US$1,300,000,000

Banco BTG Pactual S.A.
a *sociedade anônima* incorporated in the Federative Republic of Brazil
(acting through its Luxembourg Branch)

8.750% Perpetual Non-Cumulative Junior Subordinated Notes

Banco BTG Pactual S.A., a *sociedade anônima* incorporated in the Federative Republic of Brazil, or Banco BTG Pactual, acting through its Luxembourg Branch, is issuing US$1,300,000,000 aggregate principal amount of 8.750% Perpetual Non-Cumulative Junior Subordinated Notes, or the Notes. The Notes will bear interest from September 18, 2014 and will be payable semi-annually in arrears on March 18 and September 18 of each year, commencing on March 18, 2015, or the Interest Payment Dates, unless we defer interest payments under the Notes as described below.

The Notes will be our unsecured and subordinated obligations. The Notes will be perpetual securities with no final maturity date and will not be subject to any mandatory redemption provisions. 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 (if due and payable) or interest in respect of the Notes. However, if a bankruptcy, liquidation, dissolution, winding up or similar event, or a Dissolution Event (as defined herein), occurs, the principal amount of the Notes will be accelerated only to the extent required under Brazilian subordination rules but such Dissolution Event will not constitute a payment default under the indenture governing the Notes. See "Description of the Notes." Subject to the approval of the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank, and any other applicable Brazilian governmental authority, if such approval is then required, Banco BTG Pactual may redeem the Notes in whole, but not in part, at its option on September 18, 2019 or any following Interest Payment Dates (as defined herein) or following the occurrence of certain changes affecting taxation and the classification of the Notes as Additional Tier 1 Capital (*Capital Complementar*) pursuant to Resolution No. 4,192, issued by the National Monetary Council (*Conselho Monetário Nacional*), or CMN, on March 1, 2013, as amended, or CMN Resolution No. 4,192. See "Description of the Notes" and "Risk Factors—Risk Factors Relating to the Regulatory Environment—No assurance can be given that the Notes will qualify as Additional Tier 1 Capital (*Capital Complementar*) or that the Central Bank will not amend the existing regulations or change its interpretation of the Tier 1 Capital regulations."

If (i) we are not in compliance with operational limits or capital requirements required by current or future regulations generally applicable to Brazilian banks or if the payment of interest or principal (if due and payable) would cause us to fail to be in compliance with those operational limits and capital requirements, or (ii) an interest payment due under the Notes exceeds our distributable profits and accumulated profit reserves recorded for the relevant period, we may defer any payments under the Notes (including payment of interest or principal (if due and payable)) until we are in compliance with those operational limits and capital requirements and such payments would no longer cause us to fail to be in compliance with those operational limits and capital requirements or until we have sufficient distributable profits and accumulated profit reserves, as the case may be. In addition, we may also defer such payments under the Notes if a Dissolution Event occurs or if the Central Bank or other applicable Brazilian governmental authority restricts dividend and other distributions related to our instruments treated as Common Equity Tier 1 Capital (*Capital Principal*) as defined in CMN Resolution No. 4,192. These deferrals will not constitute a payment default under the Notes and no interest will accrue or accumulate during these deferral periods. See "Risk Factors—Risk Factors Relating to the Notes—We will not be obliged to make non-principal payments on the Notes at certain times, and those amounts need to be subsequently paid to the Noteholders."

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 of the Notes accounted as Tier 1 Capital upon the occurrence of certain events relating to our capital requirements, as further described under "Description of the Notes—Write-Off." The write-off of any amount due under the Notes and the situations described above will not constitute a default under the Notes and will not allow investors to request payment of 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—Risk Factors Relating to the Notes—The circumstances surrounding a write-off 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 from time to time, during the period of one year from the Closing Date (as defined herein), in order to, and only to the extent necessary to, comply with any new resolution of the CMN, or written instruction of the Central Bank setting forth its requirements to qualify, or maintain the qualification of, the Notes as Additional Tier 1 Capital. See "Description of the Notes" and "Risk Factors—Risk Factors Relating to the Notes—We may be required to amend the terms and conditions of the Notes without your prior consent to comply with the requirements of the Central Bank to qualify Notes as Additional Tier 1 Capital (*Capital Complementar*)."

Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange, or the Euro MTF, which is not a regulated market within the meaning of the Directive 2004/39/EU of the European Parliament and of the Council of April 21, 2004 concerning markets in financial instruments. This Offering Memorandum constitutes a prospectus for the purposes of the law dated July 10, 2005, as amended, on prospectuses for securities, or the Prospectus Law, and may only be used for the purpose for which it has been published.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 34 for certain information that you should consider before investing in the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or 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, or Regulation S), except to certain "qualified institutional buyers" (as defined under Rule 144A of the Securities Act, or Rule 144A), or QIBs, that are also "qualified purchasers" (as defined in Section 2(A)(51) of the U.S. Investment Company Act of 1940, as amended, and related rules, or 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). For a description of certain restrictions on transfers of the Notes, see "Transfer Restrictions" and "Certain ERISA Considerations."

Price: 100.000% plus accrued interest, if any, from September 18, 2014

Delivery of the Notes in book-entry form through The Depository Trust Company, or the DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, was made on September 26, 2014.

Joint Bookrunners

BB Securities BofA Merrill Lynch Bradesco BBI BTG Pactual Citigroup Santander

The date of this Offering Memorandum is September 26, 2014

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

(i) "Banco BTG Pactual," "we," "us," "our," or "ourselves" are to (A) Banco Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period prior to December 1, 2006, (B) Banco UBS Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to the period from and including December 1, 2006 through September 18, 2009 and (C) Banco BTG Pactual S.A., a corporation (*sociedade anônima*) organized under the laws of Brazil, and its consolidated subsidiaries, when such reference is used with respect to any period on or after September 19, 2009;

(ii) "BSI" are to BSI SA, a Swiss stock corporation (*Aktiengesellschaft*), together with its consolidated subsidiaries;

(iii) "BTG Alpha" are to BTG Alpha Investments LLC, a limited liability company organized under the laws of Delaware, which was a wholly-owned indirect subsidiary of BTGI until March 31, 2010;

(iv) "BTG GP" are to BTG Pactual 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 BTG Pactual Participations, which (A) has no economic rights and (B) is currently held indirectly by André Santos Esteves and the Top Seven Partners, pursuant to which Mr. Esteves indirectly controls BTG Pactual Participations;

(v) "BTGI" are to BTG Investments L.P., an exempted limited partnership established under the laws of Bermuda, and its consolidated subsidiaries;

(vi) "BTG Pactual Group" are to Banco BTG Pactual, BTGI, BTG Pactual Participations and their respective subsidiaries, collectively, except when these references relate to financial information included elsewhere in this Offering Memorandum, in which case such references are to Banco BTG Pactual and BTGI and their respective subsidiaries, collectively, excluding BTG Pactual Participations;

(vii) "BTG Pactual Holding" are to BTG Pactual Holding S.A., a corporation (*sociedade anônima*), organized under the laws of Brazil, which (A) directly owns a majority of our common shares issued and outstanding and directly owns all of our capital stock that is part of our Partnership Equity, (B) is owned by the Partners and (C) is controlled by André Santos Esteves, our controlling shareholder;

(viii) "BTG Pactual Participations" are to BTG Pactual Participations Ltd, a limited liability exempted company incorporated under the laws of Bermuda, which (A) is the general partner of BTGI and (B) is the indirect holding company of the partnership interests of BTGI indirectly purchased by unit holders in the initial public offering of the BTG Pactual Group in April 2012;

(ix) "Issuer" are to Banco BTG Pactual S.A. without its consolidated subsidiaries, acting through its Luxembourg Branch, it being understood, however, that business related information shall include Banco BTG Pactual, including its consolidated subsidiaries;

(x) "Luxembourg Branch" are to Banco BTG Pactual, Luxembourg branch, which is a credit institution in Luxembourg and is registered with the Luxembourg Register of Commerce and Companies under number B 183229;

(xi) "members of the Consortium" are to the consortium of international investors who invested in our equity in December 2010 and include Pacific Mezz Investco S.A.R.L (Pacific Mezz), an affiliate of Government of Singapore Investment Corporation Pte Ltd, China Investment Corporation (CIC) (through Beryl County LLP), Ontario Teachers' Pension Plan Board (OTPP) (directly and through Classroom Investments Inc.), Abu Dhabi Investment Council (ADIC) (through Hanover Investments (Luxembourg) S.A.), J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia (through Sierra Nevada Investments LLC), EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía (through Rendefeld, S.A.), the holding company of the Motta family of Panama, as well as equity securities in BTG Pactual Participations and BTGI, which collectively own approximately 7.3% of our outstanding economic interests as of the date of this Offering Memorandum;

(xii) "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 and (B) directly owns BTG Alpha;

(xiii) "Participating Partners" are to the Partners that purchased our common and preferred shares, BTGI Class D partnership interests and Class D shares of BTG Pactual Participations at the same time, on the same terms and as part of the same transaction, as the members of the Consortium, which as of the date of this Offering Memorandum, collectively represents approximately 1.9% of our outstanding economic interests;

(xiv) "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 currently hold our common and preferred shares as well as equity securities in BTG Pactual Participations and BTGI, which as of the date of this Offering Memorandum, collectively represents approximately 76.4% of the outstanding economic interests in the BTG Pactual Group (which includes approximately 1.9% of outstanding economic interests in the BTG Pactual Group that was purchased by the Participating Partners at the same time and on the same terms as the members of the Consortium as well as the units purchased by BTG Pactual Holding in the initial public offering of the BTG Pactual Group but excludes the ownership interests of the former partners of Celfin and Bolsa y Renta), 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;

(xv) "Senior Management Team" are the following individuals: André Santos Esteves, Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, John Huw Gwili Jenkins, Antonio Carlos Canto Porto Filho, Rogério Pessoa Cavalcanti de Albuquerque, Jonathan David Bisgaier, Eduardo Henrique de Mello Motta Loyo, James Marcos de Oliveira, Guilherme da Costa Paes, Renato Monteiro dos Santos, André Fernandes Lopes Dias, João Marcello Dantas Leite, Carlos Daniel Rizzo da Fonseca, José Octavio Mendes Vita, Antoine Estier and José Zitelmann;

(xvi) "Top Seven Partners" are to the Partners (other than André Santos Esteves) who have the seven largest equity stakes in Banco BTG Pactual and BTGI. As of the date of this Offering Memorandum, the Top Seven Partners are Marcelo Kalim, Roberto Balls Sallouti, Persio Arida, Antonio Carlos Canto Porto Filho, James Marcos de Oliveira, Renato Monteiro dos Santos and Antoine Estier; and

(xvi) "units" are to (i) global depositary units listed on the BM&FBOVESPA representing (A) one common share and two preferred shares of our capital stock and (B) one voting share and two non-voting shares of BTG Pactual 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 BTG Pactual Participations and (B) one common share and two preferred shares of our capital stock in the form of global depositary shares.

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, or the Rules. The Euro MTF is not a "regulated market" pursuant to Article 36 of Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments.

You should assume that the information appearing in this Offering Memorandum is accurate as of the date on the front cover of this Offering Memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this Offering Memorandum.

We have prepared this Offering Memorandum for use solely in connection with the proposed offering of the Notes described in this Offering Memorandum.

Banco BTG Pactual S.A. – Cayman Branch, Banco Bradesco BBI S.A., BB Securities Limited, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Santander Investment Securities Inc., or Initial Purchasers, make no representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or future.

This Offering Memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes contained in the Indenture being entered into in connection with the issuance of the Notes as described herein and other transaction documents described herein. The market information in this Offering Memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained in this Offering Memorandum, the Initial Purchasers accept no liability in relation to the information contained in this Offering Memorandum or its distribution or with regard to any other information supplied by us or on our behalf.

Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this Offering Memorandum and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the Initial Purchasers will have any responsibility therefor.

You acknowledge that:

- you have not relied on the Initial Purchasers or their agents or any person affiliated with the Initial Purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and

- no person has been authorized to give any information or to make any representation concerning us or the Notes other than those as set forth in this Offering Memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers or their agents.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing the Notes, you will have made, or be deemed to have made, certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this Offering Memorandum. The Notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “Plan of Distribution” and “Transfer Restrictions.”

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Offering Memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal, investment or similar laws or regulations.

We confirm that, after having made all reasonable inquiries, this Offering Memorandum contains all information with regard to it and the Notes which is material to the offering and sale of the Notes, that the information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading and that there are no omissions of any facts from this Offering Memorandum which, by their absence herefrom, make this Offering Memorandum misleading. We accept responsibility for the information contained in this Offering Memorandum regarding us and the Notes. The opinions and intentions expressed in this Offering Memorandum regarding the Notes and the Notes are honestly held and based on reasonable assumptions.

NONE OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY UNITED STATES STATE SECURITIES COMMISSION OR ANY UNITED STATES, BRAZILIAN OR OTHER REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. 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. THIS OFFERING MEMORANDUM HAS BEEN PREPARED BY THE ISSUER 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 TO PERSONS WHO ARE QIBS THAT ARE ALSO QPS AND FOR LISTING OF THE NOTES ON THE OFFICIAL LIST OF THE LUXEMBOURG STOCK EXCHANGE (EURO MTF, THE ALTERNATIVE 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). FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE NOTES AND DISTRIBUTION OF THIS OFFERING MEMORANDUM, SEE “TRANSFER RESTRICTIONS.”

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE BRAZILIAN SECURITIES COMMISSION (*COMISSÃO DE VALORES MOBILIÁRIOS*), OR 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. THE INITIAL PURCHASERS HAVE AGREED NOT TO OFFER OR SELL THE NOTES IN BRAZIL, EXCEPT IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OR DISTRIBUTION OF SECURITIES UNDER APPLICABLE BRAZILIAN LAWS AND REGULATIONS.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTE, OR RSA, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ANY OFFER OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "RELEVANT MEMBER STATE") WILL BE MADE PURSUANT TO AN EXEMPTION UNDER THE PROSPECTUS DIRECTIVE FROM THE REQUIREMENT TO PUBLISH A PROSPECTUS FOR OFFERS OF NOTES. ACCORDINGLY ANY PERSON MAKING OR INTENDING TO MAKE AN OFFER IN THAT RELEVANT MEMBER STATE OF NOTES WHICH ARE THE SUBJECT OF THE OFFERING CONTEMPLATED IN THIS OFFERING MEMORANDUM MAY ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE INITIAL PURCHASERS TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE, IN EACH CASE, IN RELATION TO SUCH OFFER. NEITHER THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF NOTES IN CIRCUMSTANCES IN WHICH AN OBLIGATION ARISES FOR THE ISSUER OR THE INITIAL PURCHASERS TO PUBLISH OR SUPPLEMENT A PROSPECTUS FOR SUCH OFFER. NEITHER WE, THE ISSUER NOR THE INITIAL PURCHASERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF NOTES THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE INITIAL PURCHASERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE NOTES CONTEMPLATED IN THIS OFFERING MEMORANDUM. THE EXPRESSION "PROSPECTUS DIRECTIVE" MEANS DIRECTIVE 2003/71/EC (AND AMENDMENTS THERETO, INCLUDING THE 2010 PD AMENDING DIRECTIVE, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN THE RELEVANT MEMBER STATE AND THE EXPRESSION "2010 PD AMENDING DIRECTIVE" MEANS DIRECTIVE 2010/73/EU.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

THIS DOCUMENT IS FOR DISTRIBUTION ONLY TO PERSONS WHO (I) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE "FINANCIAL PROMOTION ORDER"), (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC") OF THE FINANCIAL PROMOTION ORDER, (III) ARE OUTSIDE THE UNITED KINGDOM, 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 OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT 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 DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

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 or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of the Stabilizing Manager(s)) will undertake stabilization action. 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 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

Pursuant to article 14, II, and 15 of CMN Resolution No. 4,192, any provision of this Offering Memorandum that conflicts with any of the provisions of the Terms of Subordination (*núcleo de subordinação*) or of article 17 of the CMN Resolution No. 4,192 shall be null and void.

References herein to "US$," "U.S. dollars" or "dollars" are to United States dollars, references to "Brazilian *real*," "Brazilian *reais*," "*real*," "*reais*" or "R$" are to Brazilian *reais*, the official currency of Brazil since July 1, 1994, 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 Island dollars, the official currency of the Cayman Islands and references to "CHF" are to Swiss Francs, the official currency of Switzerland.

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, other public entities and independent sources, including the National Association of Capital Markets Participants (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), or ANBIMA, the Brazilian Federation of Banks (*Federação Brasileira de Bancos*), or FEBRABAN, the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografía e Estatística*), or IBGE, the Getulio Vargas Foundation (*Fundação Getúlio Vargas*), or 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*), or BNDES, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, and the Superintendency of Private Insurance (*Superintendência de Seguros Privados*), or SUSEP, and the São Paulo Stock Exchange (*BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros)*, or BM&FBOVESPA, among others. Other information contained in this Offering Memorandum is based on information from *Thomson Financial*, or Thomson, *Institutional Investor*, *Data Trader*, *Dealogic Analytics*, or Dealogic, *The Banker*, *Euromoney*, Futures Industry Association, Latin America Venture Capital Association, *World Wealth Report* and Emerging Markets Private Equity Association, or EMPEA. Information on the Swiss banking market is based on the Survey of Banks in Switzerland 2013, published by the Consulting Partnership. 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 us nor any of the Initial Purchasers makes any representation as to the accuracy of such data.

ENFORCEABILITY OF JUDGMENTS

Brazil

We are a corporation (*sociedade anônima*) 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 Machado, Meyer, Sendacz e Opice 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 Luxembourg 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*), or STJ. Such confirmation would occur if the foreign judgment:

- complies with all formalities required for its enforceability under the laws of the jurisdiction where the foreign judgment is granted;
- is issued by a competent court after due service of process on the parties or sufficient evidence of the parties' absence has been given as required under applicable law, provided that such service must comply with Brazilian law;
- is final and not subject to appeal;
- is authenticated by a Brazilian consular office with jurisdiction over the location where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

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 or English 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 instruments or the enforcement of foreign judgments that have been duly confirmed by the STJ.

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.

Luxembourg

The Luxembourg Branch is duly licensed and qualified to do business as a branch of a foreign bank according to the laws of Luxembourg.

Although there is no treaty between Luxembourg and the United States or Luxembourg and Brazil regarding the reciprocal enforcement of judgments, we have been advised by Loyens & Loeff Luxembourg S. à r.l., our Luxembourg counsel, that a valid, final and conclusive judgment obtained from a state or federal court of the United States or a Brazilian court, which judgment remains in full force and effect, may be enforced through a court of competent jurisdiction in Luxembourg, subject to compliance with the enforcement procedures set forth in Article 678 *et seq.* of the Luxembourg New Code of Civil Procedure, being:

- the foreign court must properly have had jurisdiction to hear and determine the matter, both according to its own laws and to the Luxembourg international private law conflict of jurisdiction rules;

- the foreign court must have applied the law which is designated by the Luxembourg conflict of laws rules or, at least, the order must not contravene the principles underlying those rules. However, according to case law, the Luxembourg courts no longer have the obligation to verify whether the law applied by the foreign court is the law which is designated by the Luxembourg conflict of laws rules;

- the decision of the foreign court must be final and enforceable (*exécutoire*) in the jurisdiction in which it was rendered;

- the foreign court must have applied the proper law to the matter submitted to it and the foreign procedure must have been regular in light of the laws of the country of origin;

- the decision of the foreign court must not have been obtained by fraud, but in compliance with the rights of the defendant and in compliance with its own procedural laws; and

- the decisions and the considerations of the foreign court must not be contrary to Luxembourg international public policy rules or have been given in proceedings of a tax penal or criminal nature.

