltd. All units listed and traded in Amsterdam remained wholly interchangeable with the units in Brazil.

BTG Pactual concluded its strategic plan to improve liquidity and preserve capital; and it understands that the measures implemented as well as the ones planned, particularly the sale of BSI, spin-off of commodities as well as the cost reduction program, will bring it to levels of liquidity and capital better than its historical.

Special Committee

On December 4, 2015, the Board of Directors created a Special Committee, to oversee and direct an internal investigation of issues raised as a result of the arrest of Mr. André Santos Esteves. The Special Committee hired the law firms Quinn Emanuel Urquhart & Sullivan, LLP and Veirano Advogados (together, "Legal Counsel") to conduct the independent investigation on its behalf. The Board of Directors granted the Special Committee and Legal Counsel authority to require full cooperation from the Group, its management and its employees in the investigation and unlimited access to information requested by the Special Committee and Legal Counsel.

In April 7, 2016, the Special Committee, assisted by the Legal Counsel, concluded their investigation and released the final report. Based on its investigation, Counsel found no basis to conclude that Mr. André Esteves, BTG Pactual or any of its personnel engaged in any corruption or illegality with respect to the alleged matters. In addition, in April, the Brazilian Supreme Court authorized Mr. André Esteves to return to BTG Pactual, who has been acting as Senior Partner, with no executive function.

Units buyback Program

On November 25, 2015 the Board of Directors announced its units buyback program. Since the beginning of the program 77,801,250 units have been repurchased in the total amount of R$1,045,473 and 71,904,350 units had been canceled, in the amount of R$974,639. On December 31, 2016, 5,896,900 units are held in treasury.

Liability Repurchase

During the year ended December 31, 2016 and 2015 the Group repurchased liabilities and early liquidated liabilities, including some of the outstanding balance of senior and subordinated non-cumulative perpetual notes (tier I), with no impact on our capital base.

The Bank board of directors understands that concluded sufficient measures to fulfill the Group obligation's in both the short and medium terms, and strengthened its current liquidity. The cash level, measured by high quality liquid assets was higher than as at November 25, 2015. On December 31, 2016, short-term liquidity KPI is equivalent to 129% to the Bank.

The consolidated financial statements were approved by Bank's Management on February 14, 2017, and they contain a true and fair view of the development and results of the Bank. Management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, Management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

2. Corporate reorganization and acquisitions

Corporate events

On April 8, 2016, BTG Pactual decided to implement the separation of its commodity trading activities, with the exception of those activities carried out by the Brazil energy trading desk from the operational structure of BTG Pactual and to rearrange the Commodities Platform under a new Luxembourg-based company named Engelhart Commodities Trading Partners ("Engelhart CTP"). The Commodities Platform will operate separately from BTG Pactual, with limited administrative and operational services to be provided by BTG Pactual based on arm's length contracts in accordance with market practices, including cost sharing and infrastructure sharing agreements, until such services are fully assumed by Engelhart CTP. It is anticipated that a portion of such equity will be held by senior employees of Engelhart CTP under an incentive program. Up to five years after the completion of the separation, Engelhart CTP will have the option to acquire its remaining equity interest held by Banco for its shareholders' equity value.

Further to the process of separation of its commodity trading activities, on October 13, 2016 the Bank informed its shareholders and the market in general that (i) 596,209,676 Class A shares of Engelhart CTP were delivered to the shareholders that elected to receive equity interest in Engelhart CTP against delivery to Banco of 596,209,676 Class C Preferred Shares ("PNCs") that were allocated to such alternative, and (ii) 59,457,673 additional BBTG11 units were added, as at October 14, 2016, to the book-entry position of those shareholders that did not elect to receive equity interests in Engelhart CTP, BTG Pactual is recognizing the remaining stake as an investment in an associate entity based on the equity method.

During the year ended December 31, 2016, as part of the commodity trading activities separation process, Engelhart CTP acquired 6.1% of its own shares held by Banco. The total consideration was US$150 million and the price was equivalent to Engelhart CTP's net asset accounting value.

As at September 2015, the restructuring process of Eneva S.A. ("Eneva") was completed. As a result, part of the loans held by the Bank were converted into interest in the company and the Bank has also contributed new assets in the company. As at December 31, 2016, the Bank has a stake equivalent to 33.7% (December 31, 2015 - 49.7%) of the total capital of Eneva. As a result of the completion of the Eneva's restructuring process and its share market price, fair value in the amount of R$142 million were recognized in the year ended December 31, 2016.

Acquisitions and disposals

On December, 2016, the bank repurchased one of its energy trading entity, which had been sold on October 2015. The completion of the repurchase is subject to regulatory approvals and both transactions did not impact BTG Pactual's results.

On November 2016, BTG Pactual, together with its joint-venture partner, has entered into definitive agreements to sell 100% of the equity interests in Maybrooke Holdings S.A. ("Maybrooke"), the holding company of Ariel Re, for an estimated cash consideration of US$235 million. BTG Pactual does not expect any material gain or loss arising from the transaction. Additional information about the transaction is described on note 27.

On November 2016, the Bank has entered into definitive agreements to acquire 70% of the shares of Enforce Gestão de Ativos S.A. ("Enforce"), which operates in the recovery of corporate loan portfolios. The completion of the transaction is subject to regulatory approvals.

On November 1, 2016, BTG Pactual sale 100% of BSI to EFG International ("EFG"), a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration comprises (i) CHF575 million in cash, (ii) 86.2 million EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG, which generated a goodwill in the amount of CHF340 million. EFG's stake were accounted for using the equity pick up method. BSI's purchase transaction and the subsequent sale are subject to price adjustments, or indemnity for non-compliance to the transaction, including the execution of the guarantees provided by EFG shares deposits of Bank property in related account. Obligations or rights will be recognized as their effects become quantifiable and probable. The bank expect's to incur any material losses on the sale transaction, any liabilities with material risks related to the BSI sale, is related to rights from BSI purchase.

On February 2016, BSI sold its remaining equity interest, equivalent to 49%, in B-Source, a business process outsourcer ("BPO").

On April 20, 2016, BTG Pactual informed its shareholders and the market in general that on this date purchase and sale agreements were entered into, whereby CNP Assurances S.A. undertook to acquire BTG Pactual's entire interest in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. for the total amount R$700 million, subject to certain adjustments in order to reflect the Companies' performance until the date of completion of said transactions plus any dividends to be distributed to the their respective shareholders until said completion date, in accordance with the relevant agreements. Additional information about the transaction is described on note 27.

On April, 2015, the Bank through one of its subsidiaries, converted debentures in the amount of R$986 million, issued by Rede D'Or, and received shares equivalent to 21.1% of its equity, which generated a goodwill in the amount of R$650 million. In May, 2015, Rede D'Or received a capital increase which diluted the Bank interest to 19.4% and generated an equity pickup gain of R$269 million, net of proportional goodwill amortization. Additionally, during the year ended December 31, 2015, BTG Pactual sold its remaining investment in Rede D'Or and recognized an gain of R$2.7 Billion. Also, the sale contracts contain terms that might change the receivable amount of the Bank, in case the share price of an initial public offering does not reach a certain price. On December 31, 2016, the Bank estimated that the value of these terms is zero.

On December 31, 2015, the Bank entered into a sale commitment of its full ownership in Recovery do Brasil Consultoria S.A ("Recovery"), by the total amount of R$1.2 billion, as per described: (i) transfer of ordinary shares, equivalents to 81.94% of Recovery share capital; (ii) transfer of shares issued by Fundo de Investimento em Direitos Creditórios NPL I ("FIDC NPL I"), equivalents to 69.34% of the fund's total investment, and; (iii) transfer of debentures not convertible issued by Renova Companhia Securitizadora de Créditos Financeiros S.A. ("Renova"). On the same date, the referred assets were transferred to held for sale, measured at fair value. The transaction generated a gain of R$560 million. On February 17, 2015, the sale transaction was approved by Conselho Administrativo de Defesa Econômica (CADE) and on March 31, 2016 the transaction was settled.

BTG Pactual Group has entered into a joint venture to establish a reinsurance business operating through a number of regulated reinsurance entities. As part of the growth strategy of the joint venture, as at July 10, 2014, the Bank acquired 100% of the shares of Ariel Re (Holdings) Limited's operations ("Ariel"), a non-life international reinsurance group, based in London and Bermuda, that specializes in property catastrophe reinsurance. On January 12, 2015, the acquisition of Ariel was approved by the Brazilian Central Bank and on February 3, 2015, it was settled. In April 2015, the transfer of 50% of interest on Ariel to the joint venture was concluded.

On July 14, 2014, Banco BTG Pactual entered into a definitive share purchase agreement of BSI, a Swiss financial institution subsidiary of Generali Group. On September 30, 2015, the acquisition was concluded and the aggregate consideration paid by Banco BTG Pactual was CHF1,248 million (R$4,935 million) as per the exchange rate on the date of acquisition, and it consisted of: (i) CHF1,048 (R$4,162 million) in cash totally paid in September 2015, and (ii) shares in the amount of CHF200 million (R$773 million). The shares issuance, mentioned above, was approved by the Brazilian Central Bank on November 3, 2015.

In addition, Generali NV used part of the cash proceeds CHF50 million (R$203 million) to fund the acquisition of a corresponding number of equity interests of BTG Pactual Participations needed to form units of the BTG Pactual Group.

The table below presents a summary of the transaction under BR GAAP:

	Acquisiton date (in thousands of reais)
Cash and cash equivalent	16,889,023
Short-term interbank investments	15,224,291
Securities and derivative financial instruments	8,674,372
Loans	53,405,471
Allowance for loan losses	(734,726)
Deposits	(75,739,691)
Open market funding and derivative financial instruments	(3,992,057)
Other assets and liabilities	(8,641,827)
Net assets acquired	5,084,856
Consideration paid	
Cash	4,161,728
Shares	773,663
Total consideration paid	4,935,391
Transactions costs capitalized	39,945
Negative goodwill	(109,520)
Business combination, net of cash	12,687,350

3. Presentation of the financial statements

The Bank's and its subsidiaries' financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the Conselho Monetário Nacional (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE).

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires Management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with suspended eligibility, the provision for contingent liabilities and the fair value measurement of financial instruments. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inaccuracies inherent to its determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

a. Consolidated financial statements

In the consolidated financial statements all intercompany balances of assets and liabilities, revenues, expenses and unrealized profit were eliminated, and were included the portions of net income (loss) and shareholders' equity relating to non-controlling interest.

(In thousands of reais, otherwise indicated)

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill of investments in subsidiaries is recognized as deferred income. Goodwill and negative goodwill calculated on the acquisition of jointly controlled entities is recognized in investments.