Please note that according to case law, the Luxembourg courts shall not review the merits of a foreign judgment and shall only verify whether the conditions for exequatur are fulfilled.

Luxembourg counsel have further advised us that if an original action is brought in Luxembourg, without prejudice to specific conflict of law rules, Luxembourg courts may refuse to apply the designated law (i) if the choice of such foreign law was not made bona fide or (ii) if the foreign law was not pleaded and proved or (iii) if pleaded and proved, such foreign law was contrary to mandatory Luxembourg laws or incompatible with Luxembourg public policy rules.

The registration of the Notes, the Indenture and the transaction documents (and any document in connection therewith) with the *Administration de l'Enregistrement et des Domaines* in Luxembourg may be required if legal proceedings are filed before Luxembourg courts or in the case that the Notes, the Indenture and the transaction documents (and any document in connection therewith) must be produced before an official Luxembourg authority (*autorité constituée*). In such case, either a nominal registration duty or an ad valorem duty (or, for instance, 0.24% of the amount of the payment obligation mentioned in the document so registered) will be payable depending on the nature of the document to be registered.

The Luxembourg courts or the official Luxembourg authority may require that the Notes, the Indenture and the transaction documents (and any document in connection therewith) and any judgment obtained in a foreign court be translated into French or German.

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 U.S. Securities Exchange Act of 1934, as amended, or 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;
- fluctuations in inflation, interest rates and exchange rates in Brazil and the other markets in which we operate;
- our ability to execute our business and expansion strategies, financial plans and investment policies;
- our ability to sustain and improve performance;
- potential growth opportunities available to our business, including through acquisitions of businesses (such as our 2012 acquisitions of Celfin Capital S.A., or Celfin, and Bolsa y Renta S.A., or Bolsa y Renta, or our pending acquisition of BSI, which has not yet been consummated and remains subject to all required regulatory approvals and customary closing conditions) and other strategic initiatives (such as the launch of our commodities business and the commencement of operations in Mexico) that we believe are complementary to our existing activities, and our ability to realize the expected benefits resulting from such acquisitions;
- the ability of the management team of Banco PanAmericano S.A., or Banco Pan, to successfully execute strategies that will allow it to consistently generate profits, including its ability to realize the expected benefits of its acquisition of a substantial portion of the businesses conducted by Brazilian Finance & Real Estate S.A., or BFRE;
- 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;
- 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; 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

BSI's Information

On July 14, 2014, we entered into a definitive share purchase agreement providing for our acquisition, directly or indirectly, of 100% of the share capital of BSI. If consummated, we believe that the acquisition will be material to our business, considering the value of BSI's assets. Accordingly, we have included selected financial and other information relating to BSI, including certain of BSI's financial statements, in this Offering Memorandum. However, we are not presenting pro forma financial information to illustrate the potential effects of the BSI acquisition on our financial statements. See "Risk Factors—Risks Relating to Our Business and Industry—The financial statements and other financial information we present in this Offering Memorandum may not be adequate for evaluating the effects of the possible acquisition of BSI, and are not indicative of our future results and performance."

Except for BSI's financial statements included elsewhere in this Offering Memorandum or where expressly stated, information set forth in this Offering Memorandum does not cover or include financial or other information of BSI.

Applicable Accounting Standards and Currency of Financial Statements

Banco BTG Pactual

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, or 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*), or COSIF, the Central Bank and the CMN. Brazilian Corporations Law introduced the process of conversion of financial statements into 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 of Brazilian Corporations Law. 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, or IASB.

As a result of our registration as a public company with the CVM, we are also required to prepare consolidated financial statements as of and for the year ended December 31, 2010 and subsequent periods in accordance with IFRS. Unless the context requires otherwise, however, any reference to our financial statements as of and for the years ended December 31, 2011, 2012 and 2013, and as of and for the six months ended June 30, 2013 and 2014 in this Offering Memorandum are to the consolidated financial statements of Banco BTG Pactual prepared in accordance with Brazilian GAAP. No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See "Annex A: Differences Between Brazilian GAAP and IFRS."

BSI

BSI maintains its books and prepares its consolidated financial statements in Swiss Francs based upon provisions of the Swiss Code of Obligations, the Swiss Banking Law and the directives of the Swiss Financial Market Supervisory Authority, or FINMA (Swiss GAAP). BSI is not required to prepare financial statements in IFRS and therefore no financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum.

Financial Statements

Auditors

Banco BTG Pactual

Our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 included elsewhere in this Offering Memorandum were prepared in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank and have been audited, in accordance with Brazilian and international auditing standards, by Ernst & Young Auditores Independentes S.S., or Ernst & Young, independent auditors as stated in their reports appearing herein.

Our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2013 and 2014 included elsewhere in this Offering Memorandum have been subject to a limited review, in accordance with Brazilian and international standards on review engagements by Ernst & Young, as stated in their report appearing herein. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

BSI

BSI's audited consolidated financial statements as of and for the years ended December 31, 2012 and 2013 included elsewhere in this Offering Memorandum were prepared in accordance with Swiss GAAP and have been audited in accordance with Swiss law and Swiss auditing standards by Ernst & Young Ltd., or Ernst & Young Switzerland, independent auditors as stated in their reports included elsewhere in this Offering Memorandum.

BSI's unaudited interim consolidated balance sheet and consolidated profit and loss statement as of June 30, 2014 and for the six months ended June 30, 2013 and 2014 included elsewhere in this Offering Memorandum have been subject to a limited review, in accordance with Swiss Auditing Standard 910 applicable to review engagements by Ernst & Young Switzerland, as stated in their report appearing herein. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied.

Selected Balance Sheets and Income Statements

Our balance sheet and income statement as of and for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, respectively, and our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2013 and 2014, respectively, which are included elsewhere in this Offering Memorandum.

BSI's balance sheet and income statement data as of and for the years ended December 31, 2012 and 2013 are derived from and should be read in conjunction with its consolidated audited financial statements and related notes for the year ended December 31, 2013 and 2012. BSI's balance sheet as of June 30, 2014 and unaudited consolidated profit and loss statement for the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with its unaudited interim consolidated balance sheet and consolidated profit and loss statement as of and for the six months ended June 30, 2014 and 2013.

Emphasis Paragraphs Included in the Auditors' Reports

The auditors' reports to the financial statements included elsewhere in this Offering Memorandum include emphasis paragraphs related to the matters described below.

Banco Pan had income and social contribution tax credits amounting to R$2.9 billion as of June 30, 2014 and R$2.8 billion, R$3.0 billion and R$2.6 billion as of December 31, 2011, 2012 and 2013, respectively, as indicated in the report from our auditors to our unaudited consolidated financial statements as of and for the six months ended June 30, 2014 and our unaudited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013. The credits were recognized substantially on the basis of financial projections and a business plan reviewed and approved by the board of directors of Banco Pan. These projections and plans include studies on current and future economic scenarios and include several assumptions. The realization of these tax credits depends on the materialization of these projections and business plan.

Functional Currency

Banco BTG Pactual

Our financial statements and the selected financial information based on our financial statements, as well as the accounting information that generated accounting records for preparing such financial statements, were prepared in Brazilian *reais*.

BSI

BSI's financial statements and the selected financial information based on its financial statements, as well as the accounting information that generated accounting records for preparing such financial statements, were prepared in Swiss Franc.

Reclassification of Prior Period Statements

In 2012, we reevaluated the presentation of our results from energy trading contracts generated by our subsidiary BTG Pactual Empresa Operadora do Mercado Energético Ltda., or Coomex, and decided to: (i) change the accounting policy for classification of such results in our income statements and financial statements as of and for the year ended December 31, 2012 and (ii) reclassify retroactively these results in the comparative income statements and financial statements as of and for the year ended December 31, 2011. The reclassification aimed to provide a more meaningful presentation of our results from energy derivatives by combining into a single line item in our income statements our energy derivatives results from Coomex with our other energy derivative results. Our audited consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this Offering Memorandum were reissued with the specific purpose of reflecting this change in accounting policy. Both our previous classification of the results from energy trading contracts generated by Coomex and our adjusted classification are in accordance with Brazilian GAAP.

Our 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 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 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 years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 and a discussion of such adjusted income statement. Our 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 years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014. The classification of the line items in our adjusted income statement, however, has not been 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 adjusted income statement and our income statement (which is derived from our financial statements):

	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	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

	Adjusted Income Statement	Income Statement
	adjusted income statement, each transaction is allocated to a business unit, and the associated revenue, net of transaction and funding costs (when applicable), is reported as generated by such business unit.	the transactions and is in line with the 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 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 adjusted income statement the cost of funding of our net equity, which is separately reported as a revenue under "interest and other." General and administrative expenses that are typically incurred to support our operations are presented separately in our 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 principal investments	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.
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 and from foreign exchange variations. Revenues are	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

	Adjusted Income Statement	Income Statement
	also deducted from transaction costs.	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.	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 Banco Pan unit	Revenues consist of our proportional share of the profits of Banco Pan, and are presented net of funding costs, including the cost of funding our net equity.	The results from our proportional share of Banco Pan are recorded as equity in the earnings of associates and jointly controlled entities .
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	Generally recorded as other administrative expenses, tax charges and other operating expenses.

	Adjusted Income Statement	Income Statement
	as other general 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.	Generally recorded as tax charges other than income taxes.
Income tax and social contribution	Income tax and other taxes applicable to net profits.	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 adjusted income statement to our income statement as derived from our financial statements. The business units presented in our 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 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 adjusted income statement is useful for evaluating our performance, our 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 adjusted income statement has not been audited or reviewed by our independent auditors.

Assets Under Management

Assets under management, or 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**.**

Wealth Under Management

Wealth under management, or 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.

References to the WUM of BSI are to assets that BSI manages across a variety of asset classes, including fixed income, money market, private equity funds and investments funds managed by BSI and third parties, that are owned by individuals, families and institutions of varying levels of wealth categorized broadly into five different bands as follows: (i) retail clients, which are defined by BSI as clients with investable assets of less than CHF100,000, (ii) mass affluent clients which are defined by BSI as clients with investable assets of between CHF100,000 to CHF300,000, (iii) affluent clients, which are defined by BSI as clients with investable assets of between CHF300,000 to CHF1,000,000, (iv) high net worth individuals, or HNWI, which are defined by BSI as clients with investable assets of between CHF1,000,000 to CHS 10,000,000, and (v) ultra high net worth individuals, or UHNWI, which are defined by BSI as clients with investable assets of more than CHF10,000,000.

Average Balances

Unless the context requires otherwise, average balances of (i) our Brazilian government bonds portfolio, credit portfolio, repurchase agreements, reverse repurchase agreements and CDB and CDI funding portfolio were calculated for (a) any full-year period, by adding the final balance at December 31 of the previous year and the final balance at June 30 and December 31 of the year in respect of which the average balance is being reported and dividing the sum of such balances by three, (b) for any three-month period, by adding the initial balance and the final balance of the three month period in respect of which the average balance is being reported and dividing the sum of such balances by two, and (ii) our broader credit portfolio which is presented exclusively in the 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 and three-month period, by adding the initial balances of the period with the final balances of each quarter in the period 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 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 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$2.20 to US$1.00, which was the exchange rate in effect as of June 30, 2014, as published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. The U.S. dollar equivalent information presented in this Offering Memorandum is 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 June 30, 2014 may not be indicative of future exchange rates. See "Exchange Rates" for information regarding the *real*/U.S. dollar exchange rates.

We have also translated the Swiss Franc amounts relating to (i) BSI's total revenues, consolidated gross profit and net new money using a rate of CHF0.42 to R$1.00, and (ii) BSI's WUM, deposits, shareholders' equity and total capital ratio using a rate of CHF0.38 to R$1.00, the Swiss Franc average and selling rates for the year ended December 31, 2013 and as of June 30, 2014, respectively, as published by Bloomberg. This translation from Swiss Francs to *reais* is being 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 Swiss Francs at such rates or at any other rate. The real/Swiss Franc exchange rate may fluctuate widely, and the exchange rates as of December 31, 2013 and June 30, 2014 may not be indicative of future 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 financial statements, the related notes and the sections "Presentation of Financial and Other Information," "Summary Financial Information," "Risk Factors," "Selected Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

We are a global investment bank, asset manager and wealth manager with a dominant franchise in Latin America. In addition, we have established a successful international investment and distribution platform. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have offices on five continents, and 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, or HNWI.

Our Business

Our seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **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 across a wide range of asset classes, including equities, derivatives and commodities, in addition to interest rate and foreign exchange transactions for hedging and trading purposes;
- **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;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **Principal Investments**, which involves our capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments primarily in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by our asset management unit; and
- **Banco Pan**, our commercial and consumer banking business conducted through Banco Pan, an independent Brazilian bank that we have co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil.

We are committed to further expanding our platform to additional markets around the world. Following our successful completion of two acquisitions in Latin America, we have continued the implementation of strategies to consolidate and expand our Latin American franchise, including the opening of a bank in Chile, which we expect to occur in 2014. In addition, we recently received approval from the Central Bank and the Mexico Securities Commission (CNBV) to operate a broker-dealer in Mexico, where we have already begun our operations and have achieved consistent gains in market share. Beyond our Latin American initiatives, we recently launched a diversified global commodities business that operates 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.

In addition, we recently signed an agreement to acquire BSI, a global wealth management company based in Lugano, Switzerland with a strong presence in all major European markets as well as Asia, the Middle East and Latin America. The transaction remains subject to the satisfaction of a number of conditions typical of a transaction of this type, including the receipt of all required regulatory approvals. Upon completion of the acquisition, we will seek to replicate our business model in markets where we currently have a less significant presence and we expect to achieve substantial benefits in our wealth management, asset management, corporate lending and sales and trading platforms worldwide. We believe that our transaction with BSI represents a milestone in our efforts to replicate our history of success in Latin America throughout the world, and advances our goal of becoming a true global leader in financial services.

Our Group

We are part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of the BTG Pactual Group's principal investments (including most of its non-Brazilian investments and some of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues from our asset management unit. BTGI will not participate in any offering of Notes as either an issuer or a guarantor.

As of June 30, 2014, the BTG Pactual Group had approximately 3,054 professionals and offices on five continents: South America (Brazil: São Paulo, Rio de Janeiro, Brasília, Recife, Ribeirão Preto, Porto Alegre, Curitiba, Salvador, Cuiabá, Belo Horizonte and other local offices; Santiago, Chile; Lima, Peru; Colombia: Medellin, Bogota, Baranquilla and Cali; and Buenos Aires, Argentina), North America (New York, Stamford, Mexico City and other local offices), Europe (London, Geneva and other local offices), Asia (Hong Kong, Shanghai and Singapore) and Africa (Johannesburg, South Africa).

Our Results and Financial Condition

For the year ended December 31, 2013 and the six months ended June 30, 2014, our revenues, as derived from our adjusted income statement, were R$5,896.0 million and R$3,434.7 million, respectively, and our net income was R$2,669.7 million and R$1,807.9 million, respectively. As of June 30, 2014, our shareholders' equity was R$13,479.6 million, and we managed a total of R$190.7 billion in our asset management unit and R$70.5 billion 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, 2013, our average return on equity was 21.9%, with no year being lower than 17.7%.

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 six months ended June 30,		CAGR
	2011	2012	2013	2013	2014	2011-2013
	(in R$ millions, except as otherwise indicated)					%
Total Revenue[(1)]	2,647.1	5,619.8	5,896.0	2,676.7	3,434.7	49.2
Net Income	1,477.1	2,061.2	2,669.7	1,249.3	1,807.9	34.4
Shareholders' Equity	6,339.8	10,101.5	12,127.8	11,029.0	13,479.6	38.3
ROAE[(3)(4)] (%)	24.7%	25.1%	24.0%	23.6%	28.2%	(1.4)
AUM and AUA (in R$ billions)[(2)]	120.1	170.7	189.4	186.1	190.7	25.6
WUM (in R$ billions) [(2)]	38.9	62.2	67.6	64.9	70.5	31.8
BIS Capital Ratio	17.7%	17.3%	17.8%	17.8%	16.0%	0.3

(1) Derived from our adjusted income statement.

(2) Unaudited.

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

(4) Figures are presented on an annualized basis.

Our Partnership

We operate as a partnership, currently with 205 Partners, who are also executives in our group. The Partners currently own 76.4% of our equity, and 71.9% of our equity is 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, own approximately 64.2% of our equity. The members of a consortium of investors who purchased our equity in December 2010 currently own 7.3% of our equity, and the remaining equity is owned by Partners (including Participating Partners), the selling shareholders in the Celfin and Bolsa y Renta transactions and the persons who purchased units in the initial public offering of the BTG Pactual Group or thereafter in the public markets.

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.

In contrast to other global investment banking and asset management firms that have sold equity to the general market in the past, our partnership model has not changed as a result of our initial public offering completed in April 2012. This was the result of several concrete steps that we implemented to ensure that our initial public offering would not negatively impact the significant benefits we derive from our unique partnership model. Most importantly, 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 at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such 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 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 and presence
- 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.

Dominant franchise. 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 independent investment banks based in the emerging markets. Among other things, we:

- were bookrunners in approximately 52% of all public equity offerings completed in Brazil from 2004 through June 30, 2014, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007, 2009 and 2012, the second largest equity underwriter in 2006 and 2011 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, according to Dealogic;

- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010, 2011 and 2013 and provided advisory services in 322 announced M&A transactions from January 1, 2007 through June 30, 2014. 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, according to Dealogic;

- have an equity research team named among the best research teams in Brazil from 2006 to 2014, and among the best research teams in Latin America from 2012 to 2014, according to *Institutional Investor*;

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

- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA (June 2014), with R$130.2 billion in AUM and R$190.7 billion in AUA as of June 30, 2014;

- had approximately R$70.5 billion of WUM as of June 30, 2014 and were named by *Euromoney* 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 asset management and wealth managements platforms, including: being named among the best research teams in Brazil from 2006 to 2014, and one of the best research teams in Latin America from 2012 to 2014, as well as Best Sales and Trading Services team in Brazil by *Institutional Investor* from 2012 to 2014; Best Sales and Trading Services team in Latin America by *Institutional Investor* in 2013 and 2014; Most Innovative Investment Bank in Latin America by *The Banker* in 2013; Best Investment Bank in Brazil and Chile by *World Finance* in 2013; Best Private Banking Service in Brazil by *The Banker* and *Euromoney* in 2013; Best High Income Fund Manager and Best Equity Funds Manager in Brazil in 2013 and Best Fund Manager in Brazil in 2012 and 2011 by *Exame* magazine – one of Brazil's leading financial magazines; Best Fund Manager in the Flexible Mixed Allocation categories in 2013 and 2012 and Best Fund Manager in the Largest Fixed Income in 2012 by Standard & Poor's and *Valor Econômico* – Brazil's leading financial newspaper in 2012; Best Global Macro Hedge Fund (for our GEMM fund) in 2012 and 2010 by *Euro Hedge Awards*; Best Fixed Income Fund Manager in 2011 by Standard & Poor's and *Valor Econômico*; Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by FGV (Fundação Getúlio Vargas) and *Exame* magazine; Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by FGV (Fundação Getúlio Vargas) and *Exame* Magazine; Best Multi-Market Fund Manager in 2010, Best Fund Manager in Brazil in the equities category from 2007 to 2009, Top Fixed Income fund manager for 2007 and 2008 and Best Multi-Asset Funds for 2010 by Standard & Poor's and *Valor Econômico*.