The subsidiaries and investment funds consolidated on the Bank's financial statements, are as follows:

		Equity interest - %	
	Country	2016	2015
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Holding Participações S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	99.90	99.90
BTG Pactual Holding Internacional S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
BW Properties S.A.	Brazil	71.28	71.28
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.70	99.70
BTG Pactual Chile International Ltd.	Cayman	100.00	100.00
BTG Pactual TTG Participações S.A.	Brazil	100.00	100.00
Banco BTG Pactual Luxembourg S.A.	Luxembourg	100.00	100.00
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
Banco Sistema S.A.	Brazil	99.84	99.84
Indirect subsidiaries			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual Serviços Energéticos Ltda.	Brazil	100.00	100.00
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	UK	100.00	100.00
BTG Pactual Asset Management US, LLC	USA	100.00	100.00
BTG Pactual US Capital, LLC	USA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	UK	100.00	100.00
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	100.00	100.00
Infra IX Empreendimentos e Participações S.A	Brazil	100.00	-
Banco BTG Pactual Chile S.A.	Chile	100.00	100.00
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual Chile Capital S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos	Chile	100.00	100.00
BTG Pactual Chile Inversiones Limitada	Chile	-	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile Servicios Empresariales Limitada	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos	Chile	100.00	100.00
BTG Pactual Chile International Corp.	Chile	-	100.00
BTG Pactual Seguros de Vida	Chile	100.00	100.00
BTG Pactual Holding Delaware LLC	USA	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	Peru	100.00	100.00

(In thousands of reais, otherwise indicated)

		Equity interest - %	
	Country	2016	2015
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	94.50	94.50
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTGP Corp SAS	Colombia	-	100.00
BTGP S.A.	Colombia	-	100.00
BTG Pactual E&P S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxembourg	100.00	100.00
Engelhart CTP Holding (UK) LTD (i)	UK	-	100.00
Engelhart CTP (Brazil) SA (i)	Brazil	-	99.99
Engelhart CTP (UK) LLP (i)	UK	-	100.00
Engelhart CTP (Singapore) PTE LTD (i)	Singapore	-	100.00
Engelhart CTP (Switzerland) SA (i)	Switzerland	-	100.00
Engelhart CTP Holding (US) LLC (i)	USA	-	100.00
Engelhart CTP (US) LLC (i)	USA	-	100.00
Engelhart CTP (Kenya) Limited (i)	Kenya	-	100.00
Engelhart CTP (South Africa) Proprietary Limited (i)	South Africa	-	100.00
Engelhart CTP (Argentina) SA (i)	Argentina	-	100.00
Engelhart Warehousing (Singapore) PTE Limited (i)	Singapore	-	100.00
Engelhart CTP (Shanghai) CO LTD (i)	China	-	100.00
Engelhart Warehousing (US) LLC (i)	USA	-	100.00
Engelhart Warehousing (UK) Limited (i)	UK	-	100.00
Engelhart CTP Trading (US) LLC (i)	USA	-	100.00
Engelhart CTP (Ukraine) (i)	Ukraine	-	100.00
Engelhart CTP (Italy) SRL (i)	Italy	-	100.00
Engelhart CTP (Costa Rica) S.r.l. (i)	Costa Rica	-	100.00
Engelhart CTP (Colombia) SAS (i)	Colombia	-	100.00
Engelhart CTP (Rus) Limited Liability Company (i)	Russia	-	100.00
Engelhart CTP Absolute Return Limited (i)	Cayman	-	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	USA	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	100.00
Bamerindus Participações e Empreendimentos S.A.	Brazil	99.84	99.84
Bastec Tecnologia e Serviços Ltda.	Brazil	99.84	99.84
BTG Pactual Corretora de Resseguros Ltda.	Brazil	100.00	100.00
BTG Pactual UK Holdco Limited	UK	100.00	100.00
BTG Pactual Family Office S.A. de C.V. (i)	Mexico	-	100.00
BSI S.A. (i)	Switzerland	-	100.00
BSI SA - Italian Branch (i)	Italy	-	100.00
BSI SA - Hong Kong Branch (i)	Hong Kong	-	100.00
BSI Art Collection S.A. (i)	Luxembourg	-	100.00
BSI Art Collection (Svizzera) S.A. (i)	Switzerland	-	100.00
BSI Asset Managers SAM (i)	Monaco	-	100.00
BSI Bank (Panama) S.A. (i)	Panama	-	100.00
BSI Bank Limited (i)	Singapore	-	100.00
BSI Europe S.A. (i)	Luxembourg	-	100.00
BSI Fund Management S.A. (i)	Luxembourg	-	100.00
BSI Laran S.A. (i)	Switzerland	-	100.00
BSI Monaco SAM (i)	Monaco	-	100.00
BSI Overseas (Bahamas) Ltd. (i)	Bahamas	-	100.00
BSI Trust Corporation (Malta) Ltd. (i)	Malta	-	100.00
EOS Servizi Fiduciari SpA (i)	Italy	-	100.00
Oudart S.A. (i)	France	-	100.00
Oudart Gestion S.A. (i)	France	-	100.00
Oudart Patrimoine S.A. (i)	France	-	100.00
Patrimony 1873 S.A. (i)	Switzerland	-	100.00
BTGP-BSI Limited (i)	UK	-	100.00
BTG Pactual Holding AG (i)	Switzerland	-	100.00

(In thousands of reais, otherwise indicated)

	Country	Equity interest - % 2016	2015
Investment funds			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
Nala Fundo de Investimento em Participações	Brazil	-	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados Caixa BTG Pactual Multisegmentos	Brazil	-	100.00
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	-	100.00
Fundo de Investimento em Participações Quartzo	Brazil	-	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Mall Fundo de Investimento Imobiliário	Brazil	-	100.00
Fundo de Investimento Imobiliário BTG Pactual Shopping	Brazil	-	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
Caravelas Fundo de Investimento em Ações	Brazil	-	56.00
BTG Pactual Absolute Return III Master Fund LP	Cayman	-	100.00
CCF Ltd	Cayman	-	100.00
CCMF Ltd	Cayman	-	100.00
FI Imobiliario Property Invest	Brazil	-	100.00
BTG CMO FIM CP – IE	Brazil	-	100.00
BTG Pactual Real Estate Fund Ltd	Cayman	100.00	100.00
B-2 Fundo de Investimento Multimercado	Brazil	-	100.00
BTG Pactual Absolute Return III Limited	Brazil	100.00	100.00
BTG Pactual Intl Port Fund II SPC – Class Commodities	Cayman	100.00	100.00
FIDC NP Alternative Assets I	Brazil	100.00	-

(i) Management decided to no longer consolidate the balance sheets of BSI and Engelhart CTP and their subsidiaries as at September 30, 2016 due to: (i) both the sale of BSI and the separation of Engelhart CTP were substantially concluded as a result of regulatory approvals obtained till then; (ii) the completion of both transactions was deemed highly probable as at September 30, 2016; and (iii) the presentation of their balances on the consolidated balance sheets of Banco BTG Pactual or the combined balance sheets of BTG Pactual Group would conflict with the objective to provide relevant information for the market.

b. Functional currency

The items included in the Bank's financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R$), which is the functional currency of the controller, the Bank. Assets and liabilities were translated into reais using the closing rate at the reporting period, while income and expense accounts were translated at the monthly average rate.

The financial statements of the companies abroad, originally stated in their functional currencies, were translated into reais at the foreign exchange rates on the reporting dates.

The effects of foreign exchange variations on investments abroad are distributed in the income statement accounts according to their respective nature.

4. Significant accounting practices

The most significant accounting practices adopted by the Bank and its direct and indirect subsidiaries are the following:

a. Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments with original maturities up to 90 days, subject to an insignificant risk of change in value.

b. Short-term interbank investments, remunerated deposits at the Central Bank of Brazil, time and interbank deposits, open market funding, funds from securities issued and accepted, loans and onlending, subordinated debts and other asset and liability transactions

The transactions with clauses of adjustment for inflation/exchange rate adjustment and transactions with fixed interest rates are recorded at present value, net of transaction costs, calculated on a "*pro rata die* basis", based on the effective rate of the transactions.

c. Securities

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068/01 of November 8, 2001, under the following categories:

i. Trading securities

Acquired with the purpose of being actively and frequently traded. Trading securities are initially recognized at cost plus income earned, and adjusted to fair value, recognized to the income of the period.

ii. Available for sale securities

These are securities that are neither classified as trading securities nor as held-to-maturity securities. They are stated at cost, with interest recorded on profit or loss, and subsequently adjusted to fair value, with that amount recorded in a separate account under shareholders' equity, net of tax effects, which will only be recognized in income (loss) after the effective realization.

iii. Held-to-maturity securities

These are securities that the Bank has intention and ability to hold to maturity. They are stated at cost, plus income earned, with a corresponding entry to income (loss). Decreases in the fair value of available-for-sale and held-to-maturity securities below their respective restated costs, related to non-temporary reasons, will be recorded in income (loss) as realized losses.

According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

d. Derivative financial instruments

These are classified according to Management's intention, on the transaction date, considering whether such transactions are for hedge or not.

The transactions using financial instruments of own portfolio, or that does not comply with hedge criteria (mainly derivatives used to manage the overall risk exposure), are accounted for at fair value, with gains and losses, realized or unrealized, recorded directly in income (loss).

Derivative financial instruments used to mitigate the risks arising from exposures to changes in the fair value of financial assets and financial liabilities and that are highly correlated in relation to changes in their fair value in relation to the fair value of the hedged item, both in the beginning and throughout the agreement, and deemed as effective in the reduction of risk associated to the exposure to be hedged, are deemed as hedge and are classified according to their nature:

- Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in income (loss); and

- Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.

e. Fair value of securities, derivative financial instruments and other rights and obligations

The fair value of securities, derivative financial instruments and other rights and obligations, whenever applicable, are calculated based on market price, price evaluation models, or based on the price determined for other financial instruments with similar characteristics. The daily adjustments of transactions performed in the futures market are recorded as effective income and expense when generated or incurred. The premium paid or received upon performance of transactions in the stock option market, other financial assets and commodities are recorded in the respective assets accounts for amounts paid or received, adjusted at market price against their results.

The transactions performed in the forward market of financial assets and commodities are registered by the final retained value, adjusted for the difference between this amount and the price of the good or right adjusted at market prices, at the appropriate assets or liabilities account. The income and expenses are recorded according to the maturity of their agreements.

Assets and liabilities resulting from swap and currency forward transactions of non-deliverable forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, with adjustments to fair value, recorded in income (loss).

The notional amount of the agreements recorded in memorandum accounts.

f. Financial instruments – net presentation

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current legally enforceable right to offset the amounts recognized and if there is an intention to simultaneously realize the asset and settle the liability.

g. Sale or transfer of financial assets with substantial retention of risks and benefits

Financial assets remain on the transferor's balance sheet when the transferor sells or transfers a financial asset and retains all or substantially all of the risks and benefits of the asset. In such case, a financial liability is recognized for the consideration received for such asset.

h. Loans and other receivables (operations with credit characteristics)

Recorded at present value, calculated on a "*pro rata die*" basis on the index variation and on the agreed interest rate, updated up to 59th day of default, provided the expected receipt. As from the 60th day, the recognition in income (loss) occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least in the same level in which they were classified before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in the results when actually received.

i. Allowance for loan losses

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, of December 21, 1999, among which:

- Allowances are recorded for loans, based on the classification of the client's risk, based on the periodical analysis of client quality and of activity industries and not only upon default.

- Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with maturity over 36 months.

- The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

j. Investment property

Investment properties held by subsidiaries, which their main activity is real estate, are initially measured at cost including transactions costs. After initial recognition, investment properties are stated at fair value, reflecting the market conditions at each balance sheet date. Adjustments to fair value are determined considering the fair value of the property, minus the attributed costs of the property, and recognized in net income.

The fair value of investment properties are determined at least on an annual basis, or when the Company deems it necessary, and may involve an independent valuation.

Investment properties are derecognized when disposed of or when they cease to be used permanently and no further economics benefit are expected from their disposal.

k. Investments

Jointly controlled and associates are accounted for under the equity method. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

l. Goodwill and negative goodwill

Goodwill and negative goodwill are calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill, recorded according to the basis of expected future results of the acquired subsidiaries, are amortized according to cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in investments for jointly controlled entities, and in deferred income to subsidiaries, until the investment is realized.

m. Property and equipment in use and deferred charges

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line basis over the estimated period of usage and/or disposal.

n. Intangible assets

Corresponds to acquired rights that have as their subject intangible assets destined to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642, of November 26, 2008. Comprised by (i) goodwill paid in acquisition transferred to intangible asset due to incorporation of acquirer's equity by the acquired, or consolidation of the company, (ii) for acquired rights of assets management contracts, and (iii) softwares and improvements in third part property. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

o. Impairment on non-financial assets

Whenever there is clear evidence that the assets are measured at an unrecoverable amount, it is recorded as loss in the income or loss. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of provision for losses that is calculated according to the lower of value in use and fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

p. Income tax and social contribution

The provisions for income tax and social contribution are recorded based on book income adjusted by additions and deductions provided by the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R$240, and 20% for social contribution of financial institutions and 9% for non-financial institutions.

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

Recognized according to the criteria described below:

i. Contingent assets

Contingent assets are not recognized in the financial statements, except when there is evidence ensuring their realization and when they are no longer subject to appeals.

ii. Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions or disclosure.

iii. Legal obligation – tax and social security

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

(In thousands of reais, otherwise indicated)

r. Earnings per share

Calculated based on weighted average shares outstanding for the period.

s. Revenue recognition

Revenues and expenses are recorded under the accrual method.

5. Risk management

The Bank's committee structure allows for the inputs from the entire organization and ensures that the decisions are implemented effectively. The main committees involved in risk management activities are: (i) Management Committee, which approves policies, defines overall limits and is ultimately responsible for managing risks, (ii) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products, (iii) Credit Risk Committee, which is responsible for approving new loans according to the guidelines set forth by the Bank's Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (v) Operational Risk Committee, which assesses the main operational risks for the internal policies and regulatory risks established, (vi) AML (Anti Money Laundering) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering, (vii) CFO Committee, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure, (viii) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. The Bank believes that the involvement of the Committees (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas. Further details on risk management can be found at www.btgpactual.com.br/ri, in the Corporate Governance / Risk Management section.

a. Operating limits

	2016	2015
Reference Shareholders' Equity	17,672,754	19,658,799
Consolidation adjustments	54,465	54,465
Reference Shareholders' Equity Consolidated	17,727,219	19,713,264
Tier I	16,216,254	22,348,819
Common Equity	11,924,484	17,206,110
Complementary Equity	4,291,770	5,142,708
Tier II	3,421,161	3,977,264
Reference Shareholders' Equity (PR) - (a)	19,637,415	26,326,083
Required Reference Shareholders' Equity (PRE)	9,571,425	18,742,699
Total exposure risk-weighted - (b)	91,156,431	169,705,482
Credit risk	55,813,608	125,148,545

(In thousands of reais, otherwise indicated)

	2016	2015
Operational risk	3,385,968	75,855
Market risk	31,956,855	44,481,082
Basel ratio - (a/b*11%)	21.60%	15.5%
Tier I capital	17.80%	13.1%
Tier II capital	3.80%	2.3%
Fixed assets ratio	77.1%	69.9%
Fixed assets to equity capital ratio	9,813,329	13,156,602
Status for fixed assets to equity capital ratio	7,567,019	9,193,675
Amount of margin (insufficiency)	2,246,310	3,962,927

The resolutions 4.192/13 and 4.278/13 issued by the CMN regulates the requirements on Minimun Required Capital for Tier I and Additional Capital and Resolution 4.193/13 institute the Additional for the Main Capital. Credit risk was calculated based on the Circular BACEN 3.644/13, 3.652/13, 3.679/13 and 3.696/14, market risk based on Circulars 3.634, 3.635, 3.636, 3.637, 3.638, 3.639, 3.641 e 3.645, 2013 and Circular-Letter 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13.

The Bank has chosen the basic indicator approach to measure operating risk.

As at the year ended December 31, 2016 and 2015 the Bank was in compliance with all operating limits.

b. Market risk

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one day period, with level of confidence of 95.0% and one year historical data. Reliable level of 95.0% means that there is one within twenty chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Bank's daily average VaR for the year ended as follows:

In millions of R$	2016	2015	2014
Daily average VaR	141,3	125.6	73.0

c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

d. Liquidity risk

The Bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

e. Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and anticipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

6. Cash at banks

Cash at banks refer basically to deposits abroad in prime banks.

(In thousands of reais, otherwise indicated)

7. Interbank investments

	2016					2015
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	18,810,107	18,799,323	10,736	-	48	17,381,711
Own portfolio	1,293,206	1,287,609	5,549	-	48	5,648,295
Federal government bonds	1,204,460	1,199,894	4,518	-	48	5,003,202
Corporate bonds	88,746	87,715	1,031	-	-	465,816
Foreign government bonds	-	-	-	-	-	179,277
Third-party portfolio	13,879,352	13,874,165	5,187	-	-	8,690,279
Federal government bonds	13,838,735	13,833,548	5,187	-	-	8,680,308
Corporate bonds	2,137	2,137	-	-	-	9,971
Foreign government bonds	38,480	38,480	-	-	-	-
Short position	3,637,549	3,637,549	-	-	-	3,043,137
Federal government bonds	3,544,580	3,544,580	-	-	-	3,043,137
Foreign government bonds	92,969	92,969	-	-	-	-
Interbank investments (*)	1,942,576	1,942,576	-	-	-	15,204,829
Interbank deposit certificates	530,326	530,326	-	-	-	227,956
Investments in foreign currency - overnight	1,412,250	1,412,250	-	-	-	14,976,873
Total	20,752,683	20,741,899	10,736	-	48	32,586,540

(*) Refers basically to interbank deposits in prime banks.

The collateral received in repurchase agreements amounts to R$19,162,823 (December 31, 2015 - R$17,525,922), whereas the collateral granted amounts to R$25,151,446 (December 31, 2015 - R$20,377,207).

(In thousands of reais, otherwise indicated)

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	2016							2015
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	12,787,043	13,383,987	4,489,410	1,622,927	3,020,135	2,342,861	1,908,654	15,595,226
Federal government bonds	5,272,131	5,273,562	527	397,241	1,846,227	2,021,413	1,008,154	764,267
Brazilian foreign debt securities	9,031	9,031	7,053	-	-	-	1,978	2,083
Debentures/Eurobonds (i)	451,676	444,582	147,421	5,775	47,683	115,123	128,580	998,415
Bank certificates of deposit	108	108	108	-	-	-	-	19,507
Investment fund quotes								
Shares	120,085	130,060	130,060	-	-	-	-	21,355
Multimarket	1,831,314	1,935,931	927,830	1,008,101	-	-	-	267,227
FIDC - Credit Rights	5,892	5,892	5,892	-	-	-	-	11,418
Real Estate	4,563	4,563	1,490	-	3,073	-	-	7,343
Equity Investment fund	827,480	847,758	92,264	-	626,152	-	129,342	820,215
Shares	2,697,842	3,155,508	3,049,251	106,257	-	-	-	3,077,496
Promissory notes	30,546	30,546	-	30,546	-	-	-	121,250
Certificate of real estate receivables	34,116	34,120	28,547	-	1,262	4,311	-	474,298
Financial bills	-	-	-	-	-	-	-	70,202
Other	14,534	14,476	34	292	288	-	13,862	367,199
Foreign government bonds	466,758	475,605	72,502	43,105	239,301	78,227	42,470	4,918,256
Foreign private securities	1,020,967	1,022,245	26,431	31,610	256,149	123,787	584,268	3,654,695
Unrestricted portfolio	184,286	185,449	-	-	17,628	88,497	79,324	591,054
Federal government bonds	184,286	185,449	-	-	17,628	88,497	79,324	591,054
Subject to repurchase agreements	7,321,776	7,164,293	1,856,703	2,920,308	466,120	697,604	1,223,558	8,258,465
Federal government bonds	4,960,646	4,961,034	1,215,050	2,755,253	235,438	125,413	629,880	6,739,189
Brazilian foreign debt securities	10,076	10,076	10,076	-	-	-	-	-
Certificate of real estate receivables	314,623	314,623	-	-	-	-	314,623	450,277
Foreign government bonds	93,069	181,874	8,131	13,318	85,227	69,006	6,192	162,169
Foreign private securities								
Corporate Bond	460,625	460,625	-	3,139	63,115	372,716	21,655	76,783
Debentures / Eurobonds (i)	1,482,737	1,236,061	623,446	148,598	82,340	130,469	251,208	830,047
Subject to guarantees	4,896,898	4,842,169	1,233,185	411,347	654,951	1,810,337	732,349	9,071,129
Federal government bonds	3,966,912	3,968,253	553,389	352,542	601,351	1,751,955	709,016	2,720,759
Investment fund quotes								
Multimarket	244,978	244,978	244,978	-	-	-	-	171,338
Debentures / Eurobonds (i)	105,400	101,380	2,318	41,240	2,157	34,365	21,300	2,770,907
Certificate of real estate receivables	24,017	24,017	-	-	-	24,017	-	-
Shares	474,962	422,913	422,913	-	-	-	-	91,505
Bank certificates of deposit	64,887	64,886	9,587	3,856	51,443	-	-	8,350
Foreign government bonds	-	-	-	-	-	-	-	258,339
Foreign private securities	15,742	15,742	-	13,709	-	-	2,033	3,049,931
Trading securities	17,607,012	18,258,886	6,232,948	2,152,884	3,603,630	3,236,314	3,033,110	22,491,838
Available for sale securities	2,643,990	2,378,011	792,963	226,451	178,645	319,004	860,948	5,895,301
Held-to-maturity securities	4,939,001	4,939,001	553,387	2,575,247	376,559	1,383,981	49,827	5,128,735
Total	25,190,003	25,575,898	7,579,298	4,954,582	4,158,834	4,939,299	3,943,885	33,515,874

(i) Substantially securities issued by Brazilian companies.