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.

Attractive opportunities for further growth of our core franchise. The Latin American financial services industry has grown significantly in recent years, and we believe it is poised for further growth, creating attractive opportunities for the leading market participants such as ourselves. The market for financial services has grown as a result of economic stability and the gains in economic growth momentum and the increase in such services have in turn played a key role in further advancing such improvements in macroeconomic performance.

For example, in Brazil, according to the CVM, issuers engaged in a total of 276 equity transactions from 2004 through June 30, 2014, raising a total of R$433.8 billion, of which R$160.6 billion consisted of initial public offerings. Deeper and more dynamic debt capital markets have created additional opportunities for Brazilian issuers as well as capitalized companies, which were able to seek locally financing more easily.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 25.7% of GDP in December 2004 to 56.4% of GDP on June 30, 2014, according to the Central Bank.

Despite the considerable progress already made in Brazil and other Latin American countries, we believe there remains substantial potential for further improvements in macroeconomic performance and in the financial sector. We believe the conditions for such improvement are already in place. In particular, there is potential for greater penetration of capital markets and Latin America is well-positioned to gain importance as a provider of financial services. Investor interest in the equity and debt securities of Latin American companies remains strong given the region's strong growth prospects, and issuers are expected to need substantial additional funding.

The Brazilian asset management industry has also grown considerably, with AUM growing from R$739.0 billion as of December 31, 2000 to R$2,573.2 billion as of June 30, 2014, according to ANBIMA, of which 7.9% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2013, the Brazilian gross disposable income was R$4,760.5 billion, compared to R$1,653.6 billion in 2003, representing an increase of 187.9% and an average compound annual growth CAGR of 12.5%, according to the IBGE. We believe that increasing wealth in Brazil and elsewhere in Latin America will stimulate growth in all of our business units.

Established International Asset Management Platform

We have an international asset management platform in London, New York and Hong Kong that, together with our Brazilian and other Latin American offices, provides Latin American, emerging market and global investment products and services to our local and international client base. We have over 140 professionals, including 25 of our most senior executives, in our international offices dedicated exclusively to the international asset management business. Our flagship international hedge fund, GEMM, was awarded Best Global Macro Hedge Fund in 2010 and 2012 by *EuroHedge Awards*, a leading trade publication.

We believe our experience in making our international asset management and commodities platforms integral and fully integrated parts of our partnership culture will be invaluable as we continue our international expansion outside of Latin America.

Broad Network of International Contacts

The members of the Consortium who invested in our equity in December 2010 include affiliates of the Government of Singapore Investment Corporation Pte Ltd (GIC), China Investment Corporation (CIC), Ontario Teachers' Pension Plan Board (OTPP), Abu Dhabi Investment Council (ADIC), J.C. Flowers & Co. LLC, RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia, EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía, the holding company of the Motta family of Panama. These investors provide us with a broad range of business contacts throughout Asia, the Middle East, Europe and North and South America, and in the years since their initial investment, we have successfully leveraged these contacts to strengthen many of our principal businesses and realize additional revenues. As part of the initial public offering of the BTG Pactual Group in April 2012, J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC, EXOR S.A. and Rendefeld, S.A. sold part of their respective equity interests in the BTG Pactual Group. Subsequent to the initial public offering of the BTG Pactual Group: (i) J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC and EXOR S.A. have sold the remainder of their respective equity interests in the BTG Pactual Group; (ii) Rendefeld S.A. sold an additional portion of its equity interest in the BTG Pactual Group; and (iii) China Investment Corporation (through Beryl County LLP) and the Government of Singapore Investment Corporation Pte Ltd (through Pacific Mezz Investco S.A.R.L.) sold part of their respective equity interests in the BTG Pactual Group.

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. We have 205 Partners that currently own, directly or indirectly, approximately 76.4% 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 both the members of the Consortium and our public shareholders, and our professionals. Virtually all of our key professionals are Partners and their respective equity ownership in Banco BTG Pactual and BTGI represents significant portions of their personal wealth (and in most cases, the vast majority of such wealth). For our 25 most senior Partners, including our senior traders and investment managers, the earnings and capital appreciation on their equity in the BTG Pactual Group exceed the amount they earn in salary and bonuses. 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 and principal investments 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) and the recent international financial crisis.

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 16 years ended December 31, 2013. For the five years ended December 31, 2013, our average return on equity was 21.9%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2008 to 2013 has been on average 19.0%. As of June 30, 2014, we had a capital ratio of 16.0%. 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 the BTG Pactual Group's 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.

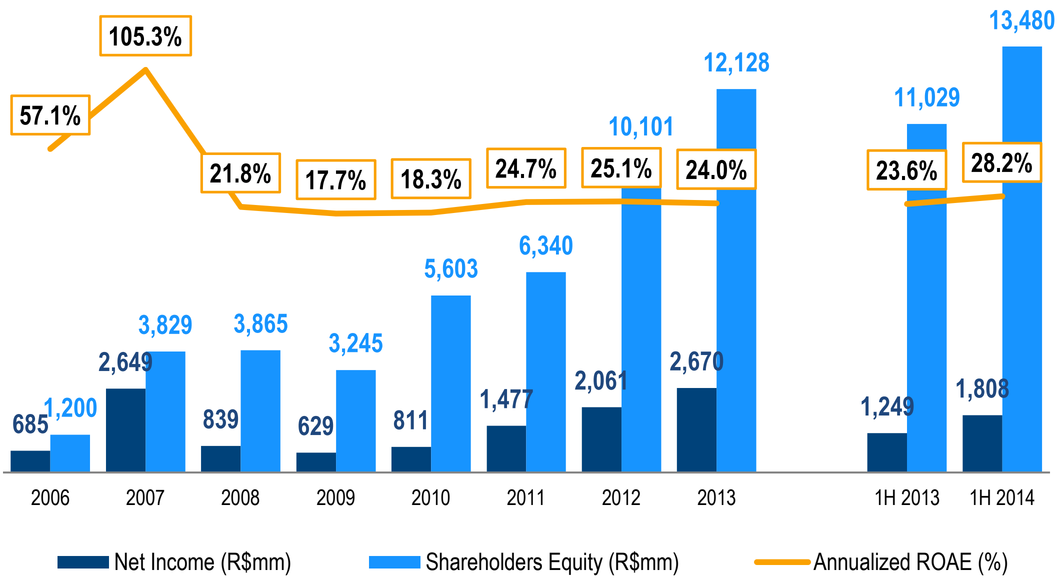
The following table sets forth our average daily VaR for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2011	2012	2013	2013	2014
	(in R$ millions, except percentages)				
Total average daily VaR	28.4	60.5	52.5	48.4	95.5
Average daily VaR as % of average equity(1)	0.47%	0.74%	0.47%	0.46%	0.75%

(1) Unaudited

We believe that our risk management policy applies the best practices, which have been tested in extremely adverse conditions, including during the 2008 financial crisis. 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 risk at the BTG Pactual Group 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.

The following chart shows our net income, shareholders' equity and return on average equity for the periods indicated:



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 André Santos Esteves, who was named in 2012 one of the 50 most influential people in global finance by *Bloomberg* and Person of the Year by the Brazilian-American Chamber of Commerce and, in 2010, was named one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real* Plan**.** Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking, commodities trading 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.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2013, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer of the Notes) was US$1.1 million, while the estimated average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley, UBS, JP Morgan and Credit Suisse was US$610,000.

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 substantial geographic diversification which has positioned us to exploit any changes in market conditions throughout the world.

The following table shows our unaudited revenues breakdown by business unit, which was not prepared in accordance with Brazilian GAAP and materially differs from our income statement:

	For the year ended December 31,			**For the six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
	(Unaudited - in R$ millions)				
Investment banking	338.3	448.0	459.4	279.0	267.2
Corporate lending	366.5	563.6	764.9	393.6	388.1
Sales and trading	999.9	1,516.6	1,729.7	1,132.1	1,591.8
Asset management	443.2	1,190.2	1,172.2	469.3	618.6
Wealth management	144.5	201.7	385.3	202.8	183.8
Principal investments	(111.2)	1,356.9	870.9	(49.7)	(94.3)
Banco Pan	(52.0)	(244.5)	(123.5)	(15.5)	(50.8)
Interest and other(1)	518.1	587.2	637.1	265.2	530.3
Total revenues	**2,647.1**	**5,619.8**	**5,896.0**	**2,676.7**	**3,434.7**

(1) Our revenues recorded under "interest and other" include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, recorded as "Interest and Other," is in turn deducted as a funding cost directly from our business units' revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments (i.e., sales and trading, commercial lending and principal investments units), as their results are presented in our adjusted income statement net of the interest on our capital, as well as all other costs for obtaining external funding to finance their portfolios.

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, the commencement of our operations in Mexico, our initiative in 2013 to create a substantial global trading platform for commodities and our pending acquisition of BSI. 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 M&A. 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. Examples include our 2010 acquisition of Coomex, an energy trading company, and our 2011 acquisition of a co-controlling interest in Banco Pan.

In addition, 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.

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. We enhanced our liquidity profile in (i) April 2011 through the issuance of R$3.975 billion in local subordinated notes with an average maturity of 7.8 years, (ii) July 2011 with the issuance under our medium term note programme of US$500 million in senior notes due 2016 at an interest rate of 4.875%, (iii) September 2012 with the issuance of US$800 million in subordinated notes due 2022 at an interest rate of 5.75%, (iv) September and October 2012 with the total issuance of the Colombian Peso equivalent of approximately US$235 million in senior notes due 2017 at an interest rate of 7.0%, (v) January 2013 through the issuance of US$1.0 billion in senior notes due 2020 at an interest rate of 4.00%, (vi) March 2013 through the issuance of US$160 million in senior notes due 2016 at an interest rate of 4.1% and (vii) July 2013 through the placement of a US$315 million Syndicated Loan due 2015 at an interest rate of LIBOR + 1.45%. As of June 30, 2014, we had more than 1,200 depositors, including time depositors.

Our Strategy

Our principal strategies are:

Capitalize on Latin America's Outstanding Growth Prospects

We believe that the growth of the financial services sector in Brazil and 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 at the same time being still far from the financial maturity of fully developed economies. These characteristics include:

- a favorable 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, particularly in infrastructure and oil and gas;
- 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 pre-salt oil and gas reserves in Brazil and infrastructure investments in Brazil, Mexico, Peru and Colombia, among others. These opportunities, combined with sustained growth in domestic income and consumption and significant demand for further improvements in infrastructure, are expected to result in an important increase in capital expenditures in Latin American countries. In addition, we expect that strong economic growth elsewhere in Latin America, especially Chile, Peru, 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 substantially as GDP continues to grow.

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 Brazilian 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.

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. Currently, the Partners own approximately 76.4% of our total equity, and 71.9% of our equity is Partnership Equity that is owned by our Partners as part of our partnership. 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 at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such 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 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 the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 76.4% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See “Our Partnership.”

Take Advantage of Attractive Growth Opportunities

We intend to expand through selective acquisitions. 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. We may also seek to expand our investment banking and asset management activities to other global markets. We believe that our pending acquisition of BSI, if consummated, will substantially increase our wealth management business and our global client base and provide us with the conditions necessary to facilitate growth for our wealth management and asset management businesses in markets where we have had a less significant presence historically. We further believe that our initial public offering has enhanced and will continue to enhance our capability and flexibility to execute strategic acquisitions by strengthening our balance sheet and allowing us to use our publicly traded securities as acquisition currency. For example, each of the Celfin, Bolsa y Renta and the pending BSI acquisitions were structured to include such securities as part of the consideration paid to the respective sellers. See “—Significant Recent Developments.”

We also intend to pursue strategic opportunities that further complement our existing businesses through organic growth. We recently commenced operations of our insurance business, through which we offer insurance and reinsurance products in Brazil and elsewhere in Latin America where we have begun to build market share. See “—Significant Recent Developments.” We have also recently launched a diversified global commodities business that operates 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. See "Business—Sales and Trading—Commodities." We believe that the development of these significant new business initiatives reflects our agility and ability to capitalize on growth opportunities as they arise in Latin America and throughout the world.

Expand Our International Operations

Our presence in important financial markets such as São Paulo, New York, London and Hong Kong enables us to better explore business opportunities arising in different regions of the world and demonstrates our intention to continuously seek diversification. We believe there are attractive opportunities for selective and global expansion outside Latin America and intend to pursue these opportunities. We believe, for example, 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 business to other countries, (iii) attract additional talent and teams, and (iv) expand the business that we conduct internationally.

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, which we expect to occur in 2014. In addition, we recently received approval from the Central Bank and the CNBV in Mexico to operate a broker-dealer in Mexico, where we have already begun our operations and have achieved consistent gains in market share. Beyond our Latin American initiatives, we recently launched a diversified global commodities business that operates 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.

We believe that our pending acquisition of BSI represents a significant milestone in our international expansion outside of Latin America and, more specifically, in the establishment of a truly global wealth management platform. We intend to build upon our record of successfully integrating businesses we have acquired and, upon consummation of the BSI acquisition, we intend to leverage its existing business and client base to establish a more substantial presence in Europe and Asia. We believe that BSI's significant client base in Europe and, to a lesser extent, in Asia, will provide us with additional opportunities for cross-selling our products and services.

Selectively Expand Our Portfolio of Products

To support future growth and the corresponding new significant investment needs, Latin America will need to increase the availability of credit. Increased equity offerings by Latin American companies in recent years has greatly increased the number of potential corporate borrowers with transparent financial disclosure and enhanced levels of corporate governance. Simultaneously, many Latin American companies have expanded their operations in recent years and are increasing their transparency in anticipation of a potential public offering. These two groups of companies are likely to need additional debt capital for growth and active management of their capital structure, and accordingly are attractive customers for our credit products.

We recently launched a diversified global commodities business that operates 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. Our activities focus on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows. We believe that we will be able to draw upon our existing relationships in the raw materials sector to build market share in the trading flows of the world's principal commodities markets and that our extensive market knowledge will enable us to identify strategic opportunities and optimize our physical and proprietary trading capabilities.

In addition, as a result of the completion of our initial public offering and the strong growth of our businesses since our IPO, our funding costs have decreased and we believe they will continue to decline and we will have a greater variety of financing options available. We believe these cheaper and more diversified sources of funding will facilitate our efforts to selectively expand our credit products (including derivatives, securitizations, structured credits and pre-IPO financings) on a profitable and prudent basis.

We plan to expand our offering of credit products and derivatives to our current and prospective clients, including through our commercial banking platform. We expect to primarily exploit credit opportunities that are linked to our other core business units – in particular investment banking – and also those that involve structured products and derivatives. We intend to continue to analyze credit opportunities closely, performing rigorous analyses of prospective borrowers' businesses and existing and prospective financial condition and results, in order to select opportunities which will satisfy our stringent standards for achieving high returns within acceptable risk parameters. We consider Banco Pan's origination platform another step in implementing these strategies, as such platform originates consumer finance and middle market assets on a primary basis that are complementary to the institutional credit business that we originate through our own platform.

Continue to Develop Our Merchant Banking and Private Equity Businesses

We believe that the BTG Pactual Group's ability to provide permanent capital to the BTG Pactual Group's clients is an important competitive advantage to us. Accordingly, the BTG Pactual Group intends to continue to develop its merchant banking through us and BTGI and private equity businesses through us, primarily with respect to investments in Brazil. We believe that the BTG Pactual Group's network of contacts and significant deal flow grants us access to numerous attractive investment opportunities that may not be available to our competitors, and that as a result we will be able to attract third party investors to private equity and similar funds for which we will act as the investment manager and generate management and performance fees for our asset management unit. We also expect BTGI to serve as the anchor investor and have a meaningful equity ownership in certain of such entities and funds in connection with the merchant banking activities of the BTG Pactual Group and accordingly enhance our principal investment opportunities and directly generate revenue for the asset management unit.

Significant Recent Developments

Celfin. On November 13, 2012, we concluded the purchase of all of the outstanding shares of Celfin. In connection with the transaction, we paid the owners of Celfin a total of US$451.0 million in cash, and the former owners of Celfin acquired approximately 2.2% of the total outstanding equity interests in Banco BTG Pactual and BTGI for R$391.8 million and US$49.1 million, respectively. Such equity interest is subject to repurchase by us at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the transaction, and we expect that they will do so.

On November 29, 2012, we filed with the Central Bank and the Chilean Banking Regulator (*La Superintendencia de Bancos e Instituciones Financieras de Chile),* or SBIF, a request to obtain a banking license in Chile and on April 22, 2013, the Central Bank approved the incorporation of Banco BTG Pactual Chile in Santiago, Chile, The granting of a banking license in Chile requires three separate authorizations from the SBIF, which must be obtained sequentially, the first of which we obtained on November 5, 2013. We expect to obtain a banking license in Chile in 2014.

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—Celfin."

Initial Public Offering. On April 30, 2012, the BTG Pactual Group completed its initial public offering.

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—Initial Public Offering."

Bolsa y Renta. On December 20, 2012, we concluded the purchase of all of the outstanding shares of Bolsa y Renta for a total consideration of US$58.4 million in cash, and the former owners of Bolsa y Renta acquired equity interests in us and BTG Pactual Participations equal to R$52.5 million and US$6.4 million, respectively, representing approximately 0.25% of the capital stock of each company (calculated based on our outstanding capital stock and the outstanding capital stock of BTG Pactual Participations as of the date of this Offering Memorandum). The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to the initial public offering of the BTG Pactual Group. We expect that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, we anticipate paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which we entered into a definitive agreement with respect to the transaction.

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 Bolsa y Renta."

Insurance Activities. On December 20, 2012, our subsidiary BTG Pactual Seguradora S.A. received authorization from SUSEP to offer insurance products in Brazil. We have committed initial capital of R$50.0 million to such activity and intend to commence operations by offering surety bonds. Furthermore, on February 26, 2013, we received authorization from SUSEP to offer reinsurance and retrocession services.

Bamerindus. On January 30, 2013, we entered into definitive agreements related to our acquisition of certain credits and rights held by Fundo Garantidor de Créditos, or FGC, against Banco Bamerindus do Brasil S.A., or Bamerindus, in extrajudicial liquidation, and other companies in Bamerindus's economic group. In connection with the transaction, we will pay approximately R$418.0 million to FGC in five installments, the first of which will be paid at the closing of the transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted by CDI. This transaction will result in us acquiring (i) control of Bamerindus and its subsidiaries, (ii) an interest in Bamerindus greater than 98.0% of its total and voting capital, and (iii) the receivables and assets held by the Bamerindus, which will be used in the context of our credit operations. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. The transaction does not include the right to the Bamerindus brand. We expect the transaction to close no later than the third quarter of 2013, although there can be no assurance that the transaction will be concluded. We do not expect that the transaction, if consummated, will materially affect our financial condition or results of operations.

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."

Commencement of Operations in Mexico. On September 13, 2013, we received approval from the Central Bank and on October 7, 2013, we received approval from the Mexico Securities Commission (CNBV) to operate a broker-dealer in the Mexican market.

Sale of BTG Pactual Absolute Return Fund II, L.P. In December 2013, we sold our interest in BTG Pactual Absolute Return Fund II, L.P. or ARF II, to an independent third party for a total purchase price equal to the then-current net asset value of such interests. ARF II was subsequently sold to BTGI. Banco BTG Pactual will continue to manage ARF II through its asset management unit and receive fees for such services.

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 BTG Pactual Absolute Return Fund II, L.P."

Commencement of Operations of Commodities Business. In 2013, we established a diversified global commodities business that operates 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. Our activities focus on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows. Our commodities business is headquartered in London and has offices in several locations (Geneva, Singapore, Shanghai, Stamford, Houston, St. Louis, Johannesburg, Buenos Aires, and several offices in Brazil).

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."

Joint Venture with Petrobras. On June 14, 2013, Banco BTG Pactual and Petróleo Brasileiro S.A. – Petrobras, or Petrobras, through their subsidiaries BTG Pactual Holding S.a.r.l. and Petrobras International Braspetro B.V. ("PIBBV"), respectively, established a joint venture for oil and gas exploration and production in Africa. The joint venture was established upon the acquisition by Banco BTG Pactual and its clients of 50% of the shares issued by Petrobras Oil & Gas B.V., or PO&G. The price for such shares, which were previously fully owned by PIBBV, was US$1.525 billion. As of June 30, 2014, Banco BTG Pactual had 32.82% of the share capital of PO&G after certain secondary sales to its clients.

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 Equity Interest in Petrobras Oil & gas B.V."

Pending Acquisition of BSI. On July 14, 2014, we entered into a definitive share purchase agreement providing for our acquisition, directly or indirectly, of 100% of the share capital of BSI, a leading Swiss financial institution mainly focused on private banking activities with a strong presence in Europe, the Middle East, Asia and Latin America, and geographic and client coverage complementary to our existing client portfolio, from Generali NV, a subsidiary of Assicurazioni Generali S.p.A., or Generali. We believe that this transaction, if consummated, will represent a milestone in our efforts to replicate our history of success in Latin America throughout the world, and will advance our goal of becoming a true global leader in financial services. Subject to adjustment as set forth in the definitive share purchase agreement, the aggregate consideration payable by us to Generali NV will consist of (i) CHF1.2 billion in cash, (ii) a number of our common and preferred shares underlying the units of the BTG Pactual Group with a value of CHF300 million (based on trading price over a period prior to closing of the acquisition of BSI), and (iii) an additional CHF cash amount to fund the acquisition by Generali NV of a corresponding number of equity interests of BTG Pactual Participations needed to form such units. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals.

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—Pending Acquisition of BSI."

Pending Acquisition of Certain Subsidiaries of Ariel Re (Holding) Limited. On July 9, 2014, we entered into a definitive stock purchase agreement providing for our acquisition of 100% of the shares of certain subsidiaries of Ariel Re (Holding) Limited, or Ariel Re, which constitute the Global Atlantic Financial Group Limited's Bermuda-based property and casualty reinsurance operations. The subsidiaries include Ariel Re P&C Midco Ltd., Arrow Corporate Member Holdings, LLC, Ariel Re Bda Limited, Ariel Re UK Limited and AFCL Inc. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals. Subsequent to the receipt of regulatory approval, which is expected to occur by the first quarter of 2015, Ariel will be transferred to the joint venture and as a result, our interest will be equivalent to 50%.

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—Pending Acquisition of Certain Subsidiaries of Ariel Re (Holding) Limited."

Pending Acquisition of Banco Pan's Insurance Business. On August 21, 2014, Banco Pan's independent committee, constituted by its board of directors, approved the sale of its entire equity interest in Pan Seguros S.A., or Pan Seguros and its entire equity interest in Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to us for an aggregate amount of R$580.0 million, subject to adjustments prior to closing of the transaction. As part of the transaction and upon the satisfaction of certain conditions, CaixaPar may acquire a jointly controlling interest in an entity composed of both our currently existing insurance business and the insurance business acquired from Banco Pan. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals.

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 Banco Pan Co-Controlling Interest and BFRE"

Our History

Our history began in 1983, when Pactual S.A. Distribuidora de Títulos e Valores Mobiliários, or 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., or Pactual Limitada, was formed to operate an asset management business.

In 1986, Pactual D.T.V.M. obtained a license to operate as an investment bank which was named Pactual S.A. Banco de Investimentos.

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 1998, we acquired the Sistema group, a small financial services group composed of Banco Sistema S.A. (currently BTG Pactual Corretora de Títulos De Valores Mobiliários S.A.), Sistema Banking Corp. Ltd. (a Cayman Islands subsidiary of Banco Sistema S.A. – which was renamed BTG Pactual Banking Limited) and Sistema Leasing S.A. (currently BTG Pactual Serviços Financeiros S.A. DTVM). During this time many members of our current Senior Management Team became our Partners.

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.

Our current structure grants us increased cross-selling opportunities by enabling us to offer top-tier capabilities across a full range of products and regions. 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 and principal investments 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 us. Many of our principal Partners, including our CEO, CFO and COO, were selling shareholders in that transaction and remained as the senior management of the bank following the consummation of the sale in December 2006. We became "UBS Pactual," the division of UBS AG acting in all Latin American countries, and our CEO became CEO of all of UBS's Latin American operations. At the time of the acquisition, we were already a leading independent 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 BTGI in

October 2008, a global investment business with offices in São Paulo, Rio de Janeiro, London, New York and Hong Kong.

BTGI 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 us (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, we, together with BTGI, 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 BTGI limited partnership interests issued by BTGI, representing an interest of approximately 18.65% in us and BTGI, respectively. This transaction represents 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 January 18, 2012, Banco Pan’s shareholders approved a capital increase in an amount up to R$1.8 billion with an issue price of R$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R$1.335 billion, with our share amounting to R$677.0 million. However, we agreed that, upon the request of TPG-Axon Capital Management LP, or TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R$182.0 million of our R$677.0 million commitment. TPG-Axon exercised its right to obtain such preemptive rights and, in April 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco Pan’s preferred shares and 5.55% of its total capital stock, thus reducing our capital contribution to R$495.4 million.

On January 31, 2012, we and Banco Pan entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price (subject to adjustment) was approximately R$1.21 billion (without including the R$335 million purchase price of certain assets by us described below), of which R$940 million was paid by PanAmericano and R$270 million was paid by us. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company, which we acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, we paid approximately R$335 million (subject to adjustment) to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE will remain in the second company, which was purchased by Banco Pan.

On April 30, 2012, the BTG Pactual Group completed its initial public offering, consisting of 103,500,000 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 BTG Pactual Participations. The majority of these units were listed in Brazil on the BM&FBOVESPA, and 129,000 units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the units offered in the initial public offering are 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 have used, and expect to continue to use, 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.

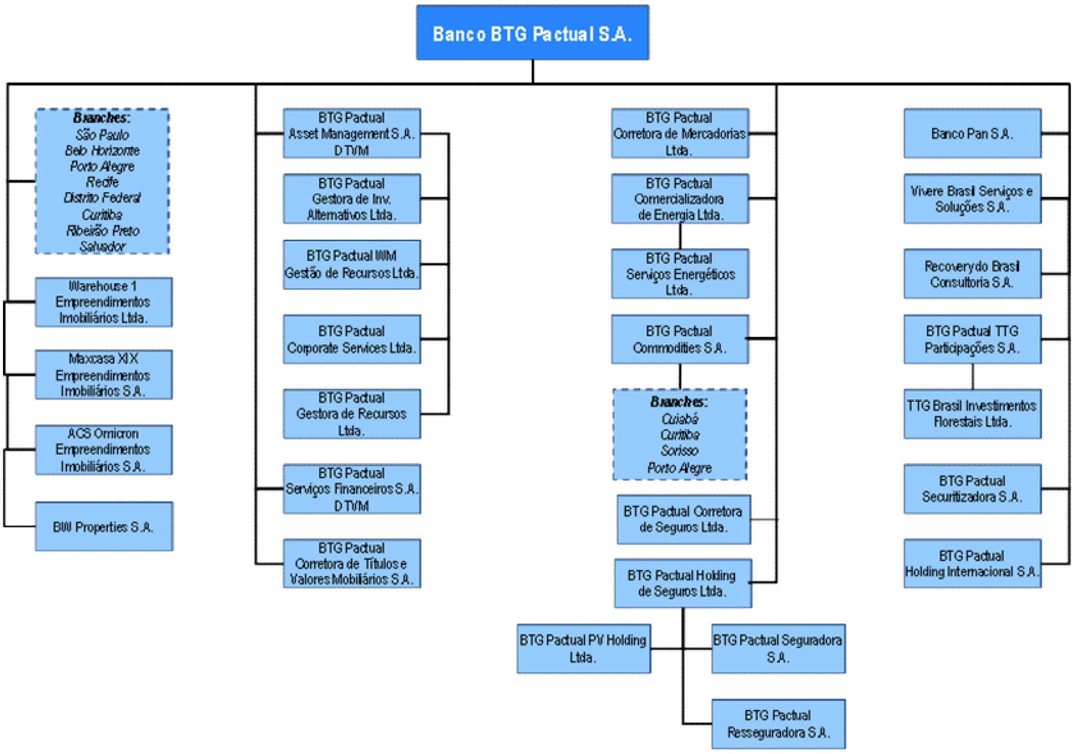
On October 10, 2013, the BTG Pactual Group completed the listing of its European units on the NYSE Euronext in Amsterdam. This migration from the Alternext Amsterdam had been previously agreed upon with European regulators as part of the initial public offering and no new shares or units were offered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

On June 13, 2014, Banco Pan approved a R$3.0 billion capital increase through the issuance of: (i) up to R$1.5 billion of 443,786,982 new, nominative and non-par shares, of which up to 242,566,348 are common shares and up to 201,220,634 are preferred shares, at the issuance price of R$ 3.38 per common or preferred share, for private subscription by Banco Pan's shareholders; and (ii) up to R$1.5 billion of redeemable preferred shares with a term of five years, which will receive annual, fixed, cumulative priority dividends of 104% of the Certificado de Depósito Interbancário, or CDI, over the issue price and which will not be traded on the BM&FBOVESPA. Banco BTG Pactual and Caixapar exercised their respective preemptive rights in connection with the capital issuance described in (i) and made a total capital contribution of R$1,331.6 million, becoming the joint holders of all voting shares and 80.7% of Banco Pan's total capital stock. CaixaPar and Banco BTG Pactual have also guaranteed, in the aggregate, 100% of the subscription of the redeemable preferred shares described in (ii) above.

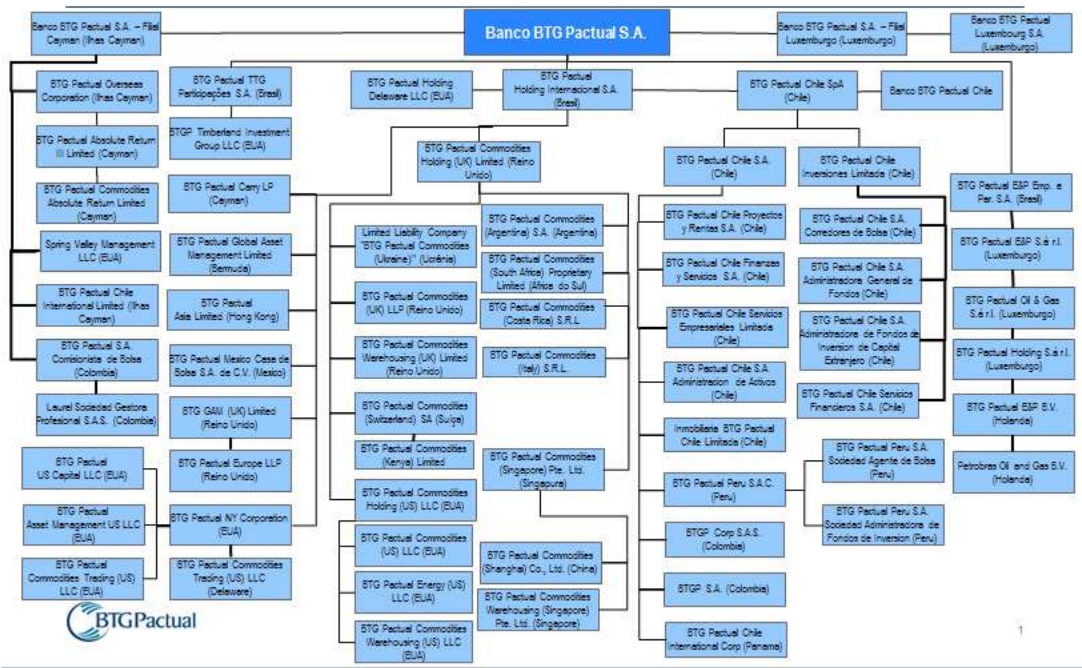
Our Organizational Structure

The diagrams below depict our simplified ownership structure in Brazil and abroad, respectively. For information regarding our principal subsidiaries, see “Business—Subsidiaries.”

Organizational Structure – Brazil



Organizational Structure – Abroad



THE OFFERING

The following is a brief summary of the terms and conditions of the Notes and is subject to and qualified in its entirety by the section "Description of the Notes" in this Offering Memorandum and the Indenture relating thereto. Terms which are defined in other sections of the Offering Memorandum or in the Description of the Notes have the same meaning when used in this summary. You should also read "Regulatory Overview—Capital Adequacy and Leverage" for a detailed explanation of the terms derived from Brazilian Law and regulation.

Issuer	Banco BTG Pactual, S.A., acting through its Luxembourg branch.
The Notes..	US$1,300,000,000 aggregate principal amount of 8.750% Perpetual Non-Cumulative Junior Subordinated Notes.
Issue Price...	100.000% of the principal amount, plus accrued interest, if any, from September 18, 2014.
Issue Date	September 18, 2014.
Indenture...	The Notes will be issued under the Indenture dated as of September 18, 2014 among us, Deutsche Bank Trust Company Americas as trustee, registrar, paying agent and transfer agent, and Deutsche Bank Luxembourg S.A., as Luxembourg transfer agent and Luxembourg paying agent.
Interest	The Notes will bear interest at a rate equal to: (i) 8.750% per annum (the "Base Rate") for each Interest Period ending prior to (and excluding) September 18, 2019 (the "First Call Date"); and (ii) a rate equal to the Benchmark Reset Rate plus the Credit Spread (the "Reset Rate") for each Interest Period from (and including) the First Call Date, the Benchmark Reset Rate being calculated on the third Business Day preceding the First Call Date, and on each successive fifth anniversary of the First Call Date (each, together with the First Call Date, a "Benchmark Reset Date") as described under "Description of the Notes—Interest." **The Issuer will not pay interest in certain circumstances, and interest will not accrue or accumulate in respect of any such period. See "Description of the Notes—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments."**
Interest Payment Dates	March 18 and September 18 of each year, commencing on March 18, 2015.
Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments..................	Pursuant to Article 17, V, of Resolution 4,192, the Issuer may only make Non-Principal Payments with proceeds solely from distributable profits and accumulated profit reserves available as of the end of the last Financial Period . See "Description of the Notes—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments."

For purposes of the above, “Non-Principal Payments” (or any portion thereof, as applicable) will not be due and payable and will not accrue or accumulate if:

(i) With respect to the portion of any such Non-Principal Payment that exceeds the proceeds resulting from distributable profits and accumulated profit reserves available during the last Financial Period in accordance with Article 17, VI, of Resolution 4,192;

(ii) the Issuer determines that it is, or if such Non-Principal Payment would result in it being, in non-compliance with the then applicable minimum requirements for Regulatory Capital (as defined in “Description of the Notes—Definitions.”), Additional Tier 1 Capital (*Capital Complementar*) or other operational limits. In the event of insufficient funds to comply with the Additional Core Capital (*Adicional de Capital Principal*) requirements but otherwise comply with the Regulatory Capital or other operational limits requirements, the restriction on Non Principal Payment will follow the percentages set forth in Article 9, §4, of CMN Resolution No. 4,193. As of the date of this Offering Memorandum these percentages are as follows: (1) no Non-Principal Payments will be made if the Additional Core Capital (*Adicional de Capital Principal*) of the Issuer is below 25% of the legally required amount; (2) 20% of the Non-Principal Payments will be made if the Additional Core Capital (*Adicional de Capital Principal*) of the Issuer is equal to or above 25% and below 50%, (3) 40% of the Non-Principal Payments will be made if the Additional Core Capital (*Adicional de Capital Principal*) of the Issuer is equal to or above 50% and below 75%; and (4) 60% of the Non-Principal Payments will be made if the Additional Core Capital (*Adicional de Capital Principal*) of the Issuer is equal to or above 75% and below 100%. In the event of insufficient funds to comply with the Regulatory Capital or other operational limits (regardless of whether the Issuer has funds to comply with the Additional Core Capital (*Adicional de Capital Principal*) requirements), the payment of the whole amount of Non-Principal Payments will not be due and payable and such Non-Principal Payments will not accrue or accumulate;

(iii) the Central Bank or any applicable Brazilian Governmental Authority restricts the distribution of dividends and other similar payments relating to instruments then treated as Common Equity Tier 1 Capital (Capital Principal) by the Issuer, in which case the limitation on Non-Principal Payment will be made pro rata to any such restriction (which is as set forth in Article 17, VII of Resolution 4,192); or

(iv) a Dissolution Events occurs.

In the event that any Non-Principal Payment (or any portion thereof) is suspended as described above, the Issuer will be required to comply with the covenant set out under "Description of the Notes—Restricted Purchase and Restricted Payment Events." See "Description of the Notes—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments."

"Financial Period" means in respect of each interest payment made on March 18 of each year, the prior fiscal period commencing on January 1 and ending on June 30 and in respect of each interest payment made on September 18 of each year, the prior fiscal period commencing on July 1 and ending on December 31, in each case, corresponding to the periods for which the Issuer is required to prepare consolidated financial statements pursuant to Law No, 4,595 of December 31, 1964, as amended, the Accounting Plan for the National Finance System (*Plano Contábil das Instituições do Sistema Financeiro Nacional* or "COSIF") and the Issuer's bylaws).