(In thousands of reais, otherwise indicated)

b. Trading securities

	2016							2015
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	12,071,863	12,684,090	4,322,211	1,586,314	2,925,987	2,212,708	1,636,870	13,689,542
Federal government bonds	5,272,131	5,273,562	527	397,241	1,846,227	2,021,413	1,008,154	764,267
Brazilian foreign debt securities	9,031	9,031	7,053	-	-	-	1,978	2,083
Debentures/Eurobonds (i)	12,818	20,953	8,803	-	12,150	-	-	296,363
Bank certificates of deposit	108	108	108	-	-	-	-	19,507
Investment fund quotes								
Shares	120,085	130,060	130,060	-	-	-	-	21,355
Multimarket	1,831,314	1,935,931	927,830	1,008,101	-	-	-	239,437
FIDC - Credit Rights	5,892	5,892	5,892	-	-	-	-	11,418
Real Estate	4,563	4,563	1,490	-	3,073	-	-	7,343
Equity Investment fund	697,547	717,825	92,264	-	625,561	-	-	466,493
Shares	2,697,842	3,155,508	3,049,251	106,257	-	-	-	3,038,064
Certificate of real estate receivables	-	-	-	-	-	-	-	176,678
Financial bills	-	-	-	-	-	-	-	70,202
Other	-	-	-	-	-	-	-	3,381
Foreign government bonds	399,565	408,412	72,502	43,105	182,827	67,508	42,470	4,918,256
Foreign private securities	1,020,967	1,022,245	26,431	31,610	256,149	123,787	584,268	3,654,695
Unrestricted portfolio	184,286	185,449	-	-	17,628	88,497	79,324	591,054
Federal government bonds	184,286	185,449	-	-	17,628	88,497	79,324	591,054
Subject to repurchase agreements	2,949,169	3,038,362	1,233,257	196,463	383,780	567,135	657,727	2,979,125
Federal government bonds	2,385,399	2,385,787	1,215,050	180,006	235,438	125,413	629,880	2,676,769
Brazilian foreign debt securities	10,076	10,076	10,076	-	-	-	-	-
Foreign government bonds	93,069	181,874	8,131	13,318	85,227	69,006	6,192	162,169
Foreign private securities								
Corporate Bond	460,625	460,625	-	3,139	63,115	372,716	21,655	76,783
Debentures / Eurobonds (i)	-	-	-	-	-	-	-	63,404
Subject to guarantees	2,401,694	2,350,985	677,480	370,107	276,235	367,974	659,189	5,232,117
Federal government bonds	1,603,158	1,604,499	2	352,542	224,792	367,974	659,189	1,654,444
Investment fund quotes								
Multimarket	244,978	244,978	244,978	-	-	-	-	171,338
Shares	474,962	422,913	422,913	-	-	-	-	91,505
Bank certificates of deposit	64,887	64,886	9,587	3,856	51,443	-	-	8,350
Foreign government bonds	-	-	-	-	-	-	-	258,339
Foreign private securities	13,709	13,709	-	13,709	-	-	-	3,048,141
Total	17,607,012	18,258,886	6,232,948	2,152,884	3,603,630	3,236,314	3,033,110	22,491,838

(i) Substantially securities issued by Brazilian companies.

c. Available-for-sale securities

	2016							2015
	Cost	Market value	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market value
Own portfolio	715,180	699,897	167,199	36,613	94,148	130,153	271,784	1,905,684
Shares	-	-	-	-	-	-	-	39,432
Investment fund quotes								
Multimarket	-	-	-	-	-	-	-	27,790
Equity investment fund	129,933	129,933	-	-	591	-	129,342	353,722
Debentures (i)	438,858	423,629	138,618	5,775	35,533	115,123	128,580	702,052
Certificate of real estate receivables	34,116	34,120	28,547	-	1,262	4,311	-	297,620
Promissory notes	30,546	30,546	-	30,546	-	-	-	121,250
Foreign government bonds	67,193	67,193	-	-	56,474	10,719	-	-
Other	14,534	14,476	34	292	288	-	13,862	363,818
Subject to repurchase agreements	1,797,360	1,550,684	623,446	148,598	82,340	130,469	565,831	1,216,920
Debentures (i)	1,482,737	1,236,061	623,446	148,598	82,340	130,469	251,208	766,643
Certificate of real estate receivables	314,623	314,623	-	-	-	-	314,623	450,277
Other	-	-	-	-	-	-	-	-

Subject to guarantees	131,450	127,430	2,318	41,240	2,157	58,382	23,333	2,772,697
Debentures	105,400	101,380	2,318	41,240	2,157	34,365	21,300	2,770,907
Certificate of real estate receivables	24,017	24,017	-	-	-	24,017	-	-
Foreign private securities	2,033	2,033	-	-	-	-	2,033	1,790
Total	2,643,990	2,378,011	792,963	226,451	178,645	319,004	860,948	5,895,301

(i) Substantially securities issued by Brazilian companies.

d. Held-to-maturity securities

	2016						2015
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Subject to re purchase	2,575,247	-	2,575,247	-	-	-	4,062,420
Federal government bonds	2,575,247	-	2,575,247	-	-	-	4,062,420
Subject to guarantees	2,363,754	553,387	-	376,559	1,383,981	49,827	1,066,315
Federal government bonds	2,363,754	553,387	-	376,559	1,383,981	49,827	1,066,315
Total	4,939,001	553,387	2,575,247	376,559	1,383,981	49,827	5,128,735

If measured at fair value, held-to-maturity securities would be reported as at the year ended December 31, 2016 with a negative adjustment of R$36,279 (December 31, 2015 – R$183,963 negative).

The Bank has intention and financial capacity to maintain such assets to maturity.

e. Reclassification of securities

Management classifies the securities according to its trading intention. No reclassifications or changes in intention were made by Management during the year ended in December 31, 2016 and 2015.

9. Derivative financial instruments

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedging for its own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed through strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

(In thousands of reais, otherwise indicated)

Transactions conducted in Brazil are traded, registered or held in custody by BM&F Bovespa and CETIP S.A. – Balcão Organizado de Ativos e Derivativos; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at the year ended December 31, 2016 and 2015, the Bank does not have derivative financial instruments classified as hedge accounting. However, it has the policy to economically hedge its exposures to foreign currencies, including exposures in subsidiaries or to associates, using derivatives or other financial instruments. The policy aims to mitigate any effect from changes in foreign currency on assets and liabilities, other than those ones for trading purpose.

a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in memorandum accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, considers the provisions of BACEN Circular Letter 3641/13, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with maturity in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, Non-Deliverable Forward ("NDF") and Deliverable Forward ("DF") derivatives in the table below.

	2016				2015
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	56,979,092	3,878,637	20,854,572	81,712,301	65,125,151
Currency	6,602,172	164,535	-	6,766,707	3,063,003
Interest rate	50,272,075	3,714,102	20,854,572	74,840,749	27,151,507
Commodities	-	-	-	-	34,018,152
Index	-	-	-	-	892,489
Equities	22	-	-	22	-
Other	104,823	-	-	104,823	-
Short position	18,262,714	-	-	18,262,714	113,180,183
Currency	70	-	-	70	9,330,260
Interest rate	18,070,715	-	-	18,070,715	53,174,349
Commodities	7,549	-	-	7,549	49,980,773
Index	-	-	-	-	694,801
Equities	22	-	-	22	-
Other	184,358	-	-	184,358	-
Swap					
Long position	21,313,892	12,001,926	30,485,815	63,801,633	85,704,319
Currency	1,378,148	11,091	727,008	2,116,247	3,988,096
Interest rate	19,778,535	11,882,632	29,531,306	61,192,473	77,368,420
Index	2,329	22,038	221,928	246,295	604,938
Equities	4,703	52,880	5,573	63,156	123,871
Commodities	-	-	-	-	3,382,082
Federal government bonds	744	-	-	744	-
Other	149,433	33,285	-	182,718	236,912

(In thousands of reais, otherwise indicated)

	2016				2015
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Short position	21,313,892	12,001,926	30,485,815	63,801,633	85,704,319
Currency	379,582	3,863,346	6,523,328	10,766,256	3,953,409
Interest rate	18,786,382	7,654,929	20,384,970	46,826,281	73,439,563
Index	465,982	460,161	3,152,547	4,078,690	1,384,147
Equities	1,499	-	-	1,499	442,109
Commodities	-	-	-	-	4,012,950
Federal government bonds	744	-	-	744	-
Other	1,679,703	23,490	424,970	2,128,163	2,472,141
Credit Derivatives					
Long position	293,319	32,591	217,707	543,617	306,800
Sovereign	293,319	32,591	179,250	505,160	214,861
Corporate	-	-	38,457	38,457	91,939
Short position	-	-	93,048	93,048	315,637
Sovereign	-	-	11,570	11,570	-
Corporate	-	-	81,478	81,478	315,637
Non-deliverable forward - NDF					
Long position	36,616,402	4,716,347	167,342	41,500,091	70,951,931
Currency	15,505,378	4,686,725	163,666	20,355,769	38,550,410
Commodities	21,028,246	-	-	21,028,246	29,886,785
Interest rate	82,778	29,622	3,676	116,076	2,514,736
Short position	36,616,402	4,716,347	167,342	41,500,091	70,951,931
Currency	12,657,500	3,666,343	78,340	16,402,183	40,496,695
Commodities	21,028,246	-	-	21,028,246	29,889,505
Interest rate	2,930,656	1,050,004	89,002	4,069,662	565,731
Deliverable forward - DF					
Long position	11,212,395	503,946	204,895	11,921,236	176,496,088
Commodities	-	-	-	-	15,172,314
Currency	11,212,395	503,946	204,895	11,921,236	152,843,559
Interest rate	-	-	-	-	8,480,215
Short position	11,212,395	503,946	204,895	11,921,236	176,496,088
Commodities	-	-	-	-	9,038,825
Interest rate	-	-	-	-	14,613,704
Currency	11,212,395	503,946	204,895	11,921,236	152,843,559
Security forwards					
Long position	9,701	-	200,369	210,070	354,132
Interest rate	-	-	-	-	289,798
Government bonds	9,701	-	200,369	210,070	64,334
Short position	9,701	-	200,369	210,070	354,132
Interest rate	9,701	-	200,369	210,070	64,334
Government bonds	-	-	-	-	289,798
Options market					
Call option - long position	13,024,977	1,099,284	169,771	14,294,032	22,622,158
Equities	165,615	189,269	56,364	411,248	589,767
Commodities	-	-	-	-	5,342,525
Index	-	-	-	-	31,592
Currency	6,901,886	910,015	38,000	7,849,901	16,587,988
Interest rate	5,957,476	-	-	5,957,476	-
Other	-	-	75,407	75,407	70,286
Put option - long position	22,254,022	1,612,574	446,776	24,313,372	24,466,699
Equities	294,193	171,214	412,776	878,183	490,907

(In thousands of reais, otherwise indicated)

	2016				2015
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Commodities	-	-	-	-	8,740,920
Index	3,818	-	-	3,818	-
Currency	6,843,511	1,107,123	34,000	7,984,634	15,230,650
Interest rate	15,112,500	-	-	15,112,500	4,222
Other	-	334,237	-	334,237	-
Call option - short position	8,645,805	1,141,478	202,525	9,989,808	23,888,698
Equities	255,232	-	-	255,232	341,185
Commodities	-	-	-	-	4,711,397
Index	-	-	-	-	25,212
Currency	8,390,573	1,141,478	38,000	9,570,051	18,740,618
Other	-	-	164,525	164,525	70,286
Put option - short position	21,302,530	1,639,089	34,000	22,975,619	17,827,034
Equities	29,008	172,881	-	201,889	1,219,113
Commodities	-	-	-	-	4,059,595
Index	4,257	-	-	4,257	170,333
Currency	6,163,265	875,463	34,000	7,072,728	12,377,993
Interest rate	15,106,000	-	-	15,106,000	-
Other	-	590,745	-	590,745	-

b. By cost and market value

	2016					2015
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	-	-	-	-	-	64,017
Short position	-	-	-	-	-	41,601
Swaps						
Long position	664,797	942,948	189,322	187,476	566,150	1,916,001
Short position	1,002,795	1,236,207	99,013	312,250	824,944	3,484,723
Credit derivatives						
Long position	16,244	16,245	6,083	1,251	8,911	13,587
Short position	1,065	1,065	-	-	1,065	24,626
Non-deliverable forward - NDF						
Long position	3,499,295	3,498,253	3,029,975	463,658	4,620	4,529,603
Short position	1,974,051	1,975,584	1,908,239	50,517	16,828	3,131,362
Deliverable forward - DF						
Long position	5,899,820	5,815,375	5,328,373	320,301	166,701	33,497,215
Short position	5,869,431	5,869,432	5,385,609	320,664	163,159	32,846,270
Security forwards						
Long position	209,890	209,875	9,697	-	200,178	353,813
Short position	209,963	209,978	9,696	-	200,282	353,648
Options market						
Long position	1,415,271	1,427,627	900,596	460,623	66,408	3,778,892
Short position	449,653	352,611	114,407	229,840	8,364	2,444,740
Long position	**11,705,317**	**11,910,323**	**9,464,046**	**1,433,309**	**1,012,968**	**44,153,128**
Short position	**9,506,958**	**9,644,877**	**7,516,964**	**913,271**	**1,214,642**	**42,326,970**

(In thousands of reais, otherwise indicated)

c. Notional by counterparty

	2016					2015
	Clearing houses / stock exchange	Financial Institutions (i)	Companies	Individuals	Total	Total
Futures market						
Long position	80,678,582	1,033,719	-	-	81,712,301	65,125,151
Short position	17,141,915	1,120,799	-	-	18,262,714	113,180,183
Swap						
Long position	5,989,584	57,812,049	-	-	63,801,633	85,704,319
Short position	5,989,584	57,812,049	-	-	63,801,633	85,704,319
Credit derivatives						
Long position	-	543,617	-	-	543,617	306,800
Short position	-	93,048	-	-	93,048	315,637
Non-deliverable forward - NDF						
Long position	-	20,471,667	21,028,424	-	41,500,091	70,951,931
Short position	-	20,471,667	21,028,424	-	41,500,091	70,951,931
Deliverable forward - DF						
Long position	-	11,921,089	147	-	11,921,236	176,496,088
Short position	-	11,921,089	147	-	11,921,236	176,496,088
Security forwards						
Long position	-	210,070	-	-	210,070	354,132
Short position	-	210,070	-	-	210,070	354,132
Options market						
Long position	21,139,233	17,126,621	120,652	220,898	38,607,404	47,088,857
Short position	15,289,000	17,571,110	-	105,317	32,965,427	41,715,732
Long position	**107,807,399**	**109,118,832**	**21,149,223**	**220,898**	**238,296,352**	**446,027,278**
Short position	**38,420,499**	**109,199,832**	**21,028,571**	**105,317**	**168,754,219**	**488,718,022**

(i) Includes investments funds.

d. Credit derivatives

	2016	2015
Credit swap		
Transferred risk		
Sovereign	505,161	214,861
Corporate	38,457	91,939
Risk received		
Sovereign	(11,570)	-
Corporate	(81,478)	(315,637)
	450,570	(8,837)

During the year ended December 31, 2016 and 2015, there was no credit events related to triggering facts provided for in agreements.

According to CMN's resolutions, the effect on the calculation of the required reference shareholders' equity (PRE) as at December 31, 2016 is R$64,237 (December 31, 2015 – R$41,891).

e. Guarantee margins

Guarantee margins in transactions traded on BM&FBovespa and other stock exchanges with derivatives comprises federal government and foreign government bonds totaling R$4,028,663 (December 31, 2015 – R$8,449,268) and shares in the amount of R$422,913 (December 31, 2015 – R$254,030). From the total amount, approximately R$489,939 refers to additional margin deposited, as requested by BM&F Bovespa, due to volatility observed in function of events previously described, in Note 1.

f. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on BM&F Bovespa, Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).

- Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.

- Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. These data are obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).

- Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer's credit spread and interest rate yield curve. These data are obtained from different sources (normally market prices, Bloomberg and Reuters).

- Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company's commercial departments. Shares are calculated based on the prices informed by BM&F Bovespa. Fund quotas are valued based on quota prices disclosed by the custodian.

(In thousands of reais, otherwise indicated)

- Financial assets at fair value through profit (loss): The Bank estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

10.Loans

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99. This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, when applicable.

The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by the same Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

	2016		2015	
Type of credit	Balance	Allowance	Balance	Allowance
Loans	6,455,431	(500,124)	32,992,690	(1,510,510)
Financing	874,382	(67,174)	1,648,571	(134,145)
FINAME/BNDES	2,643,849	(13,018)	2,424,105	(35,481)
Real estate financing	-	-	16,500,417	(252,824)
Securities financing	107,164	-	3,949,264	-
Total	10,080,826	(580,316)	57,515,047	(1,932,960)

ii. By risk level and maturity

	2016						2015	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	1,084,152	259,603	1,368,038	2,711,793	-	42,925,533	-
A	7,353	149,588	103,117	2,929,039	3,189,097	(15,450)	7,365,463	(38,297)
B	2	248,709	296,791	587,493	1,132,995	(11,326)	2,681,862	(26,823)
C	1,666	970,337	114,086	94,842	1,180,931	(49,535)	1,277,765	(38,334)
D	14,513	92,135	56,766	1,002,527	1,165,941	(156,310)	1,113,419	(152,121)
E	394,258	36,865	3,004	62,603	496,730	(190,354)	605,856	(183,721)
F	5,870	40,555	11,209	32,281	89,915	(48,324)	103,341	(51,856)
G	14,694	-	-	-	14,694	(10,287)	-	-
H	76,576	18,138	4,011	5	98,730	(98,730)	1,441,808	(1,441,808)
Total	514,932	2,640,479	848,587	6,076,828	10,080,826	(580,316)	57,515,047	(1,932,960)

(In thousands of reais, otherwise indicated)

iii. By activity sector

Sector	2016	2015
Commerce	234,416	181,042
Industry	331,499	1,684,961
Services	8,473,580	33,356,459
Rural	186,410	348,964
Individuals	854,921	21,943,621
Total	10,080,826	57,515,047

b. Other receivables with loans characteristics and transferred loan

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and transferred loan, as follows:

i. By risk level and maturity

	2016						2015	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	13	264	277	-	139,893	-
A	-	-	-	-	-	-	74,162	(371)
B	30	1,584	1,453	8,873	11,940	(119)	530,315	(5,303)
C	-	13,720	27,182	43,618	84,520	(2,547)	149,847	(4,495)
D	-	44,776	-	-	44,776	(4,500)	-	-
E	-	-	-	-	-	-	56,786	(22,715)
F	-	-	-	-	-	-	52,388	(25,996)
H	362	-	-	-	362	(362)	63,928	(63,928)
Total	392	60,080	28,648	52,755	141,875	(7,528)	1,067,319	(122,808)
Transfered loans with co-obligations					12,848	-	85,436	(2,472)
Securities and credits receivable (note 12(b))					129,027	(7,528)	981,883	(120,336)

ii. By activity sector

Sector	2016	2015
Industry	362	199
Individuals	-	93,915
Rural	-	75,298
Services	141,513	897,907
Total	141,875	1,067,319

(In thousands of reais, otherwise indicated)

c. Advances in foreign exchange contracts

i. By risk level and maturity

	2016						2015	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	64,494	-	64,494	-	9,196	-
A	-	-	16,331	-	16,331	(82)	-	-
B	-	-	-	-	-	-	72,863	(879)
C	-	48,182	-	-	48,182	(1,473)	-	-
D	-	51,373	15,740	-	67,113	(8,380)	14,145	(2,733)
E	-	-	-	-	-	-	35,275	(12,246)
H	20,886	-	-	-	20,886	(20,886)	20,886	(20,886)
Total	20,886	99,555	96,565	-	217,006	(30,821)	152,365	(36,744)

ii. By activity sector

Sector	2016	2015
Industry	62,097	56,161
Services	154,909	96,204
Total	217,006	152,365

d. Credit concentration

	2016	%	2015	%
Largest debtors				
10 largest debtors	5,535,513	53%	10,870,689	19%
20 following largest debtors	1,782,333	17%	6,167,356	11%
50 following largest debtors	1,632,127	16%	5,992,042	10%
100 following largest debtors	1,115,806	11%	5,983,466	10%
200 following largest debtors	351,508	3%	6,692,322	11%
500 following largest debtors	21,488	0%	8,174,852	14%
Above 500 following largest debtors	932	0%	14,854,004	25%
Total	10,439,707	100%	58,734,731	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics are as follows:

	2016	2015
Opening balances	(2,288,630)	(1,143,438)
Reversal/(accrual) of allowance	(96,976)	(567,723)
Allowance from acquired / sale entity	402,913	(734,726)
Contigencies transfer provision	-	113,278
Exchange rate variation	368,992	(108,164)
Credits written off as loss	778,632	152,143
Closing balances	(835,069)	(2,288,630)

(In thousands of reais, otherwise indicated)

	2016	2015
Breakdown of closing balances		
Allowance for loan losses	(580,316)	(1,932,960)
Allowance for transfered loans	-	(2,472)
Allowance for other receivables (Note 10 (b))	(7,528)	(120,336)
Allowance for advances on foreign exchange contracts	(30,821)	(36,744)
Allowance for guarantes (Note 16)	(216,404)	(196,118)
	(835,069)	(2,288,630)

f. Renegotiation/recovery of credits written off as loss

In December 31, 2016, the amount of R$1,230,379 were due to credit renegotiation (December 31, 2015 – R$1,482,587). Also in the year ended December 31, 2016 there were the amount of R$50,605 due to written off loans recovery (December 31, 2015 – R$1,414).

g. Transferred loan

In the year ended December 31, 2016 and 2015 there was no credit assignment with co-obligation.