"Non-Principal Payment" means (i) interest, and (ii) any other payment on the Notes other than (x) the whole or any part of the Principal Amount, and (y) any fees due to the Trustee, any paying agent, the security registrar or any other agent appointed hereunder in relation to the services to be provided by such Trustee, paying agent, security registrar or other agent hereunder.

Write-off of Notes .... The outstanding principal, interest and all other amounts due, or with respect to, the Notes shall be permanently written-off by the Issuer in an amount at least equal to the amount of the Notes accounted as Tier 1 Capital of the Issuer, 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 5.125% 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 until the disclosure notice is no longer subject to review or republication in the event of review or reissue of the documents that have been used by the Issuer as a basis to calculate the proportion between the Common Equity Tier 1 Capital (Capital Principal) and the risk-weighted assets of the Issuer (in accordance with Article 17, XVIII, of CMN Resolution 4,192);

(ii) the execution of a commitment by a Brazilian Government Authority to make a public sector injection of capital, or take similar actions with respect to the Issuer, pursuant to and in accordance with the terms of a specific written law, as set forth in Article 28 of Brazilian Supplementary Law No. 101, as of May 4, 2000;

(iii) the Central Bank (or other Brazilian Governmental Authority charged with the responsibility to make such determinations) declares the intervention or the establishment of a special administration regime (regime de administração especial) 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. See "Description of the Notes—Write-off" for a description of such criteria.

The Write-Off of any amount due under the Notes and the situations described above will not constitute a payment default and shall not allow any Noteholder to require any repayment on any then outstanding principal, interest and all other amounts due, or with respect to, the Notes.

Restricted Purchase and Restricted Payment Events .... The Indenture will provide that, in the event an interest payment was not made under "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments" above, the Issuer shall recommend to its shareholders not to approve and, to the fullest extent permitted by applicable law, the Issuer shall not make, or take any action that would constitute, a Restricted Purchase or a Restricted Payment until all payments of interest that are due and payable on the Notes have been reinstated and resumed in full.

A "Restricted Purchase" is any transaction in which the Issuer or any of its subsidiaries redeems, purchases or otherwise acquires for any consideration any of Junior Liabilities (as defined in "Description of the Notes–Definitions") or any Tier 1 Pari Passu Liabilities, other than:

(a) by conversion of a Junior Liability, (a) or Tier 1 Pari Passu Liability into, or in exchange for, the Issuer's Junior Liabilities, or (b) a Tier 1 Pari Passu Liability into, or in exchange for, other Tier 1 Pari Passu Liability;

(b) in connection with transactions effected by the Issuer or any of its subsidiaries on a proprietary basis in the ordinary course of its business of securities trading either on a proprietary basis or for the account of the Issuer's customers or customers of any of the Issuer's subsidiaries in connection with interest, trading or market-making activities in respect of the Junior Liabilities or Tier 1 Capital Pari Passu Liabilities;

(c) in connection with the Issuer's satisfaction of the Issuer's or the Issuer's subsidiaries' obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants;

(d) with respect to Junior Liabilities, as a result of a reclassification of the Issuer's capital stock or any of the Issuer's subsidiaries' capital stock or the exchange or conversion of one class or series of capital stock for another class or series of capital stock; or

(e) the purchase of the fractional interests in shares of the Issuer's capital stock or the capital stock of any of the Issuer's subsidiaries' pursuant to the conversion or exchange provisions of that capital stock (or the security being converted or exchanged).

"Restricted Payment" means any distribution payment of any kind made or declared by the Issuer or any of its subsidiaries on the Issuer's Junior Liabilities or Tier 1 Capital Pari Passu Liabilities, except where such payment was in its entirety mandatory due to the terms and conditions of such Junior Liabilities or Tier 1 Pari Passu Liabilities or the mandatory operation of Brazilian law.

In the event of a breach of the Issuer's covenant not to make or cause a Restricted Purchase or Restricted Payment or of any of its other obligations under the Notes and the Indenture (other than any breach that results in a Payment Default), a holder of Notes would not be entitled to accelerate or institute bankruptcy or similar proceedings and would only be entitled to rights and remedies provided under New York and Brazilian law.

Ranking.. The Notes will be the Issuer's direct, unsecured obligations, and, upon the occurrence of a Dissolution Event, will be subordinated obligations ranking::

(i) junior in right of payment to the payment of all of the Issuer's Senior Liabilities;

(ii) pari passu among themselves and with the Issuer's existing and future Tier 1 Pari Passu Liabilities, and

(iii) to the extent permitted by applicable law, senior in right of payment to the payment of the Issuer's Junior Liabilities.

In the event of a Write-Off, the notes will be effectively subordinated to (1) the Common Equity Tier 1 Capital since the Common Equity Tier 1 Capital is not subject to a Write-Off and (2) other Tier 1 Capital of the Issuer that is not subject to a Write-Off. See "Risk Factors─Risk Factors Relating to the Notes—The circumstances surrounding a write-off 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."

Use of Proceeds .... We intend to use the net proceeds of the issuance of the Notes to finance our acquisition of BSI, to enhance our capital structure and for general corporate purposes. See "Use of Proceeds."

Covenants	The terms of the Indenture will require us, among other things, to: (i) pay all amounts owed by us under the Indenture and the Notes subject to any suspension of payment or Write-Off; (ii) give notice to the Trustee of any default or Payment Default under the Indenture, of a suspension of Non-Principal Payment of a Write-Off; (iii) replace the Trustee upon any resignation or removal thereof; and (iv) preserve the 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 without the consent of the holders of at least the majority in the aggregate principal amount of the outstanding Notes. These covenants are subject to a number of important qualifications. See "Description of the Notes—Certain Covenants." A breach of the Issuer's covenants will not constitute an event of default. A holder of Notes would not be entitled to accelerate or institute bankruptcy or similar proceedings and would only be entitled to rights and remedies provided under New York and Brazilian law.
Optional Redemption After the First Call Date	The Issuer may (with the prior approval of the Central Bank or any applicable Brazilian Governmental Authority, if then required), at its option redeem the Notes, in whole but not in part, on the First Call Date or on any Interest Payment Date occurring thereafter at a redemption price equal to the Base Redemption Price. See "Description of the Notes—Redemption—Optional Redemption by the Issuer."
Optional Redemption Due to a Tax Event............	From and after the First Call Date and subject to the approval of the Central Bank and any other applicable Brazilian Governmental Authority (if such approval is then required), we may redeem the Notes in whole, but not in part, following the occurrence of a Tax Event at the Base Redemption Price. See "Description of the Notes—Optional Redemption—Optional Redemption due to a Tax Event."
Optional Redemption due to a Regulatory Event	From and after the First Call Date and subject to the approval of the Central Bank and any other applicable Brazilian Governmental Authority (if such approval is then required), we may redeem the Notes, in whole, but not in part, following the

occurrence of a Regulatory Event (as defined below) at the Base Redemption Price. See "Description of the Notes—Optional Redemption—Optional Redemption due to a Regulatory Event."

No Optional Redemption by Noteholders……..	Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes and the Notes shall be redeemable only at the Issuer's option.
Default, Limitation of Remedies	The Indenture will contain only limited payment defaults, consisting of the following: (i) failure to pay the amount due to satisfy any payment on the Notes when due and payable and such failure continues after expiration of the Grace Period, unless such payment is suspended as described above in "—Limitation on Obligation to Pay Interest and Make other Non Principal Payments" or Written-Off as described above under "─Write-Off by the Issuer"; and (ii) failure to pay the Base Redemption Price on a Redemption Date, or in case of suspension of a redemption due to non-compliance with applicable Risk Based Capital Requirements, failure to pay the Base Redemption Price within 14 Business Days of becoming aware that it is in compliance with the Risk Based Capital Requirements. See "Description of the Notes─Optional Redemption─ The Issuer Will Suspend Redemption in Certain Circumstances" for a description of the circumstances under which the Issuer may suspend a redemption. There is no right of acceleration in the case of a default in the payment of principal, interest or any other amount on the Notes or the failure by us to perform any other obligation under the Indenture. Notwithstanding the foregoing or any other provision in the Notes and the Indenture, in the event of our failure to pay any principal, interest or any other amount due on the Notes when it becomes due and payable, the Noteholder will have the right to institute a suit, including a summary proceeding for the enforcement of any such payment, subject to certain conditions. See "Risk Factors─Risk Factors Relating to the Notes─If we do not satisfy our obligations under the Notes, your remedies will be limited."
Amendments to the Terms and Conditions of the Notes	As described under "Description of the Notes—Amendments", the Issuer will be permitted to, subject to certain exceptions and conditions, amend the terms and conditions of the Notes from time to time, during the period of one year from the Closing Date, in order to, and only to the extent necessary 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 Securities as Tier 1 Capital

	pursuant to Resolution 4,192, as amended or supplemented. See “Description of the Notes─Amendments” for a description of amendments that do not require Noteholder’s approval.
Clearance and Settlement	The Notes will be issued in book-entry form through the facilities of The Depository Trust Company, or DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking S.A. Luxembourg, or Clearstream, Luxembourg. See “Description of the Notes—Book-Entry and Transfer.”
Withholding Taxes; Additional Amounts	All payments of principal, interest and other amounts due on the Notes will be made without withholding or deducting any taxes, imposed by Brazil or Luxembourg or by the jurisdiction of any successor to us in the event of a consolidation, merger, transfer or conveyance, or in the event that we appoint additional paying agents, by the jurisdictions of any paying agents unless such withholding or deduction is required by law. If we are required by law to withhold or deduct any such taxes, we will pay the Noteholders any additional amounts necessary to ensure that they receive the same amount as they 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.
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.”
ERISA Considerations.	Except under the limited circumstances described in “Certain ERISA Considerations” below, the Notes may not be acquired by, on behalf of or with the assets of any employee benefit plan or other plan, account or arrangement subject to Title I of ERISA, Section 4975 of the Code, or any non-U.S. or U.S. federal, state or local laws or regulations substantially similar to the foregoing provisions of ERISA or Section 4975 of the Code (“Similar Law”).
Governing Law	The Indenture and the Notes 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. See “Form of the Notes; Book Entry and Transfer.” The Notes will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

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 Notes and the original Notes and any additional Notes will be treated as a single series for all purposes under the Indenture. See "Description of the Notes— Additional Notes."
Trustee, Registrar, Paying Agent and Transfer Agent	Deutsche Bank Trust Company Americas
Luxembourg Listing Agent..................................	Loyens & Loeff Luxembourg S.à r.l.
Luxembourg Paying Agent and Luxembourg Transfer Agent………………….	Deutsche Bank Luxembourg S.A.

SUMMARY FINANCIAL INFORMATION

The tables below set forth our summary financial information as of and for the periods indicated. You should read the information below in conjunction with our 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."

Our balance sheet and income statement as of and for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 and our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2013 and 2014, respectively, 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 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 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 adjusted income statement has not been audited or reviewed by our independent auditors.

Our 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 years ended December 31, 2011, 2012 and 2013 and as of and for the six months ended June 30, 2013 and 2014. Our 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 years ended December 31, 2011, 2012 and 2013 and as of and for the six months ended June 30, 2013 and 2014. The classification of the line items in our adjusted income statement, however, has not been 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—Our Adjusted Income Statement."

BSI's balance sheet and income statement as of and for the years ended December 31, 2012 and 2013 and as of June 30, 2014 and for the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with its audited consolidated financial statements as of and for the years ended December 31, 2012 and 2013 and its unaudited interim consolidated balance sheet and consolidated profit and loss statement as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, respectively, which are included elsewhere in this Offering Memorandum. The presentation of BSI's audited financial statements is based upon provisions of the Swiss Code of Obligations, the Swiss Banking Law and the directives of the Swiss Financial Market Supervisory Authority FINMA (Swiss GAAP).

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. You should not construe these translations as representations that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts using a rate of R$2.20 to US$1.00 and, the U.S. dollar selling rate as of June 30, 2014, published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. See "Exchange Rates."

We have also translated the Swiss Franc amounts relating to (i) BSI's total revenues, consolidated gross profit and net new money using a rate of CHF0.42 to R$1.00, and (ii) BSI's WUM, deposits, shareholders' equity and total capital ratio using a rate of CHF0.38 to R$1.00, the Swiss Franc average and selling rates for the year ended December 31, 2013 and as of June 30, 2014, respectively, as published by Bloomberg.

Selected Balance Sheet (Brazilian GAAP)

(Unaudited for June 30, 2014)	As of December 31,			As of June 30,	
	2011	2012	2013	2014	2014
		(in R$ millions)			(in US$ millions)
Assets					
Cash at banks	517.3	552.2	1,074.0	1,264.5	574.1
Interbank investments	19,583.0	23,968.9	23,812.3	33,110.5	15,033.2
Securities and derivative financial instruments	42,893.9	74,202.7	42,657.2	53,300.6	24,200.0
Interbank transactions	876.7	475.0	239.9	357.8	162.4
Loans	4,665.2	7,268.6	15,080.0	12,943.0	5,876.5
Securities trading and brokerage	4,403.8	3,885.6	11,531.6	8,454.2	3,838.5
Other receivables	7,641.7	9,430.9	20,793.6	16,246.5	7,376.4
Other assets	25.1	35.5	98.2	40.3	18.3
Permanent assets	1,405.3	3,496.8	4,514.5	4,093.7	1,858.6
Total assets	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**	**58,938.1**
Liabilities and Shareholders' equity					
Deposits	14,211.1	14,624.0	17,652.7	17,904.0	8,128.9
Open market funding	39,061.0	52,650.7	31,293.3	33,606.9	15,258.5
Funds from securities issued and accepted	3,774.6	8,480.1	14,897.0	17,506.0	7,948.2
Interbank transactions	–	0.3	2.5	4.3	1.9
Loans and on lending	919.7	1,904.7	5,080.5	5,074.0	2,303.7
Derivative financial instruments	2,953.8	8,063.7	7,493.4	18,175.6	8,252.2
Securities trading and brokerage	7,930.0	14,575.6	6,533.7	3,657.9	1,660.8
Subordinated debts	4,158.3	6,246.1	6,748.7	6,966.2	3,162.8
Other liabilities	2,419.9	6,469.6	17,485.8	12,502.8	5,676.6
Deferred income	31.5	111.9	151.9	128.0	58.1
Non-controlling interest	212.2	88.1	334.0	805.9	365.9
Shareholders' equity	6,339.8	10,101.5	12,127.8	13,479.6	6,120.1
Total liabilities and shareholders' equity	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**	**58,938.1**

Income Statements (Brazilian GAAP)

(Unaudited for June 30, 2013 and 2014)	For the year ended December 31,			For the six months ended June 30,		
	2011	**2012**	**2013**	**2013**	**2014**	**2014**
	(in R$ millions)					(in US$ millions)
Financial income	**6,050.1**	**8,582.9**	**9,583.3**	**4,135.9**	**6,929.5**	**3,146.2**
Loans	945.6	1,333.6	1,811.3	840.2	905.4	411.1
Securities	4,589.1	6,773.2	7,639.7	3,025.7	3,637.2	1,651.4
Derivative financial instruments	225.0	296.4	-	93.1	1,372.8	623.3
Foreign exchange	249.3	116.5	110.7	166.3	998.8	453.5
Mandatory investments	41.1	63.2	21.6	10.6	15.2	6.9
Financial expenses	**(4,549.6)**	**(5,277.3)**	**(6,686.1)**	**(2,417.0)**	**(4,125.1)**	**(1,872.9)**
Funding operations	(4,002.0)	(4,227.7)	(4,920.5)	(1,895.7)	(3,890.7)	(1,766.5)
Borrowings and onlending	(517.6)	(581.3)	(1,147.0)	(361.8)	(118.9)	(54.0)
Derivative financial instruments	-	-	(386.6)	-	-	-
Allowance for loan losses and other receivables	(30.0)	(468.3)	(232.0)	(159.4)	(115.4)	(52.4)
Net financial income	**1,500.4**	**3,305.6**	**2,897.2**	**1,718.9**	**2,804.4**	**1,273.3**
Other operating income	**174.3**	**454.4**	**881.5**	**134.9**	**50.5**	**22.9**
Income from services rendered	1,107.6	2,219.2	2,614.3	1,229.7	1,299.3	589.9
Personnel expenses	(359.7)	(605.7)	(602.8)	(248.9)	(339.6)	(154.2)
Other administrative expenses	(355.5)	(677.9)	(973.2)	(433.6)	(547.3)	(248.5)
Tax charges	(286.0)	(283.9)	(350.6)	(155.9)	(196.8)	(89.3)
Equity in the earnings of associates and jointly controlled entities	(3.5)	245.8	134.9	(285.2)	(115.2)	(52.3)
Other operating income	158.1	109.0	468.9	181.1	159.3	72.3
Other operating expenses	(86.6)	(552.1)	(410.0)	(152.3)	(209.3)	(95.0)
Operating income	**1,674.9**	**3,760.0**	**3,778.7**	**1,853.8**	**2,854.8**	**1,296.2**
Non-operating income (expenses)	9.2	(12.0)	304.4	1.0	4.0	1.8
Income before taxation and profit sharing	**1,684.1**	**3,748.0**	**4,083.1**	**1,854.8**	**2,858.8**	**1,298.0**
Income tax and social contribution	**199.2**	**(727.5)**	**(430.0)**	**(137.4)**	**(612.7)**	**(278.2)**
Provision for income tax	(116.6)	(607.5)	(523.5)	(307.7)	(467.3)	(212.2)
Provision for social contribution	(54.6)	(285.7)	(215.6)	(172.5)	(218.4)	(99.2)
Deferred income tax and social contribution	370.4	165.7	309.1	342.8	72.9	33.1
Statutory profit sharing	**(401.2)**	**(938.2)**	**(876.4)**	**(421.2)**	**(441.8)**	**(200.6)**
Non-controlling interest	(5.0)	(21.1)	(107.0)	(46.9)	3.6	1.6
Net income	**1,477.1**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**	**820.8**

Adjusted Income Statement (Unaudited)

	For the year ended December 31,			For the six months ended June 30,		
	2011	2012	2013	2013	2014	2014
			(in R$ millions)			(in US$ millions)
Investment banking	338.3	448.0	459.4	279.0	267.2	121.3
Corporate lending	366.5	563.6	764.9	393.6	388.1	176.2
Sales and trading	999.9	1,516.6	1,729.7	1,132.1	1,591.8	722.7
Asset management	443.2	1,190.2	1,172.2	469.3	618.6	280.9
Wealth management	144.5	201.7	385.3	202.8	183.8	83.4
Principal investments	(111.2)	1,356.9	870.9	(49.7)	(94.3)	(42.8)
Banco Pan	(52.0)	(244.5)	(123.5)	(15.5)	(50.8)	(23.1)
Interest and other	518.1	587.2	637.1	265.2	530.3	240.8
Total revenues	**2,647.1**	**5,619.8**	**5,896.0**	**2,676.7**	**3,434.7**	**1,559.5**
Bonus	(479.6)	(1,168.6)	(946.2)	(425.6)	(456.2)	(207.1)
Retention expenses	(32.5)	(5.9)	-	-	-	-
Salaries and benefits	(213.2)	(326.0)	(494.0)	(226.1)	(322.8)	(146.6)
Administrative and others	(293.1)	(537.1)	(629.5)	(277.1)	(386.4)	(175.4)
Goodwill amortization	(31.2)	(467.4)	(191.9)	(90.4)	(86.0)	(39.1)
Tax charges, other than income tax	(177.0)	(241.4)	(266.6)	(138.3)	(123.6)	(56.1)
Total operating expenses	**(1,226.7)**	**(2,746.4)**	**(2,528.2)**	**(1,157.5)**	**(1,374.9)**	**(624.3)**
Income before taxes	**1,420.4**	**2,873.4**	**3,367.7**	**1,519.2**	**2,059.8**	**935.2**
Income tax and social contribution revenue (expense)	56.6	(812.2)	(698.0)	(269.9)	(251.9)	(114.4)
Net income	**1,477.1**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**	**820.8**

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. 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 and continue to grow.