11.Other receivables/obligations

a. Foreign Exchange portfolio

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased/sold	3,914,364	10,531,068	1,599,914	10,251,244
Rights on foreign exchange sales	10,781,197	-	10,167,480	-
(-) Advances on foreign exchange contracts (Note 10 (c))	1,498	(215,508)	3,489	(148,876)
(-) Advances in foreign currency received	(326)	-	(156)	-
(-) Advances in local currency received	(1,280)	-	(234)	-
Liability for foreign exchange purchase	-	4,026,204	-	1,541,474
Total	14,695,453	14,341,764	11,770,493	11,643,842
Current	14,695,453	14,341,764	11,770,493	11,643,842
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through BM&FBovespa – Securities, Commodities and Futures Exchange (BM&FBovespa), are represented by federal government bonds in the amount of R$390,593 (December 31, 2015 - R$367,831).

(In thousands of reais, otherwise indicated)

b. Securities trading and brokerage

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	868,149	392,195	1,157,060	1,108,797
Unsettled financial assets / liabilities	8,624	13,476	17,966	36
Debtors/creditors – pending settlement account	1,875,932	1,320,974	9,223,704	4,167,353
Creditors for stock loans	-	1,276,467	-	5,759,776
Other securities trading and brokerage	38,105	1,098,377	2,507,272	1,618,914
Commissions and brokerage payable	-	469	-	464
Swap brokerage	113	-	139	-
Total	2,790,923	4,101,958	12,906,141	12,655,340
Current	2,790,923	4,101,958	12,906,141	12,655,340
Long-term	-	-	-	-

"Debtors/creditors – pending settlement account" is basically represented by amounts pending settlement, relating to transactions involving the purchase and sale of securities and financial asset agreements at BM&F Bovespa, and abroad through prime brokers, on the Bank's behalf or on behalf of third parties, on the regular term.

"Other securities trading and brokerage" basically represents, in assets, intermediation transactions from time deposits to be settled, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled, on the regular term.

12.Other receivables

a. Income receivable

	2016	2015
Dividends and bonus	17,493	3,947
Receivables from services rendered	536,294	952,767
Management and performance fees for investment funds and portfolio	290,405	787,414
Distribution fees	3,105	11,744
Commissions on guarantees	13,908	11,195
Other	-	25,368
Total	861,205	1,792,435
Current	668,728	1,427,993
Long-term	192,477	364,442

(In thousands of reais, otherwise indicated)

b. Sundry

	2016	2015
Deferred tax assets - income and social contribution (note 18)	4,463,246	6,110,480
Deferred tax assets - Others	97,360	355,563
Judicial deposits	1,739,441	1,739,039
Taxes recoverable to offset	711,826	1,588,759
Tax incentive options	1,319	1,319
Securities and credits receivable		
With loan characteristics (note 10 b)	129,027	981,883
Without loan characteristics (i)	548,358	911,551
Investment properties	780,447	697,256
Held for sale	1,781,685	1,176,377
Salaries advances	514,152	96,570
Commodities inventories	-	10,128,757
Sundry (ii)	3,315,871	6,679,290
Advance to suppliers	19,829	1,059,222
Other	14,494	15,031
Total	14,117,055	31,541,097
Current	5,149,017	23,354,131
Long-term	8,968,038	8,186,966

(i) On December 31, 2016, the line above has allowance losses of R$75,270 (December 31, 2015 – R$190,636), registered in "Other receivables - Allowance for losses in other receivables".

(ii) Include receivables fros sale of investmets.

(In thousands of reais, otherwise indicated)

13.Investments in associates and jointly controlled entities

	Associates and jointly-controlled entitie			
	Shareholders' Equity		Net income (loss)	
	2016	2015	2016	2015
In Brazil				
Banco Pan S.A.	3,412,162	3,643,797	(237,238)	8,052
Warehouse 1 Empreendimentos Imobiliários S.A.	29,758	40,974	673	(5,621)
Max Casa XIX Empreendimentos Imobiliários S.A.	2,679	23,848	4,879	4,125
ACS Omicron Empreendimentos Imobiliários S.A.	5,705	9,624	(452)	1,344
Pan Seguros S.A.	650,611	673,962	4,542	3,292
Pan Corretora S.A.	67,612	59,961	10,387	10,030
Abroad				
BTG Pactual Holding S.A.R.L.	4,373,293	5,257,130	467,898	1,030,763
Maybroke Holding S.A.	984,727	1,192,369	(10,471)	(36,348)
Engelhart CTP Group S.A.	4,565,815	-	(154,929)	-
EFG International	6,411,200	-	-	-

(i) EFG International preliminary information, determined on sale date of BSI, as described on note 2.

(In thousands of reais, otherwise indicated)

					Changes in investments
	2015	Acquisition / Increase/ Transfer / (Sales)	Dividends paid	Fair value adjustment	Equity in earnings of subsidiaries
In Brazil					
Banco Pan S.A.	1,376,797	-	-	2,260	(95,731)
Negative Goodwill - Banco Pan	(56,884)	-	-	-	-
Warehouse 1 Empreendimentos Imobs S.A.	14,340	-	(700)	-	(3,226)
Max Casa XIX Empreendimentos Imobs S.A.	11,924	(7,740)	(1,889)	-	(955)
ACS Omicron Empreendimentos Imobs S.A.	4,306	-	-	-	(1,753)
BTG Pactual Vivere Participações S.A.	-	(5,022)	-	-	5,022
Pan Corretora S.A.	30,580	-	-	-	3,902
Pan Seguros S.A.	347,771	-	(16,009)	(5)	51
Rede D'OR São Luiz S.A.	-	-	-	-	-
Goodwill - Rede D'OR São Luiz S.A. (ii)	-	-	-	-	-
Other	-	6,018	-	-	-
Total	1,728,834	(6,744)	(18,598)	2,255	(92,690)
Abroad					
BTG Pactual Holding S.A.R.L. (i)	4,205,704	(1,810,547)	(126,186)	-	(519,653)
Maybroke Holding S.A. (i)	596,094	-	-	-	(101,285)
Engelhart CTP Group S.A. (ii)	-	1,548,417	(162,905)	-	(13,255)
EFG International (ii)	-	1,947,005	-	-	(23,644)
Goodwill - EFG International (ii)	-	1,049,292	-	-	(49,953)
Other non-consolidated BSI entities	91,051	(96,987)	-	(504)	6,440
	4,892,849	2,637,180	(289,091)	(504)	(701,350)
Total	6,621,683	2,630,436	(307,689)	1,751	(794,040)

(In thousands of reais, otherwise indicated)

(i) The diference between equity pick up in subsidiaries and net income of subsidiaries refers to the exchange rate variation.
(ii)As of September 30, 2016, Engelhart CTP and BSI Limited entities ceased to have its assets and liabilities consolidated, starting to be treated as investments in associates and jointly controlled entities. See Note 3 (a), with the effects of BSI S.A. and companies related to Commodities desconsolidation.

14.Intangible assets

	Changes in Intangible assets					
	2015	**Acquisitions (i)**	**Write off (ii)**	**Amortization expenses**	**Exchange variation**	**2016**
Goodwill	**401,472**	**1,080,827**	**(1,069,429)**	**(165,909)**	**(54,676)**	**192,285**
Cost	1,066,967	1,080,827	(1,069,429)	-	(114,449)	963,916
Amortization	(665,495)	-	-	(165,909)	59,773	(771,631)
Other intangible assets	**492,224**	**13,376**	**(155,963)**	**(156,123)**	**(19,064)**	**174,450**
Cost	645,219	13,376	(290,861)	-	(31,194)	336,540
Amortization	(152,995)	-	134,898	(156,123)	12,130	(162,090)
Total	893,696	1,094,203	(1,225,392)	(322,032)	(73,740)	366,735

(i)Refers to the adoption of resolution 4,424/15 from BACEN, in January 1, 2016, resulting in the recognition of BSI pension plan deficit.
(ii)Include BSI desconsolidation.

The intangible assets amortization period is 5 years.

15.Fund raising and loans and onlending

a. Summary

	2016						2015
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Deposits	7,690,817	3,402,224	4,126,921	80,701	54,667	26,304	86,743,520
Open market funding	24,903,973	22,894,730	1,188,698	133,192	687,353	-	20,308,210
Funds from securities issued and accepted	10,335,702	2,550,129	3,077,078	1,988,758	1,929,984	789,753	19,559,235
Loans and onlending	3,544,822	828,080	171,526	130,701	153,752	2,260,763	8,097,620
Subordinated debts and subordinated debt eligible to equity	11,588,192	-	1,239,548	2,736,509	1,872,957	5,739,178	13,457,635
Total	58,063,506	29,675,163	9,803,771	5,069,861	4,698,713	8,815,998	148,166,220

b. Deposits

	2016						2015
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Demand deposits	128,552	128,552	-	-	-	-	64,196,932
Interbank deposits	226,135	99,411	72,395	49,744	4,585	-	1,475,367
Time deposits (i)	7,336,130	3,174,261	4,054,526	30,957	50,082	26,304	21,071,221
Total	7,690,817	3,402,224	4,126,921	80,701	54,667	26,304	86,743,520

(i) Include time deposit with special guarantee from FGC, with maturity until December 29,2017. The deposits were indexed to interest referenced rates (DCI) between 100% p.a and 120% p.a.

(In thousands of reais, otherwise indicated)

On December 4, 2015 a Memorandum of Understanding with the Fundo Garantidor de Créditos – FGC was executed to extend a credit line up to the amount of R$6,0 billion, guaranteed by part of the Bank loan portfolio (basically Debentures and Bank Credit Certificate) and personally guaranteed by the controlling shareholders (Top Seven Partners); such collateral represents 120% of the credit line. On October 19, 2016, the financial assistance line obtained from FGC, had fully paid.

c. Open market funding

Open market funding has collateral on the following securities:

	2016						2015
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	7,793,086	6,498,409	1,188,698	105,979	-	-	8,432,562
Federal government bonds	4,954,568	4,954,568	-	-	-	-	6,732,642
Corporate securities	2,694,044	1,399,367	1,188,698	105,979	-	-	1,699,920
Foreign government bonds	144,474	144,474	-	-	-	-	-
Third-party portfolio	12,967,472	12,967,472	-	-	-	-	6,244,030
Federal government bonds	12,894,050	12,894,050	-	-	-	-	6,235,603
Corporate bonds	50,747	50,747	-	-	-	-	8,427
Foreign government bonds	22,675	22,675	-	-	-	-	-
Unrestricted portfolio (i)	4,143,415	3,428,849	-	27,213	687,353	-	5,631,618
Federal government bonds	4,054,539	3,339,973	-	27,213	687,353	-	5,631,618
Foreign government bonds	88,876	88,876	-	-	-	-	-
Total	24,903,973	22,894,730	1,188,698	133,192	687,353	-	20,308,210

(i) From the unrestricted portfolio, R$3,730,531 (December 31, 2015 – R$3,042,507) refers to short position and R$412,884 (December 31, 2015 – R$2,589,111) to third-party portfolio.

d. Funds from securities issued and accepted

	2016						2015
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	7,841,631	2,548,757	2,736,198	1,946,894	502,079	107,703	12,956,775
Financial bills	6,865,263	2,249,463	2,157,827	1,855,077	495,193	107,703	11,349,904
Mortgage bonds/letters of credit for agribusiness	964,695	290,612	575,380	91,817	6,886	-	1,588,789
Certificates of structured transactions	11,673	8,682	2,991	-	-	-	18,082
Securities – abroad	2,494,071	1,372	340,880	41,864	1,427,905	682,050	6,602,460
Medium term notes	2,351,264	-	300,999	13,362	1,414,633	622,270	6,295,976
Fixed rate notes and others	142,807	1,372	39,881	28,502	13,272	59,780	306,484
Total	10,335,702	2,550,129	3,077,078	1,988,758	1,929,984	789,753	19,559,235

(i) During the year ended December 31, 2016, gains in the amount of R$203,764 (December 31, 2015 – R$356,083) were was recognized by the Bank, as a result of notes acquired below bar.