We are dependent on our Senior Management Team (including André Santos Esteves) 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 and the track records 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." In addition, on November 25, 2010, the CMN issued Resolution No. 3,921, which regulates and imposes limits on the remuneration of directors of financial institutions.

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 as the market for qualified investment professionals is extremely competitive. In addition, since January 1, 2012, financial institutions and other institutions authorized to operate by the Central Bank are required to comply with certain rules adopted by the Central Bank regarding the compensation of its directors, pursuant to CMN Resolution No. 3,921. 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.

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. 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, 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 continue to pursue our growth strategies.

Our investment banking, corporate lending and Banco Pan revenues may decline 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 business conducted through Banco Pan. 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 2011, Brazil has experienced an economic slowdown, when GDP growth was 2.7%, 1.0% and 2.3% in 2011, 2012 and 2013, respectively. Annual growth in the coming quarters should not accelerate from the current pace of economic expansion. In this context, it is possible that the expansion of our loan portfolio will be adversely affected.

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.

A 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 decline. 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 seeking to expand our merchant banking and real estate investments but we may not be able to successfully execute these investments or realize gains from these investments.

We are seeking to expand our portfolio of merchant banking and real estate investments by making equity investments directly in, or setting up private equity and similar funds to invest in, various companies and assets, including companies operating in the Brazilian real economy, infrastructure and real estate sectors. BTGI is the vehicle for many of the principal investments of the BTG Pactual Group. However, we also make certain of these principal investments and serve as the asset manager for our private equity, infrastructure and real estate activities. Our ability to increase merchant banking investments and real estate activities is subject to a number of uncertainties, including adverse market or economic conditions, our ability to raise third party funds, competition from other investors, and the ability to identify opportunities and negotiate terms with counterparties. In addition, less public information exists about privately held companies, and we will be required to rely on the ability of our investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to obtain all material information about these companies, we may not be able to make a fully informed investment decision, and we may lose our money or the money of our third-party investors on such investments. It takes a substantial period of time to identify, negotiate and consummate attractive merchant banking opportunities and to successfully identify and implement growth and managerial strategies for our portfolio companies. These factors could affect our investment returns and the performance fees we earn from third party investors.

We intend to acquire control, joint control or minority positions in medium to large companies, and some of them may require changes in their management or business model. We may have difficulties in identifying attractive acquisition targets, or we may be unable to acquire desired businesses or assets on economically acceptable terms. Overleveraged, distressed, underperforming or small regional or family-owned businesses will also be considered. Such businesses will be subject to increased exposure to adverse economic factors such as a significant rise in local interest rates, a severe downturn in the relevant country's economy or deterioration in the condition of such portfolio company or its industry. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors.

We expect the majority of our merchant banking and real estate investments to be in Brazil, but may expand these activities to other countries, particularly following our recent acquisitions of Celfin and Bolsa y Renta. We may be unable to replicate our previous success in these areas in Brazil in other countries where we have less experience and a less extensive network of business contacts.

Because most of our merchant banking and real estate investments may be in securities that are not publicly traded, the disposition process may take several years and the values realized may be unfavorable. In certain market environments, such as times of market volatility or uncertainty, overall market liquidity may decline and we may be unable to dispose of such securities, or we may have to sell assets at depressed prices, which could adversely affect us. Our ability to sell securities may be impaired by other market participants seeking to sell similar assets into the market at the same time. Accordingly, we may not be able to realize gains from our merchant banking investments or receive performance fees from the private equity infrastructure and real estate funds we manage and, consequently, we could be adversely affected. In addition, any gains that we do realize on the disposition of any equity interest may not be sufficient to offset any other losses we experience.

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

The global financial markets deteriorated sharply beginning in the second half of 2008, resulting in a credit and liquidity crisis that began to ease following the second quarter of 2009. 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 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 continue to experience liquidity problems or the financial services industry in general is unable to fully recover from the effects of the crisis, it could have an adverse effect on us.

In addition, the financial condition of our borrowers has, in some instances, been adversely affected by the financial and economic crisis, which has in turn increased our non-performing loans, impaired our loans and other financial assets and resulted in decreased demand for borrowings in general. In addition, some of our counterparties may also suffer losses as a result of the debt crisis in Europe. In addition, European financial markets have experienced volatility and have been adversely affected by concerns about rising government debt levels, credit rating downgrades, and possible default on or restructuring of government debt. These events have caused bond yield spreads (the cost of borrowing debt in the capital markets) and credit default spreads the cost of purchasing credit protection) to increase, most notably in relation to euro zone countries. The governments of several member countries of the EU have experienced large public budget deficits, which have adversely affected the sovereign debt issued by those countries and may ultimately lead to declines in the value of the euro. Austerity program implemented to address these concerns may lead to potential instability for these countries, further impacting European and global markets. It is possible that countries that have already adopted the euro could abandon the euro and return to a national currency, or that the euro will cease to exist as a single currency in its current form, or both. The exit of any country out of the EU or the abandonment by any country of the euro would likely have an extremely destabilizing effect on all euro zone countries and their economies and negatively affect the global economy as a whole. Such events could negatively affect our business opportunities in Europe and increase portfolio losses and other risks. Additional disruption and volatility in the global financial markets could have further negative effects on the financial and economic environment. In addition, a prolonged economic downturn would result in a general reduction in business activity and a consequent loss of income. Any such ongoing disruption or reduction in business activity 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 by the Central Bank 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*), or 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*), or SELIC. In recent years, the base interest rate, or the SELIC rate, has fluctuated, reaching approximately 45% per annum in March 1999 and falling to 15.25% per annum in January 2001. Since 2001, the Central Bank has frequently adjusted the SELIC rate, with several increases made in response to economic uncertainties. In 2006, the Central Bank gradually reduced the SELIC rate, which reached 11.25% as of December 31, 2007. Largely in response to accelerating economic activity, the COPOM began raising the target SELIC rate again and in September 2008, the SELIC rate was 13.75%. However, as a response to the 2008 global financial crisis, the COPOM lowered the target SELIC rate in 2009 and, as of December 31, 2009, the SELIC rate was 8.75%. Following the improvement in economic conditions in Brazil during 2010, the COPOM increased the target SELIC rate and, as of December 31, 2010, the SELIC rate was 10.75%. In 2011, the COPOM continued to increase the SELIC rate, which reached 11.0% as of December 31, 2011. During 2012, COPOM reversed the recent increases to the SELIC rate, and as of December 31, 2012, the SELIC rate decreased to 7.25%. During 2013, as a result of increased prospects of inflation and macroeconomic instability, the SELIC rate was increased, reaching 10.0% as of December 31, 2013. In 2014, inflation concerns remained and the SELIC rate reached 11% as of June 30, 2014. As of the date of this Offering Memorandum, the SELIC rate was 11%.

Increases in the base interest rate typically enable us to increase financial margins. However, these increases could adversely affect us by, among other effects, reducing demand for our credit and investment products, increasing our cost of funds and increasing the risk of client default. Decreases in the base interest rate could also adversely affect us by, among other effects, decreasing the interest income we earn on our interest-earning assets and lowering margins.

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, our commencement of operations in Mexico and our pending acquisition of BSI. 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 we expect from our recent and future acquisitions.

Strategic acquisitions are part of our growth strategy and our continued growth depends on their successful implementation. We anticipate that 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. Significant transactions include our 2011 acquisition of a co-controlling interest in Banco Pan and our acquisitions of WTorre Properties S.A., BFRE, Celfin and Bolsa y Renta. In addition, we entered into a definitive share purchase agreement providing for the acquisition of BSI, which remains subject to the satisfaction of customary closing conditions. 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—Pending Acquisition of BSI."

We cannot assure you, however, 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, including our pending acquisition of BSI, 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.

The financial statements and other financial information we present in this Offering Memorandum may not be adequate for evaluating the effects of the possible acquisition of BSI, and are not indicative of our future results and performance.

This Offering Memorandum includes (i) our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, (ii) our unaudited interim consolidated financial statements as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, (iii) BSI's audited consolidated financial statements as of and for the years ended December 31, 2012 and 2013, and (iv) BSI's unaudited consolidated balance sheet as of June 30, 2014 and the unaudited consolidated profit and loss statement for the six months ended June 30, 2013 and 2014. Our acquisition of BSI, will be consummated, if at all, after the date of this Offering Memorandum.

We are not presenting pro forma financial information to illustrate the potential effects of the BSI acquisition on our financial statements. For this reason, the financial statements and financial information included in this Offering Memorandum may not be adequate to evaluate our current financial condition, the effects of the BSI acquisition thereon, and therefore may not be indicative of our future results and performance.

Effects of regulatory changes affecting the Swiss banking industry may materially adversely affect our future financial condition and results of operations if our acquisition of BSI is consummated.

BSI is one of the largest Swiss banks with most of its WUM booked in Switzerland, representing a significant part of BSI's overall business. It is therefore particularly exposed to the risk of changes in Swiss banking secrecy and other laws. Any future significant change to Swiss banking secrecy and client confidentiality laws and practice and any additional or enhanced enforcement campaigns by tax authorities against participants in the private banking industry or their clients could have an adverse impact on the private banking industry in Switzerland generally, and consequently on BSI. Self-disclosures to tax authorities made by bank clients might be expected to lead to increased regulatory scrutiny of the Swiss private banking industry, including BSI.

In particular, the government of Switzerland announced in May 2014 that it is in the process of negotiations with the European Union, the United States and various other countries in connection with proposed rules to introduce an automatic exchange of information in tax matters that will be in line with the principle of reciprocity and based on the global standards stipulated by the Organization for Economic Co-operation and Development. Any future change in Swiss banking secrecy laws, allowing foreign authorities, regulators or other interested parties to request the disclosure of the identity of BSI's clients, or the anticipation of such a change, may cause certain of BSI's clients to move assets from Switzerland to other markets.

The above regulatory changes and developments have caused and may continue to cause a broad decline in the Swiss private banking industry. The Swiss private banking sector is expected to continue to lose further clients due to impending regulations that may give rise to newly imposed tax liabilities for clients and client assets not previously subject to taxation in their respective home jurisdictions, thus diminishing the tax and other advantages that have historically been associated with the Swiss offshore private banking business model. These ongoing changes are expected to adversely affect BSI's business, growth prospects, results of operations and its financial condition and, if the BSI acquisition is consummated, such changes may in turn expose us to greater scrutiny, and materially adversely affect our future financial condition and results of operations.

Effects of client concentration as a result of our acquisition of BSI may materially adversely affect our future financial condition and results of operations if our acquisition of BSI is consummated.

As a private banking organization, BSI is exposed to a high level of client concentration risk, with respect to both geography and wealth. Most of BSI's WUM is booked in Switzerland, resulting in a significant portion of its overall business being exposed to the risks related to the regulatory changes negatively affecting the Swiss banking industry. In addition, a significant portion of BSI's customers are HNWI or UHNWI. HNWI and UHNWI share, to a certain degree, similar characteristics and circumstances and are likewise exposed to comparable macroeconomic, political and regulatory risks. Although BSI has begun diversifying the geographical mix of its client base, it will continue to be exposed to client concentration risk. In addition, a limited number of UHNWI will continue to constitute a significant portion of BSI's WUM. If BSI is unable to retain these clients or sufficiently diversify its client base, its results of operations and financial condition may be adversely affected, which may in turn materially adversely affect our future financial condition and results of operations if our acquisition of BSI is consummated.

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 such as the recent launch of our commodities business, 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, or 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.

Our 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 financial statements, we have included in this Offering Memorandum our adjusted income statement and a discussion of such adjusted income statement. The classification of the line items in our adjusted income statement has not been 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 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.

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 authorities took significant action against us 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 June 30, 2014, we had R$17,904.0 million of deposits, comprised mainly of time deposits in the amount of R$17,295.2 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. 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.

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.

In recent years, we have significantly expanded our swaps and other derivatives businesses and placed a greater emphasis on providing credit and liquidity to our clients. 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. As a result, our credit exposures have increased in both amount and duration. The outstanding balance of 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), increased from an average balance of R$8.8 billion in 2011 to an average balance of R$22.8 billion in 2013. 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 low economic performance, 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.

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

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 grow our portfolio of credit products and derivatives, particularly with respect to our recently launched commodities business. 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.

We are subject to several operating risks inherent to our businesses.

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.

Misconduct by our personnel could harm us and is difficult to detect and deter.

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 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.

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 recent acquisition of a co-controlling interest in Banco Pan could have a material adverse effect on us.

There are 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. Banco Pan recorded substantial adjustments to accumulated losses in 2011. We recorded losses of R$27.2 million, R$160.3 million, R$51.3 million and R$50.7 million in connection with the Banco Pan equity pick-up for 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively. There can be no assurance that Banco Pan will not generate net losses during 2014 or thereafter or that Banco Pan's accumulated loss adjustments will not continue to adversely affect our results of operations relating to our commercial banking activities.

In addition, although a substantial portion of Banco Pan's loan portfolio was sold prior to our acquisition of the co-controlling interest in Banco Pan, and Banco Pan has recorded significant provisions for loan losses, there can be no assurance that it will not suffer future loan losses which exceed the amount of these provisions, which could have a material adverse effect on us.

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." For example, on January 18, 2012, Banco Pan's shareholders approved a capital increase in an amount of up to R$1.8 billion, with an issue price of R$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R$1.335 billion, with our share amounting to R$677.0 million. However, we agreed that, upon the request of TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R$182.0 million of our R$677.0 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco Pan's preferred shares and 5.55% of its total capital stock, thus reducing our capital contribution to R$495.4 million. Following such exercise, we maintained our 51.0% equity interest in Banco Pan's common shares, and we and CaixaPar continue to co-control Banco Pan pursuant to the terms of a shareholders agreement which establishes the conditions for our shared control.

On June 13, 2014, Banco Pan approved a R$3.0 billion capital increase through the issuance of: (i) up to R$1.5 billion of 443,786,982 new, nominative and non-par shares, of which up to 242,566,348 are common shares and up to 201,220,634 are preferred shares, at the issuance price of R$ 3.38 per common or preferred share, for private subscription by Banco Pan's shareholders; and (ii) up to R$1.5 billion of redeemable preferred shares with a term of five years, which will receive annual, fixed, cumulative priority dividends of 104% of the CDI over the issue price and which will not be traded on the BM&FBOVESPA. Banco BTG Pactual and Caixapar exercised their respective preemptive rights in connection with the capital issuance described in (i) and made a total capital contribution of R$1,331.6 million, becoming the joint holders of all voting shares and 80.7% of Banco Pan's total capital stock. CaixaPar and Banco BTG Pactual have also guaranteed, in the aggregate, 100% of the subscription of the redeemable preferred shares described in (ii) above.

In addition, on August 21, 2014, Banco Pan's independent committee, constituted by its board of directors, approved the sale of its entire equity interest in Pan Seguros and its entire equity interest in Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to Banco BTG Pactual for an aggregate amount of R$580.0 million, subject to adjustments prior to closing of the transaction. As part of the transaction and upon the satisfaction of certain conditions, CaixaPar may acquire a jointly controlling interest in an entity composed of both Banco BTG Pactual's currently existing insurance business and the insurance business acquired from Banco Pan. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals. 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 Banco Pan Co-Controlling Interest and BFRE"

It is possible that the initiatives to return Banco Pan to profitability 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 with CaixaPar, which may have interests that differ from ours.

We have entered into a shareholder agreement with CaixaPar relating to our co-controlling interest in Banco Pan. Pursuant to the shareholder 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.

Risk Factors 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 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, 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;
- decreases in wages and economic levels;
- increases in unemployment;
- exchange control policies;
- 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.

Uncertainty regarding whether the Brazilian government will implement changes in policy or regulation may be compounded by political instability. Historically, Brazilian politics have affected the performance of the Brazilian economy. Past political crises have affected the confidence of investors and the public, from time to time resulting in economic deceleration. In 2013, wide-scale protests throughout Brazil focused on economic and political reform created additional political uncertainty. Brazilian policies and regulations, whether in response to further protests, as a result of the 2014 general elections in Brazil or otherwise, may create additional political uncertainty, which could have a material adverse effect on us.

Exchange rate instability may adversely affect us.

The Brazilian currency has been devalued frequently over the past three decades. 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. The *real* appreciated against the U.S. dollar by 20.5% in 2007. In 2008, as a result of the global financial crisis, the *real* depreciated against the U.S. dollar by 24.2%. In 2009 and 2010, the *real* appreciated by 33.8% and 3.5%, respectively, against the U.S. dollar. In 2011, the *real* depreciated by 11.9% against the U.S. dollar. The *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2011 was R$1.87 per U.S. dollar. In 2012, the *real* further depreciated by 8.5% against the U.S. dollar and the *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2012 was R$2.04 per U.S. dollar. Fiscal policy coupled with increased government intervention in certain sectors (e.g. oil and electricity) weighed on the *real* in 2013, which depreciated 13.0% against the U.S. dollar. As of June 30, 2014, the *real*/U.S. dollar exchange rate reported by the Central Bank was R$2.20 per US$1.00. In order to curb further *real* depreciation, the Central Bank introduced an intervention program pursuant to which it sold US$3.0 billion per week (starting at the end of August 2013) through swap auction and credit lines. The Central Bank extended the program until the end of the first half of 2014, although it reduced the weekly U.S. dollar sales to US$2.0 billion.

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 high rates of inflation. Inflation and certain actions taken by the Brazilian government to curb it have had negative effects on the Brazilian economy, especially in the period before 1995. Inflation, as measured by the IGP-M, reached 2.57% in 1993. Although Brazilian inflation has substantially decreased since 1994, inflationary pressures still persist. Brazil's inflation rate in 2007 and 2008 reached 7.75% and 9.8% respective, but in 2009, Brazil experienced a deflation rate of 1.72% due to the effects of the financial global crisis in the end of 2008. In 2010 and in 2011, inflation rates in Brazil were 11.32% and 5.10%, respectively, as a result of the economic growth momentum of the Brazilian economy. In 2012, the inflation rate (IGP-M) in Brazil was 7.81%, mainly due to producer price inflationary pressures, with higher contributions from food products, chemical products, petroleum refining and pulp and paper. In 2013, the inflation rate (IGP-M) in Brazil was 5.51%, primarily caused by inflationary pressure on consumer prices, food price inflation of 9.16% and labor inflation of 9.70%. As of June 30, 2014, the inflation rate (IGP-M) was 2.45%.