(In thousands of reais, otherwise indicated)

As at December 31, 2016, securities in Brazil were basically indexed o interest referenced rates (CDI) between 88% and 112% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.2% p.a. (December 31, 2015 – indexed to (CDI) between 86% and 113% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 7.8% p.a.).

On December 31, 2016, securities abroad have rates between 1.45% p.a. and 8.0% p.a. (December 31, 2015 – between 1.2% p.a. and 7% p.a.).

e. Loans and onlending

	2016						2015
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	768,480	704,928	63,552	-	-	-	4,884,242
Foreign currency	63,552	-	63,552	-	-	-	156,164
Loans abroad	704,928	704,928	-	-	-	-	4,728,078
Loans - Brazil	163,771	115,352	48,419	-	-	-	817,332
Loans	163,771	115,352	48,419	-	-	-	817,332
Onlending in Brazil	2,612,571	7,800	59,555	130,701	153,752	2,260,763	2,396,046
FINAME/BNDES	2,612,571	7,800	59,555	130,701	153,752	2,260,763	2,396,046
Total	3,544,822	828,080	171,526	130,701	153,752	2,260,763	8,097,620

On December 31, 2016, loans and onlending have rates of 0.25% p.a. and 6.4% a.a. (December 31, 2015 – between 0.73% p.a. and 6% p.a.).

f. Subordinated debt and debt instrument eligible to capital

	2016					2015
Type - original currency	Issued amount (original currency)	Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R$ (i)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	5,842,192	6,084,767
Subordinated debt - US$	800,000	28/09/2012	15/09/2022	5.75%	1,440,798	1,821,507
Subordinated debt - CHF	100,000	23/12/2011	23/12/2021	5.25%	-	390,964
Subordinated debt eligible to equity - US$ (ii)	1,300,000	12/09/2014	Callable at September 2019	8.75%	4,305,202	5,160,397
Total					11,588,192	13,457,635

(i) Financial bills have different maturities and have interests and principal generally amortized every six months beginning as at 2016.
(ii) During the year ended December 31, 2016, gains in the amount of R$43,619 (December 31, 2015 – R$67.108) were was recognized by the Bank, as a result of notes acquired below bar.

(In thousands of reais, otherwise indicated)

16.Other obligations

a. Social and statutory

	2016	2015
Dividends and profit sharing payable	894,208	653,401
Employees' profit sharing	307,640	1,002,030
Other benefits	255,705	222,378
Total	1,457,553	1,877,809
Current	1,457,553	1,877,809
Long term	-	-

b. Tax and social security

	2016	2015
Tax and contributions to be collected	282,360	375,922
Tax and contribution payable	98,144	1,403,539
Deferred social contribution and income tax (Note 18)	78,535	410,370
Deferred PIS and COFINS	5,429	70,649
Suspended-payment taxes and others tax liabilities (Note 17 (c))	1,623,739	1,483,735
Total	2,088,207	3,744,215
Current	326,911	2,286,615
Long term	1,761,296	1,457,600

c. Sundry

	2016	2015
Payable for acquisition of assets and rights (i)	1,084,923	1,041,588
Accounts payable - personnel	183,765	1,368,810
Provision for contingent liabilities (Note 17(c))	442,505	872,048
Obligations collateralized in physical commodities	-	5,209,221
Trade payables for commodities	-	1,141,893
Other creditors - Brazil	1,809,643	1,787,307
Other creditors - Abroad	192,482	1,677,909
Allowance for guarantees (Note 10(e))	216,404	196,118
Obligations related to transferred loans	15,321	492,317
Other	42,623	82,508
Total	3,987,666	13,869,719
Current	1,830,505	10,091,231
Long term	2,157,161	3,778,488

(i) Refers to amounts payable for the acquisition of investments (substantially Banco Pan S.A. and Banco Sistema S.A.).

17.Contingent assets and liabilities and legal obligations

The Bank's and its subsidiaries' Management evaluate existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings. Management's judgment is based on the opinion of its internal and external legal counsel regarding the expected outcome for each proceeding.

a. Contingent assets

As at December 31, 2016 and 2015, the Bank did not record contingent assets.

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are recorded based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

ii. Civil provisions

For civil lawsuits with chances of unfavourable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are recorded based on estimate of probable losses based on the opinion of internal and external legal counsel.

iii. Tax and social security provisions

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counselors and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions

The Bank's Management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recorded for such proceedings at December 31, 2016 are appropriate to cover probable losses arising therefrom.

(In thousands of reais, otherwise indicated)

The provisions recognized and their changes are as follows for the year ended December 31:

	2016				2015
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the year	1,483,735	842,552	29,496	2,355,783	2,141,233
Recognition	181,101	516,330	29,428	726,859	523,613
Companies desconsolidated (BSI)	-	(538,086)	-	(538,086)	212,068
Write-off	(41,097)	(413,300)	(23,915)	(478,312)	(521,131)
Balance at the end of the year	1,623,739	407,496	35,009	2,066,244	2,355,783
Suspended-payment taxes				1,623,739	1,483,735
Other taxes contingencies and Provision for contingent liabilities				442,505	872,048

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

BTG Pactual Group has been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a probable loss by the internal and external counsel is fully recorded in provision. The main legal disputes are the following:

COFINS (“Social security financing tax”) - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

PIS (“Social integration program tax”) - Challenge of the levy of PIS established by Constitutional Amendments 10 of 1996 and 17 of 1997.

CSL (“Social contribution tax”) - Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

As at December 31, 2016, the Bank was part to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R$992 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- Lawsuits relating to the demutualization and IPO of BM&F Bovespa, challenging the taxation of PIS and Cofins on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$20 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

(In thousands of reais, otherwise indicated)

- In October 2012, we received a tax assessment, which in December 31, 2016 totaled R$2,324 million alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. Such goodwill was originated in connection with the acquisition of us by UBS in 2006, and in the acquisition by BTG in 2009. The amortization of such goodwill occurred from February 2007 to January 2012, although the tax assessment solely relates to the IRPJ and CSLL tax returns for the calendar years 2007, 2008 and 2009. The Bank presented a defense against this tax assessment. On February 2013, a first instance decision was issued, providing for a partial reduction of the tax assessment amount. On June 03, 2015, a second instance decision was issued, which canceled the isolated fine in the amount of R$330 million, as of December 31, 2016. Based on our analysis of applicable case law, including in recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. In addition, on December 2015, the Bank received other tax assessment in the amount of R$1,810 million, which refers to 2010 and 2011, alleging that our use of the goodwill originated in the acquisition of Pactual by UBS, held on 2006, and in the buyback of Pactual by BTG, on 2009. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Accordingly, in no event we expect to incur any material losses in connection with this matter.

ii. Provision for other contingent liabilities

As at December 31, 2016, the bank was part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

18.Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

Income tax and social contribution	2016	2015
Tax base	3,083,007	2,303,143
Income before taxes and profit sharing	5,194,519	3,837,594
Statutory profit sharing	(721,512)	(1,534,451)
Interest on equity	(1,390,000)	(914,754)
Total charge of income tax and social contribution at the current rates	(1,499,671)	(555,356)
Permanent (additions) / deductions in taxation calculation	(191,770)	2,092,350
Equity pick up in associated and jointly controlled companies in Brazil	102,459	(205,379)
Income/(loss) of foreign exchange on foreign investments	(673,580)	2,065,706
Foreign earnings	147,621	(203,245)
Dividends	82,975	137,903
Other Permanent (additions) / deductions	148,755	297,365
Temporary (additions) / deductions on the taxation calculation	1,596,145	(3,194,627)
Reversal of provision for goodwill on the acquisition of investments	128,032	128,445
Interest on equity	(401,328)	119,280
Fair value of securities and derivatives	1,752,933	(2,997,685)
Allowance for loan losses	(84,128)	(373,225)

(In thousands of reais, otherwise indicated)

	2016	2015
Tax contingencies and provision for suspended-payment taxes	(4,502)	13,763
Other provisions	205,138	(85,205)
Increase in CSLL - 5%	-	(61,352)
Offset of tax losses carry forward - Brazil	(252,565)	(27,832)
Tax and social contribution expense	(347,861)	(1,746,817)
Temporary differences		
Recognition / (reversal) of the year	(1,596,191)	3,085,447
Recognition on goodwill on investments	362,217	-
Recognition / (reversal) of tax losses carry forward	532,049	314,281
Recognition on foreign companies tax losses carry forward	(110,989)	396,533
Recognition / (reversal) of loss on investment abroad	30,382	545,025
Other temporary differences	17,467	565,090
Revenues / (Expenses) from deferred taxes	(765,065)	4,906,376
Total revenues / (expenses)	(1,112,926)	3,159,559

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization.

Changes in deferred tax assets presented in “Other credits – Sundry" (Note 12(b)), are as follows:

Income tax and social contribution	2015	Recognition	Realization (i)	2016
Tax loss	827,919	633,964	(81,248)	1,380,635
Interest on equity	-	400,500	-	400,500
Allowance for loan losses	837,220	222,999	(181,496)	878,723
Fair value of securities and derivatives	3,042,574	15,166,041	(16,836,405)	1,372,210
Goodwill on the acquisition of investment	150,228	-	(133,381)	16,847
Tax contingencies and provision for suspended-payment taxes	187,143	-	-	187,143
Other temporary differences	569,038	105,895	(448,080)	226,853
	5,614,122	16,529,399	(17,680,610)	4,462,911
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	14,045	-	(13,710)	335
Others	107,160	-	(107,160)	-
Total	5,735,327	16,529,399	(17,801,480)	4,463,246

Income tax and social contribution	2014	Recognition	Realization (i)	2015
Tax loss carryforwards	308,155	577,247	(57,483)	827,919
Interest on equity	119,280	-	(119,280)	-
Allowance for loan losses	371,358	621,096	(155,234)	837,220
Fair value of securities and derivatives	288,315	14,912,132	(12,157,873)	3,042,574
Goodwill on the acquisition of investment	266,639	12,033	(128,444)	150,228
Tax contingencies and provision for suspended-payment taxes	197,671	4,082	(14,610)	187,143
Other temporary differences	119,463	835,593	(386,018)	569,038
	1,670,881	16,962,183	(13,018,942)	5,614,122
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	-	14,045	-	14,045
Others	-	107,160	-	107,160
Total	1,670,881	17,083,388	(13,018,942)	5,735,327

(i) On December 31, 2016, the amount of R$388,700 (December 31, 2015 – R$587,981), refers to recovery paid taxes from investments abroad.