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 COPOM has frequently adjusted the interest rate in situations of economic uncertainty and to achieve objectives under the economic policy of the Brazilian government. Inflation, along with government measures to curb inflation and public speculation about possible future government measures, have had significant negative effects on the Brazilian economy, and contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market, which may have an adverse effect on us.

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.

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. External and internal factors, including the Russian economic crisis of 1998, the Argentine economic crisis of 2001 and elections in Brazil in 2002 have from time to time resulted in significant outflows of funds and reductions in the amount of foreign currency being invested in Brazil, notwithstanding significant increases in interest rates designed to stem capital outflow. Starting in 2008, the economic crisis that affected developed markets in the United States and Europe (particularly in Greece, Spain, Italy and Portugal) markedly reduced investor confidence globally, as did the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's on August 6, 2011 and the so-called fiscal cliff discussions in the U.S. Congress in 2012. Since then, economic indicators in developed markets have gradually been improving. Such incremental recuperation, however, has been offset by various factors, including the tapering of the stimulative quantitative easing policy by the U.S. Federal Reserve and the resulting decrease in liquidity in U.S. markets, the political crisis in Ukraine and other events in emerging markets which increase global economic uncertainty. In the case of Brazil, an increase in economic imbalances and sluggish economic growth, among other factors, led Standard & Poor's to downgrade Brazil's sovereign debt on March 24, 2014.

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 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. 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.

Risk Factors 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." For a discussion of other legal proceedings in which we are involved, see "Business—Legal Matters."

Extensive regulation of our businesses may limit our activities and negatively 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 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 and are not designed to protect our investors. Consequently, these regulations often serve to limit our activities, including through net capital requirements, client protection and market conduct requirements. 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 and the CVM, and self-regulatory organizations. The Luxembourg Branch is a licensed credit institution and as such is also subject to laws and regulations and ongoing regulatory review by the Luxembourg authorities. We have no control over these laws and regulations, which govern all aspects of our operations, including regulations that impose:

- minimum capital requirements;
- 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; 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 and Peruvian operations are, and our Mexican operations will be, 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 Luxembourg Branch) may adversely affect us.

Brazilian banks and their foreign branches (including the Luxembourg 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.

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, considering the gradual recovery from the global financial markets crisis, the Central Bank has been increasing and restating 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, 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 impact our results of operations and financial condition.

In June 2004, the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, approved a new 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. The Basel Committee's package of reforms will increase the minimum capital requirements and may require banks to hold a capital conservation buffer and a countercyclical buffer of up to 2.5% 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 No. 4,192, determined, among others, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the reference shareholders' equity (*Patrimônio de Referência*), or PR. See "Regulatory Overview–Capital Adequacy and Leverage."

Among the changes introduced by this new set of rules, it is important to highlight: (i) the introduction of the concept of quasi-financial institutions (*instituições assemelhadas*); (ii) the necessity of consolidation of financial statements of such *quasi*-financial institutions; (iii) the issuance of new rules for the calculation of the components of the PR, (including Common Equity Tier 1 Capital (*Capital Principal*) and Additional Tier 1 Capital (*Capital Complementar*), both of which comprising the so-called Tier 1 Capital). These changes are to be implemented from October 1, 2013 to January 1, 2022.

The Basel III Accord regulatory capital requirements will be gradually increased by the Central Bank until 2019 and may require us to increase our capital basis, which could negatively impact our results and may make it more difficult for us to maintain the 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, we may be unable to meet the minimum capital adequacy requirements required by the Central Bank. We may also be compelled to limit our credit operations, dispose our assets and/or take other measures that may adversely affect us.

As a result of the financial crisis in Europe, many governments and organizations have proposed and, in certain cases, adopted significant changes in banking regulations. A number of them, such as Basel III and the Capital Requirement Regulation, or CRR, are ongoing and will result in higher capital requirements in the future.

Within the EU, the new requirements have been implemented on the basis of a set of amendments to the Capital Requirements Directive, or CRD IV, and corresponding regulations. We expect future capital requirements for credit institutions to become significantly more stringent in terms of both quality and quantity.

In January 2013, the Basel Committee amended plans for liquidity ratio requirements, extending the deadline to meet liquidity coverage ratios from 2015 to 2018 and broadening the scope of assets eligible that count toward the liquidity buffer.

The Luxembourg Branch is, together with the competent regulators, currently assessing the extent to which it will be subject to a number of prudential requirements that apply in Luxembourg. The implementation of regulatory changes is likely to further increase the costs of compliance for the Luxembourg Branch and other credit institutions, which may affect its operations, including the issuance of and obligations under the Notes. Depending on the scope and type of such regulatory changes, they could lead to reduced levels of activity for financial institutions, which could significantly impact the business, financial condition and results of operations.

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 a material 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.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was signed into law. The Dodd-Frank Act aims to reform various aspects of the U.S. financial markets and covers 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, or the Council, which is charged with monitoring and mitigating systemic risk in the financial industry. As part of this responsibility, the Council would have the authority to subject certain financial firms to additional regulations, which could limit the amount of risk-taking engaged in by certain financial firms. It is not certain what the scope of future rulemaking and interpretive guidance from the SEC, the Financial Industry Regulatory Authority, or FINRA, and other regulatory agencies may be and what impact that will have on our compliance costs, business, operations, and profitability.

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. The SEC, FINRA and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by U.S.-registered broker-dealers. Our U.S. broker-dealer is required to comply with 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 a negative effect on our business, financial condition and results of operations.

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. 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 tax rates, which could also have a negative effect on us.

Risk Factors Relating to the Notes

We, through our Cayman Islands branch, are an Initial Purchaser in this offering and a significant investor in the Notes is an affiliated company, and through our and such investor's participation in the bookbuilding process, distortions may occur in the setting of the material terms and the price of the Notes and your rights under the Notes may be materially impacted.

Banco BTG Pactual, the issuer of the Notes, is also acting as an Initial Purchaser in this offering. In our capacity as Initial Purchaser, we will participate in the setting of the issue price, interest rate and other material terms of the Notes, together with the other Initial Purchasers. In addition, the Merchant Banking Partnership, which is owned by the Partners, is expected to purchase approximately US$800 million of Notes and certain Partners, acting in a personal capacity, intend to place orders in the bookbuilding process of this offering through different investment vehicles. Please see "Related Party Transactions—Purchase of the Notes by the Merchant Banking Partnership and Certain Partners." These participations in the bookbuilding process may cause distortions in such terms of the Notes or reduce the liquidity of the Notes in the secondary market.

The holding of a substantial portion of the Notes by affiliated companies could have a material adverse effect on the liquidity of the Notes and such illiquidity could adversely affect the market value of the Notes and your ability to dispose of the Notes. In addition, these affiliated companies may elect to sell the Notes that it purchases at any time. Sales of a significant portion of its Notes by such affiliated companies for any reason, or the perception that such sales could occur, may adversely affect the market price of the Notes, making it difficult for investors in the Notes to sell their Notes at a time and price that they deem appropriate, or investors may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes.

For the purpose of determining whether the holders of the requisite aggregate principal amount of the outstanding Notes have given any request, demand, authorization, direction, declaration, notice, consent or waiver under the Indenture, Notes owned by affiliated companies shall be disregarded and deemed not to be outstanding. However, a third party transferee of the affiliated companies' Notes that is not our affiliate would have the ability to exercise significant control over decisions requiring the consent of holders of a majority in aggregate principal amount of the outstanding Notes.

Payments to be made by us under the Notes may be suspended if we are not in compliance with operational limits or capital requirements pursuant to regulations applicable to Brazilian banks.

Pursuant to CMN Resolution No. 4,192, as a condition for the Notes to qualify as Additional Tier 1 Capital (*Capital Complementar*), the Indenture provides that any interest payments to be made by us under the Notes on the corresponding payment dates shall be suspended if we are not in compliance with the then applicable minimum requirements for Additional Core Capital (*Adicional de Capital Principal*), Regulatory Capital or other operational limits requirements, if the Central Bank restricts the distribution of dividends and other similar payments relating to instruments then treated as Common Equity Tier 1 Capital (*Capital Principal*) or upon the occurrence of a Dissolution Event (as described under "Description of the Notes−Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments"). Furthermore, Resolution 4,192 only allows interest and Non-Principal Payments to be paid with proceeds resulting from distributable profits and profit reserves. In such case, all payments falling due under the Notes would be suspended until we are, and if such payment would not cause us to fail to be, in compliance with such limits and requirements, and during this period no interest would accrue or accumulate and need not be paid to any Noteholders. See "Description of the Notes—Payment of Principal, Interest and Other Amounts" for more information on the suspension of payments under the Notes. Our failure to satisfy these operational limits or capital requirements could prevent us from making interest and/or principal payments under the Notes and could adversely affect return on the Notes and their market value.

We may be required to amend the terms and conditions of the Notes without your prior consent to comply with the requirements of the Central Bank to qualify the Notes as Additional Tier 1 Capital (Capital Complementar).

We expect to qualify the Notes as Additional Tier 1 Capital (*Capital Complementar*) 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. Therefore, during the period of one year from the Closing Date, we may amend certain terms and conditions of the Notes without the prior consent of the

Noteholders in order to, and only to the extent necessary 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 Additional Tier 1 Capital (*Capital Complementar*) pursuant to CMN Resolution No. 4,192. However, we will not be permitted to make amendments without Noteholders' consent if such amendment would affect, among other things, amount of principal or interest on the notes. Any such amendment to the Notes may adversely impact your rights as a Noteholder and may adversely impact the market value of the Notes.

No assurance can be given that the Notes will qualify as Additional Tier 1 Capital (**Capital Complementar*****) or that the Central Bank will not amend the existing regulations or change its interpretation of the Tier 1 Capital regulations.***

We anticipate that the Notes will initially meet the requirements of Tier 1 Capital (more specifically, as Additional Tier 1 Capital (*capital complementar*) in accordance with CMN Resolution No. 4,192). The regulatory process in Brazil involves us submitting to the Central Bank the final terms and conditions for confirmation that we meet the regulatory capital requirements for Additional Tier 1 Capital (*Capital Complementar*) and the Central Bank will not provide specific guidance prior to issuance of the Notes. We cannot give any assurance that the Notes will qualify as Additional Tier 1 Capital (*Capital Complementar*). Alternatively, the Central Bank may require us to amend certain terms and conditions of the Notes as a condition to granting any such approval.

Furthermore, we cannot give any assurance as to whether the applicable requirements for Tier 1 Capital will change in the future. Even if the Notes initially meet the requirements of Additional Tier 1 Capital (*Capital Complementar*) under the current regulations, if any changes are made in the future, and unless the Notes are grandfathered into the new regulations, they could become disqualified as Additional Tier 1 Capital (*Capital Complementar*).

In addition, any such changes could result in a Regulatory Event (as defined under "Description of the Notes—Certain Definitions"), whereby after a period of five years following the Closing Date, and subject to the approval of the Central Bank or any other applicable Brazilian governmental authority (if such approval is then required), we would have the right to redeem the Notes.

The circumstances surrounding a write-off 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. 17, XV, of CMN Resolution No. 4,192, the Notes may be permanently written-off in an amount that may be equal to the amount of the Notes accounted as our Additional Tier 1 Capital (*Capital Complementar*). The occurrence of a write-off is inherently unpredictable and depends on a number of factors, some 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; public sector injections of capital; determination of our dissolution or subjection to intervention or Temporary Special Administration Regime (*Regime de Administração Temporária*), or RAET; and the Central Bank's determinations.

Fluctuations in our Common Equity Tier 1 Capital (*Capital Principal)* may be affected by changes in applicable capital adequacy standards and guidelines of Brazilian 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 No. 4,192 and our risk weighted assets are calculated according to Resolution No. 4,193; however, that calculation could change in the future to comply with new requirements of relevant Brazilian Governmental Authorities, including on an aspect of Basel III requirements that will be gradually incurred in the future. In addition, because a Brazilian Governmental Authority may require our principal capital 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, including through acquisitions such as the pending BSI acquisition and our future earnings and expected dividend payments. It may also be impacted by our ability to reduce risk exposure in businesses that we may seek to exit or losses in our business.

In addition, the calculation of our Common Equity Tier 1 Capital (*Capital Principal)* and risk weighted assets 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 our 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 Tier 1 Capital portion will be written-off in case our Common Equity Tier 1 Capital (*Capital Principal)* falls below 5.125% 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 5.125% of our risk-weighted assets. 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 5.125% 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 June 30, 2014, our Tier 1 Capital in relation to our risk-weighted assets was 11.8%. 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, 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 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 (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.

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.

Other regulatory capital instruments may not be subject to a write-off at the same time as the Notes or at all.

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. In addition, according to CMN Resolution 4,192, the Central Bank requires the write-off of our Additional Tier 1 Capital (*Capital Complementar*), including the Notes, before it determines write-offs of financial instruments qualifying as Tier 2 Capital.

The Notes have no maturity date and are not redeemable at the Noteholder's option at any time.

The Notes are perpetual and have no fixed maturity or mandatory redemption date, and are not redeemable at the Noteholder's option at any time. As a result, Noteholders will be entitled to receive a return of the principal amount of their investment only if (i) the Issuer elects to so redeem, which may occur at the earliest on the fifth anniversary following the Closing Date or on any Interest Payment Date thereafter or (ii) as a result of a Tax Event or Regulatory Event, regardless of when such event occurs, only on or following the fifth anniversary of the Closing Date, provided that, in all cases, redemption may only be effected if the Issuer is in compliance with the Risk Based Capital Requirements and receives the prior authorization of the Central Bank. See "Description of the Notes—Optional Redemption due to a Tax Event or a Regulatory Event" for further details. Therefore, Noteholders should be aware that they will be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

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

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 including by reason of rating agencies changing their methodologies for rating securities with features similar to the Notes in the future. This may include the relationship between the ratings assigned to our senior securities and ratings assigned to securities with features similar to the Notes, sometimes called "notching." In addition, the ratings on the Notes may change following any amendments to the terms and conditions of the Notes that we may make in the future. See "Description of the Notes— Amendments." 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. In general, European regulated investors are restricted under Regulation (EU) No 1060/2009 (as amended) on credit rating agencies, or 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.

The absence of a public market for the Notes may affect the Noteholders' ability to sell the Notes in the future and may affect the price the Noteholders would receive if such sale were to occur.

The Notes are new securities and, although application will be made to list the Notes on the Official List of the Luxembourg Stock Exchange and for them to be admitted to trading on the Euro MTF, there is no assurance that a market for the Notes will develop. In addition, we may delist the Notes from the Euro MTF if we are required to publish financial information either more regularly than we would otherwise be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information. Accordingly, we cannot give any assurance as to the development or liquidity of any market for the Notes.

The liquidity of, and trading market for, the Notes may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance. The holders of the Notes may not be able to sell their Notes at a particular time, and the price that such Noteholders receive at the time of sale may not be favorable.

In addition, due to certain transfer restrictions applicable to the Notes, you may be required to bear the risk of your investment for an indefinite period of time. For a discussion of certain restrictions on resale and transfer, see "Transfer Restrictions."

Controls and restrictions on foreign currency remittance, or remittance 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 conserve 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.

Holders of the Notes 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 holders of the Notes issued by a U.S. corporation.

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.

We may not be able to obtain necessary governmental authorizations.

Any issue of Notes by us through our Luxembourg Branch is not subject to approval by or registration with the Central Bank. In the event payment under the Notes issued by our Luxembourg Branch is made directly from Brazil (whether by reason of a lack of liquidity of our Luxembourg Branch, acceleration, enforcement or judgment or imposition of any restriction under the laws of the Luxembourg), a specific Central Bank approval will be required. If we are unable to obtain the required approvals, if needed for the payment of amounts owed by our Luxembourg 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 assure you that other remittance mechanisms will be available in the future, and, even if they are available in the future, we cannot assure that payment on the Notes would be possible through such mechanism. If we are unable to make payments on the Notes through our Luxembourg Branch and we are prevented from making the payments from Brazil, we would not be able to make payments on the Notes.

Our obligations under the Notes will be subordinated to our senior liabilities, and to some Brazilian statutory obligations.

The Notes will be, by their terms unsecured, deeply 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 Additional Tier 1 Capital (*Capital Complementar*) under CMN Resolution No. 4,192 and will rank in priority only to our most senior preferred stock and common stock. The Indenture does not contain any restrictions on our ability to incur additional indebtedness that is senior or *pari passu* to the Notes, except in very limited circumstances. The issuance of any such instruments may reduce the amount recoverable by Noteholders upon any bankruptcy, insolvency or similar events and could increase the likelihood that we may suspend the payment of interest on the Notes or cause the Notes to be written off. By reason of the subordination of the Notes, in the event of our winding up or dissolution, although the full amount of the Notes and any accrued interest thereon may become immediately due and payable, our assets will be available to pay such amounts only after all 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 and social security from employees (up to an amount equivalent to 150 times the minimum wage), claims deriving from transactions secured by collateral, as well as taxes, court fees and expenses, will have preference over any other claims, including those of Noteholders. See "Regulatory Overview—Insolvency Laws Concerning Financial Institutions in Brazil."

The Noteholders may not have the remedy of instituting bankruptcy proceedings if there has been a Payment Default on the Notes. The Noteholders' remedies if we breach other provisions of the Notes may be even more limited.

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 Luxembourg if there has been a Payment Default. 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 Luxembourg court. There is also significant uncertainty whether a court in the United States or Luxembourg 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 the 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, Luxembourg and Brazilian laws.

Our controlling shareholders may have interests that differ from your interests as a Noteholder.

André Santos Esteves, our controlling shareholder (i) has an economic interest, directly and indirectly, of approximately 22.4% in our capital stock and (ii) controls, directly or indirectly, approximately 83.9% of our common shares which, subject only to certain limited exceptions (see "Our Partnership—Shareholders Agreements—Partners Brazil Shareholders Agreement"), will allow Mr. Esteves, in his sole discretion, 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, Mr. Esteves is and 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 unit holders 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 shareholder of the BTG Pactual Group, Mr. Esteves will also be able to prevent or cause a change in control of the BTG Pactual Group. The interests of our controlling shareholder may not coincide with yours as a holder of Notes. For example, our controlling shareholder may have an interest in undertaking expansions, acquisitions, divestitures, financings and other actions that, in his judgment, could enhance his equity investments, even though those actions might involve risks to you as a holder of the Notes.

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 our failure 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 will be subordinated 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 "Risk Factors—Risks Factors Relating to the Notes—Controls and restrictions on foreign currency remittance, or remittance to foreign investors generally, could impede our ability to make payments under the Notes."

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—General."