(In thousands of reais, otherwise indicated)

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2017	1,447,073	297,435	1,744,508
2018	1,418,858	329,295	1,748,153
2019	-	421,306	421,306
2020	-	281,740	281,740
2021 onwards	216,680	50,859	267,539
Total	3,082,611	1,380,635	4,463,246
Present value	2,795,845	904,092	3,699,937

As at December 31, 2016 tax credits in the amount of R$900,948 (December 31, 2015 – R$1,323,501), from tax losses calculated between the period of 1993 and 2010, were not recorded on the subsidiary, Banco Sistema S.A. (formely named Banco Bamerindus do Brasil S.A.). These tax credits will be registered, when they attend regulatory aspects and demonstrate realization perspective, in accordance with the management studies and analysis and BACEN standards.

Deferred income tax and social contribution liabilities amounts to R$78,535 (December 31, 2015 - R$410,370), according to note 16(b).

On May 21, 2015, Provisional Measure nº 675 (MP 675/15) was published which increased the rate of the Social Contribution on Net Profit of the financial and insurance sectors from 15% to 20% of taxable profit, from September, 2015. On October 7,2015, Law 13.169 was published which decrease the rate of the Social Contribution on Net Profit from 20% to 15% from 2019.

19.Shareholders equity

a. Capital

As at December 31, 2016, fully subscribed and paid in capital consists of 3,406,544,075 shares (December 31, 2015 – 2,756,103,006), of which 1,718,895,529 common shares (December 31, 2015 – 1,404,405,002), 431.840.524 class A preferred shares (December 31, 2015 – 535,847,600), 449,356,339 class B preferred shares (December 31, 2015 – 815,850,404), 806,451,683 class C preferred shares (December 31, 2015 – Nil) all no-par, registered shares.

At Special General Meeting held on September 6, 2016, was approved capital increase, through the capitalization of statutory reserves, in the amount of R$4,000,000, with issuance of 817,526,483 class C preferred shares, by way of stock dividend, both nominative and without par value.

At Special General Meeting held on September 15, 2015, was approved capital increase of R$773,663, with issuance of 33,634,410 common shares and 67,268,820 Class A preferred shares, both nominative and without par value.

The common shares have right to one vote each in the deliberations of the General Shareholders Meeting and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement, without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in acquisition public offer due to transfer of control of the Company, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Bank without deliberation and Board or Shareholders Meeting, provided that (i) such conversion occurs at the time of issuance of new shares by the Bank whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual Holding S.A.) (ii) upon conversion, BTG Pactual Holding S.A. (or its successor in any capacity, including by virtue of merger, division or other corporate reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Bank and (iii) conversion is in accordance with the Bank's Shareholders' Agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Bank is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the Bank Shareholders' Agreement.

b. Treasury shares

During the year ended December 31, 2016, the Bank repurchased 137,483,124 shares, in the amount of R$593,285, and canceled 119,792,424 shares, in the amount of R$654,845, due to approved program.

c. Legal reserve

This reserve is established at the rate of 5% of net income for the year, before any other allocation, limited to 20% of capital.

d. Statutory reserve

According to the Bank's Bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of capital.

e. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

(In thousands of reais, otherwise indicated)

f. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income adjusted in accordance with Article 202 of Law 6404/76.

As at February 25, 2015, the Bank has approved the distribution of dividends, in the amount of R$106,130, equivalent to R$0.04 per share, which refers to prior periods. The payment of such dividends, occurred on March 10, 2015.

As at August 05, 2015, the Bank has approved the distribution of dividends in the amount of R$47,324, equivalent to R$0.2 per share. The payment of such dividends, occurred on August 20, 2015.

As at June 30, 2015 the Bank has accrued R$500,000 (June 30, 2015 - R$422,000), relating to interest on equity, equivalent to R$0.19 (June 30, 2015 - R$0.16) per share, which generated R$225,000 (June 30, 2015 - R$168,800) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2016, and the payment occurred on November 9, 2016.

As at December 29, 2016 the Bank has accrued R$890,000 (December 31, 2015 - R$492,754), relating to interest on equity, equivalent to R$0.32 (December 31, 2015 - R$0.18) per share, which generated R$400,500 (December 31, 2015 - R$197,102) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on December 29, 2016.

g. Reconciliation of net income (loss) and shareholders equity

	Shareholders' equity		Net income	
	2016	2015	2016	2015
Banco BTG Pactual S.A.	17,672,754	19,658,799	3,408,583	5,623,498
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Pan S.A.(*)	54,465	54,465	-	-
Banco BTG Pactual S.A. Consolidated	17,727,219	19,713,264	3,408,583	5,623,498

(*) The consolidated information reported by Banco Pan S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from transferred loan transactions from Banco Pan to FIDCs are eliminated, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Pan through the equity pick up method of accounting.

(In thousands of reais, otherwise indicated)

20.Income from services rendered

	2016	2015
Management and performance fee from investment funds and portfolios	1,157,649	1,822,961
Brokerage	473,351	381,150
Technical services	685,833	827,109
Commission on the placement of securities	144,675	221,402
Guarantees	226,422	235,395
Other services	9,853	17,508
Total	2,697,783	3,505,525

21.Other operating income

	2016	2015
Recovery of charges and expenses	9,723	19,329
Reversal of provision - other	69,265	117,720
Reversal of provision - contingencies	277,870	562,192
Adjustment to inflation of judicial deposits	304,925	312,895
Foreign exchange rate gains	256,184	288,504
Fair value of assets held for sale	-	560,582
Warehousing revenues	84,996	51,943
Adjustment of amounts payable for acquisition of investments	220,948	217,269
Other operating income	42,877	106,033
Total	1,266,788	2,236,467

22.Other operating expenses

	2016	2015
Tax restatement expense	93,003	175,364
Foreign exchange rate losses	457,633	404,298
Reimbursement of clients	25,865	11,085
Monetary restatement expense	6,902	45,302
Adjustment of amounts payable for acquisition of investments	147,352	247,009
Goodwill amortization (i)	165,909	188,145
Discounts granted in renegotiation	76,419	303,727
Allowance for other receivables without loan characteristics	134,090	184,708
Net expenses of phisycal commodities	233,671	272,766
Other	16,276	195,699
Total	1,357,120	2,028,103

(i) There was basically goodwill amortization from Celfin.

(In thousands of reais, otherwise indicated)

23.Other administrative expenses

	2016	2015
Outsourced services and consulting	871,330	743,112
Telecommunications and data processing	379,438	413,789
Leases and condominiums	165,172	160,095
Travel and lodging	60,388	108,881
Expenses of the financial system	323,769	369,906
Advertising and public relations	52,489	71,394
Depreciation and amortization	225,473	174,611
Other	56,787	50,958
Total	2,134,846	2,092,746

24.Non-operating income

Refers basically to the earnings from sale of investments or adjustments arising from receivables from investments, as described on note 2.

25.Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, which are all carried at arm's length, are reflected in the following accounts:

	Parent company		Subsidiaries and joint controlled entities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Open market investments	-	-	527,100	630,001	527,100	630,001
Interbank investments deposits	-	-	435,000	310,000	435,000	310,000
Securities	-	-	237,547	223,402	237,547	223,402
Derivative financial instruments	8,275	-	3,658	-	11,933	-
Loans and Receivables	987,295	515,237	971,297	3,663,406	1,958,592	4,178,643
Liabilities						
Interbank deposits	(58)	(190)	-	-	(698,430)	(1,571,659)
Time deposits	(108,658)	(2,493)	(7,747)	(783,336)	(116,405)	(785,829)
Open market funding	-	(1,473)	-	-	-	(1,473)
Securities issued abroad	-	-	(1,723,067)	(2,334,584)	(1,723,067)	(2,334,584)
Derivative financial instruments	(483)	-	(13,399)	(346,714)	(13,882)	(346,714)
Sundry	-	(102,916)	(3,658)	-	(3,658)	(102,916)
Statements of income						
Financial income	74,431	70,286	471,955	369,892	546,386	440,178
Financial expenses	(6,887)	(9,264)	(163,175)	(449,965)	(170,062)	(459,228)
Other operating income	-	-	271	105,214	271	105,214

Total compensation paid to key management personnel totaling this period R$5,460 (December 31, 2015 – R$68,930) which is considered short term benefit.

(In thousands of reais, otherwise indicated)

26.Other information

a. Cash and cash equivalents

Balances at beginning of the year	2016	2015
Cash and cash equivalents	20,490,900	1,585,254
Open market investments	9,073,969	16,356,157
Interbank deposits	8,864,471	4,480,899
Total	38,429,340	22,422,310

Balances of end of the year	2016	2015
Cash and cash equivalents	674,114	20,490,900
Open market investments	11,360,730	9,073,969
Interbank deposits	1,938,904	8,864,471
Total	13,973,748	38,429,340

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	2016	2015
Co-obligation and risks for guarantees granted	35,969,487	47,235,738
Responsibility for the management of futures and investment portfolio (i)	160,360,167	293,199,570
Securities	33,533,341	35,765,526
Securities under custody	1,117,738,333	1,106,442,487
Securities trading and brokerage	1,324,544,222	1,879,311,558
Loans contract to release	297,675	940,768
Commitments to be released	47,700	128,280

(i) Recognized by the sum of the equity values of funds and investment portfolios

"Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or assets allocated to exchange trading securities.

"Securities under custody" reflects third-party public and private security positions under custody with SELIC, CETIP S.A. and BM&FBovespa S.A.

"Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

"Loans contracted to release" register amounts related to loans contracted with clients to release.

The item "Commitments to be released" registers amounts related to the financial commitments of the Bank with its investees.

27.Subsequent events

On January 2017, the shareholders of BTG Pactual and BTG Pactual Comercializadora Ltda. approved, without qualification, the merger of BTG Comercializadora by the Bank. Completion of the merger is subject to regulatory approvals.

On January 27, 2017, BTG Pactual and BTGP informed their shareholders and the market in general that they are currently evaluating the potential effects of the independent trading of the securities issued by the Companies, seeking to address, among other things, (i) greater transparency of the assets of each of the Companies, with clearer differentiation between the banking and asset management activities performed by BTG Pactual and the private equity investment vehicle activities performed by BTGP, (ii) the possibility of greater liquidity for securities issued by BTG Pactual, which securities, if traded without a corresponding interest in BTGP, would become eligible to be incorporated into major trading indexes (which currently is not permitted by applicable rules), and could also be targeted as an investment by a broader range of potential investors, and (iii) the specific context of each of the Companies, particularly with respect to their capital structures.

On February 14, 2017, date of completion of these financial statements, the Companies issued a material fact informing to the market the conclusion of the aforementioned intention.

On February 2, 2016, given that it is impossible to comply with some conditions precedent, the sale transactions of the interest entirely held by BTG Pactual in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to CNP Assurances S.A. will therefore not be concluded.

On February 6, 2017, the sale transaction of Maybrooke equity interest was settled.

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