ERISA, the Code and Similar Law may restrict investments by plans in the Notes.

Except under the limited circumstances described in "Certain ERISA Considerations," the Notes may not be acquired by, on behalf of or with the assets of any employee benefit plan or other plan, account or arrangement subject to ERISA, the Code, or any Similar Law. See "Certain ERISA Considerations."

A plan fiduciary considering an investment in the Notes should consider, among other things, whether such an investment is consistent with its fiduciary obligations under ERISA, the Code or any Similar Law, and whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any applicable Similar Law and, if so, whether an exemption from such prohibited transaction rules is available. 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, 2014, 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" (the "Income Test") 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 "Asset Test"). 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—Certain United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations."

The Foreign Account Tax Compliance Act, or FATCA, may impose withholding on payments on the Notes.

Legislation commonly referred to as FATCA generally imposes a reporting regime and potentially a 30% withholding tax with respect to certain payments made to any non-U.S. financial institution (a "foreign financial institution," or "FFI" (as defined in the Code) that (i) does not become a "Participating FFI" by entering into an agreement with the U.S. Treasury Department to provide certain information in respect of its account holders and (ii) is not otherwise exempt from or in deemed-compliance with FATCA. This withholding regime began being phased in in July 2014.

The United States and Brazil have reached an agreement in substance to facilitate the implementation of FATCA. Based on such agreement in substance, Brazil is treated as having the Model 1 intergovernmental agreement, or the Model 1 IGA, in effect. Pursuant to FATCA and the Model 1 IGA, an FFI in Brazil may be treated as a "Reporting Financial Institution" not subject to FATCA withholding on any payments it receives. We have registered to become a Reporting Brazil Financial Institution.

To the extent any payments on the Notes are considered foreign passthru payments, such withholding may be imposed on such payments to any foreign financial institution (including an intermediary through which a holder may hold the Notes) that is not a Participating FFI or any other investor who does not provide information sufficient to establish that the investor is not subject to withholding under FATCA, unless such foreign financial institution or investor is otherwise exempt from FATCA. Under current guidance, the term "foreign pass-thru payment" is not defined and it is therefore not clear whether or to what extent payments on the Notes would be considered foreign passthru payments.

Withholding on foreign passthru payments would not be required with respect to payments made before January 1, 2017. It is not yet clear how the Model 1 IGA, or an intergovernmental agreement that Brazil and the

United States subsequently enter into, will address foreign passthru payments and whether such agreement may relieve foreign financial institutions of any obligation to withhold on foreign passthru payments.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and the IGA, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisors regarding the application of FATCA to us and to payments they may receive in connection with the Notes.

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 June 30, 2014 and, as adjusted, to reflect US$1,295.3 million in net proceeds from the offering of the Notes, after giving effect to this offering. The adjusted amounts do not reflect the effect of our pending acquisition of BSI, which has not yet been consummated and remains subject to all required regulatory approvals. The information described below is derived from our unaudited interim financial statements as of June 30, 2014.

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

(Unaudited)	**As of June 30, 2014**			
	Actual		**As Adjusted**[(1)]	
	(in R$ millions)	**(in US$ millions)**[(2)]	**(in R$ millions)**	**(in US$ millions)**[(2)]
Current liabilities				
Deposits	15,879.7	7,209.9	15,879.7	7,209.9
Open market funding	25,146.4	11,417.2	25,146.4	11,417.2
Funds from securities issued and accepted	7,747.2	3,517.4	7,747.2	3,517.4
Interbank transactions	4.3	1.9	4.3	1.9
Loans and onlending	2,662.7	1,208.9	2,662.7	1,208.9
Derivative financial instruments	13,729.1	6,233.4	13,729.1	6,233.4
Other liabilities	14,479.7	6,574.2	14,479.7	6,574.2
Total current liabilities	**79,649.1**	**36,163.1**	**79,649.1**	**36,163.1**
Long-term liabilities				
Deposits	2,024.3	919.1	2,024.3	919.1
Open market funding	8,460.5	3,841.3	8.460.5	3,841.3
Funds from securities issued and accepted	9,758.8	4,430.8	9,758.8	4,430.8
Loans and onlending	2,411.3	1,094.8	2.411.3	1,094.8
Derivative financial instruments	4,446.4	2,018.8	4,446.4	2,018.8
Other liabilities	8,647.2	3,926.1	11,500.1	5,221.4
Total long-term liabilities	**35,748.5**	**16,230.9**	**38.601.4**	**17,526.2**
Deferred income	**128.0**	**58.1**	**128.0**	**58.1**
Non-controlling interest	**805.9**	**365.9**	**805.9**	**365.9**
Shareholders' equity	**13,479.6**	**6,120.1**	**13,479.6**	**6,120.1**
Total capitalization[(3)(4)]	**129,811.1**	**58,938.1**	**132,664.0**	**60,233.4**

(1) Adjusted to reflect an increase of US$1,295.3 million of "Other liabilities" (or R$2,852.9 million) from the proceeds from this offering, after deducting the Initial Purchasers' commissions, but before deducting estimated expenses of the offering. The amounts expressed in *reais* were translated for convenience only using the exchange rate as reported by the Central Bank on June 30, 2014 for *reais* into U.S. dollars of R$2.20 to U.S.$1.00.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank on June 30, 2014 for *reais* into U.S. dollars of R$2.20 to U.S.$1.00.

(3) Total capitalization corresponds to the sum of deposits, open market funding, funds from securities issued and accepted, interbank transactions, loans and onlending, derivative financial instruments, other liabilities, deferred income, non-controlling interest and shareholders' equity.

(4) The data set forth in the table above does not reflect the effect of our pending acquisition of BSI, which has not yet been consummated and remains subject to all required regulatory approvals, including payments and issuances of our shares to be made under the share purchase agreement. 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—Pending Acquisition of BSI." for additional information on the pending acquisition of BSI.

USE OF PROCEEDS

The gross proceeds from the offering of the Notes are US$1,300.0 million (of which US$575.0 million is attributable to gross proceeds paid by the Merchant Banking Partnership and US$375.0 million is attributable to gross proceeds paid by certain Partners acting in a personal capacity through different investment vehicles). We intend to use the net proceeds from the offering of the Notes, which are estimated to be approximately US$1,295.3 million after deducting the Initial Purchasers' discounts and commissions, but before estimated offering expenses, to finance the acquisition of BSI, to enhance our capital structure and for general corporate purposes.

EXCHANGE RATES

Before March 14, 2005, there were two foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market, where exchange positions of Brazilian banks in the commercial market and the floating market were unified and differentiated solely for regulatory purposes. The commercial market was reserved primarily for foreign trade transactions and transactions that generally require prior registration with the Central Bank, such as the purchase and sale of registered investments by foreign persons and related remittances of funds abroad. Purchases of foreign exchange in the commercial market could be carried out only through a financial institution in Brazil authorized to buy and sell currency in that market. The commercial market rate was the commercial selling rate for converting Brazilian currency into U.S. dollars, as reported by the Central Bank.

Exchange rates for the *real* can be highly volatile. The *real* appreciated throughout 2007 from R$2.14 per US$1.00 on December 31, 2006 to R$1.77 per US$1.00 on December 31, 2007. In 2008, mainly as a result of the negative impact of the global financial crisis on the Brazilian economy, the *real* depreciated significantly against the U.S. dollar. The *real*/U.S. dollar exchange rate on December 31, 2008 was R$2.34 per US$1.00, a 24.2% depreciation in relation to the December 31, 2007 rate. In 2009, the *real* stabilized and then commenced appreciating against the U.S. dollar and, as of December 31, 2009, the *real*/U.S. dollar exchange rate was R$1.74 per US$1.00, representing an appreciation of 33.8%. In 2010, the *real* fluctuated against the U.S. dollar and, as of December 31, 2010, the *real*/U.S. dollar exchange rate was R$1.67 per US$1.00, an appreciation of 3.5% compared to December 31, 2009. In 2011, the *real* continued to fluctuate against the U.S. dollar and, as of December 31, 2011, the *real*/U.S. dollar exchange rate was R$1.88 per US$1.00. In 2012, the *real* further depreciated by 8.5% against the U.S. dollar and the *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2012 was R$2.04 per US$1.00. In 2013, the *real* depreciated 12.9% against the U.S. dollar. As of December 31, 2013, the *real*/U.S. dollar exchange rate reported by the Central Bank was R$2.34 per US$1.00. As of June 30, 2014, the *real*/U.S. dollar exchange rate reported by the Central Bank was R$2.20 per US$1.00 and as of September 11, 2014, the *real*/U.S. dollar exchange rate reported by the Central Bank was R$2.29 per US$1.00.

The following table shows the *real*/U.S. Ptax 800 selling rate for U.S. dollars as published by the Central Bank for the periods and dates indicated:

	Closing Selling Rates of R$ per US$1.00			
Year ended	**Low**	**High**	**Average(1)**	**Period end**
December 31, 2009	1.70	2.42	1.99	1.74
December 31, 2010	1.66	1.88	1.76	1.67
December 31, 2011	1.78	1.88	1.84	1.88
December 31, 2012	1.70	2.11	1.95	2.04
December 31, 2013	1.95	2.45	2.16	2.34
Month ended	**Low**	**High**	**Average(2)**	**Period end**
January 2014	2.33	2.44	2.38	2.43
February 2014	2.33	2.42	2.38	2.33
March 2014	2.26	2.36	2.33	2.26
April 2014	2.20	2.28	2.23	2.24
May 2014	2.21	2.24	2.22	2.24
June 2014	2..20	2.28	2.24	2.20
July 2014	2.21	2.27	2.22	2.27
August 2014	2.24	2.30	2.27	2.24

(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.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious 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 Factors Relating to Brazil—Exchange rate instability may adversely affect us."

The following table shows the *real*/CHF selling rate for Swiss Francs as published by the Central Bank for the periods and dates indicated:

	Closing Selling Rates of R$ per CHF1.00			
Year ended	**Low**	**High**	**Average[(1)]**	**Period end**
December 31, 2009	1.68	2.20	1.84	1.69
December 31, 2010	1.57	1.79	1.69	1.78
December 31, 2011	1.71	2.24	1.89	1.98
December 31, 2012	1.86	2.30	2.08	2.24
December 31, 2013	2.05	2.66	2.33	2.65

Month ended	**Low**	**High**	**Average[(2)]**	**Period end**
January 2014	2.58	2.72	2.64	2.66
February 2014	2.63	2.70	2.67	2.66
March 2014	2.55	2.70	2.64	2.57
April 2014	2.49	2.56	2.53	2.53
May 2014	2.47	2.56	2.50	2.50
June 2014	2.46	2.54	2.50	2.50
July 2014	2.45	2.50	2.48	2.49
August 2014	2.44	2.53	2.49	2.44

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 financial statements and related notes and the sections "Presentation of Financial and Other Information," "Summary Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our balance sheet and income statement as of and for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 and our unaudited interim consolidated financial statements as of and for the six months ended June 30, 2013 and 2014, respectively, 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 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 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 adjusted income statement has not been audited or reviewed by our independent auditors.

Our 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 years ended December 31, 2011, 2012 and 2013 and as of and for the six months ended June 30, 2013 and 2014. Our 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 years ended December 31, 2011, 2012 and 2013 and as of and for the six months ended June 30, 2013 and 2014. The classification of the line items in our adjusted income statement, however, has not been 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—Our Adjusted Income Statement."

BSI's balance sheet and income statement as of and for the years ended December 31, 2012 and 2013 and as of June 30, 2014 and for the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with its audited consolidated financial statements as of and for the years ended December 31, 2012 and 2013 and its unaudited interim consolidated balance sheet and consolidated profit and loss statement as of June 30, 2014 and for the six months ended June 30, 2013 and 2014, respectively, which are included elsewhere in this Offering Memorandum. The presentation of BSI's audited financial statements is based upon provisions of the Swiss Code of Obligations, the Swiss Banking Law and the directives of FINMA (Swiss GAAP).

We have translated some of the *real* amounts included in this Offering Memorandum into U.S. dollars. You should not construe these translations as representations that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts using a rate of R$2.20 to US$1.00 and, the U.S. dollar selling rate as of June 30, 2014, published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5. See "Exchange Rates."

We have also translated the Swiss Franc amounts relating to (i) BSI's total revenues, consolidated gross profit and net new money using a rate of CHF0.42 to R$1.00, and (ii) BSI's WUM, deposits, shareholders' equity and total capital ratio using a rate of CHF0.38 to R$1.00, the Swiss Franc average and selling rates for the year ended December 31, 2013 and as of June 30, 2014, respectively, as published by Bloomberg.

Selected Balance Sheet (Brazilian GAAP)

(Unaudited for June 30, 2014)	As of December 31,			As of June 30,	
	2011	2012	2013	2014	2014
	(in R$ millions)				(in US$ millions)
Assets					
Cash at banks	517.3	552.2	1,074.0	1,264.5	574.1
Interbank investments	19,583.0	23,968.9	23,812.3	33,110.5	15,033.2
Securities and derivative financial instruments	42,893.9	74,202.7	42,657.2	53,300.6	24,200.0
Interbank transactions	876.7	475.0	239.9	357.8	162.4
Loans	4,665.2	7,268.6	15,080.0	12,943.0	5,876.5
Securities trading and brokerage	4,403.8	3,885.6	11,531.6	8,454.2	3,838.5
Other receivables	7,641.7	9,430.9	20,793.6	16,246.5	7,376.4
Other assets	25.1	35.5	98.2	40.3	18.3
Permanent assets	1,405.3	3,496.8	4,514.5	4,093.7	1,858.6
Total assets	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**	**58,938.1**
Liabilities and Shareholders' equity					
Deposits	14,211.1	14,624.0	17,652.7	17,904.0	8,128.9
Open market funding	39,061.0	52,650.7	31,293.3	33,606.9	15,258.5
Funds from securities issued and accepted	3,774.6	8,480.1	14,897.0	17,506.0	7,948.2
Interbank transactions	–	0.3	2.5	4.3	1.9
Loans and onlending	919.7	1,904.7	5,080.5	5,074.0	2,303.7
Derivative financial instruments	2,953.8	8,063.7	7,493.4	18,175.6	8,252.2
Securities trading and brokerage	7,930.0	14,575.6	6,533.7	3,657.9	1,660.8
Subordinated debts	4,158.3	6,246.1	6,748.7	6,966.2	3,162.8
Other liabilities	2,419.9	6,469.6	17,485.8	12,502.8	5,676.6
Deferred income	31.5	111.9	151.9	128.0	58.1
Non-controlling interest	212.2	88.1	334.0	805.9	365.9
Shareholders' equity	6,339.8	10,101.5	12,127.8	13,479.6	6,120.1
Total liabilities and shareholders' equity	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**	**58,938.1**

Income Statements (Brazilian GAAP)

(Unaudited for June 30, 2013 and 2014)	For the year ended December 31,			For the six months ended June 30,		
	2011	2012	2013	2013	2014	2014
	(in R$ millions)					(in US$ millions)
Financial income	**6,050.1**	**8,582.9**	**9,583.3**	**4,135.9**	**6,929.5**	**3,146.2**
Loans	945.6	1,333.6	1,811.3	840.2	905.4	411.1
Securities	4,589.1	6,773.2	7,639.7	3,025.7	3,637.2	1,651.4
Derivative financial instruments	225.0	296.4	-	93.1	1,372.8	623.3
Foreign exchange	249.3	116.5	110.7	166.3	998.8	453.5
Mandatory investments	41.1	63.2	21.6	10.6	15.2	6.9
Financial expenses	**(4,549.6)**	**(5,277.3)**	**(6,686.1)**	**(2,417.0)**	**(4,125.1)**	**(1,872.9)**
Funding operations	(4,002.0)	(4,227.7)	(4,920.5)	(1,895.7)	(3,890.7)	(1,766.5)
Borrowings and onlending	(517.6)	(581.3)	(1,147.0)	(361.8)	(118.9)	(54.0)
Derivative financial instruments	-	-	(386.6)	-	-	-
Allowance for loan losses and other receivables	(30.0)	(468.3)	(232.0)	(159.4)	(115.4)	(52.4)
Net financial income	**1,500.4**	**3,305.6**	**2,897.2**	**1,718.9**	**2,804.4**	**1,273.3**
Other operating income	**174.3**	**454.4**	**881.5**	**134.9**	**50.5**	**22.9**
Income from services rendered	1,107.6	2,219.2	2,614.3	1,229.7	1,299.3	589.9
Personnel expenses	(359.7)	(605.7)	(602.8)	(248.9)	(339.6)	(154.2)
Other administrative expenses	(355.5)	(677.9)	(973.2)	(433.6)	(547.3)	(248.5)
Tax charges	(286.0)	(283.9)	(350.6)	(155.9)	(196.8)	(89.3)
Equity in the earnings of associates and jointly controlled entities	(3.5)	245.8	134.9	(285.2)	(115.2)	(52.3)
Other operating income	158.1	109.0	468.9	181.1	159.3	72.3
Other operating expenses	(86.6)	(552.1)	(410.0)	(152.3)	(209.3)	(95.0)
Operating income	**1,674.9**	**3,760.0**	**3,778.7**	**1,853.8**	**2,854.8**	**1,296.2**
Non-operating income (expenses)	9.2	(12.0)	304.4	1.0	4.0	1.8
Income before taxation and profit sharing	**1,684.1**	**3,748.0**	**4,083.1**	**1,854.8**	**2,858.8**	**1,298.0**
Income tax and social contribution	**199.2**	**(727.5)**	**(430.0)**	**(137.4)**	**(612.7)**	**(278.2)**
Provision for income tax	(116.6)	(607.5)	(523.5)	(307.7)	(467.3)	(212.2)
Provision for social contribution	(54.6)	(285.7)	(215.6)	(172.5)	(218.4)	(99.2)
Deferred income tax and social contribution	370.4	165.7	309.1	342.8	72.9	33.1
Statutory profit sharing	**(401.2)**	**(938.2)**	**(876.4)**	**(421.2)**	**(441.8)**	**(200.6)**
Non-controlling interest	(5.0)	(21.1)	(107.0)	(46.9)	3.6	1.6
Net income	**1,477.1**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**	**820.8**

Adjusted Income Statement (Unaudited)

	For the year ended December 31,			For the six months ended June 30,		
	2011	**2012**	**2013**	**2013**	**2014**	**2014**
			(in R$ millions)			**(in US$ millions)**
Investment banking	338.3	448.0	459.4	279.0	267.2	121.3
Corporate lending	366.5	563.6	764.9	393.6	388.1	176.2
Sales and trading	999.9	1,516.6	1,729.7	1,132.1	1,591.8	722.7
Asset management	443.2	1,190.2	1,172.2	469.3	618.6	280.9
Wealth management	144.5	201.7	385.3	202.8	183.8	83.4
Principal investments	(111.2)	1,356.9	870.9	(49.7)	(94.3)	(42.8)
Banco Pan	(52.0)	(244.5)	(123.5)	(15.5)	(50.8)	(23.1)
Interest and other	518.1	587.2	637.1	265.2	530.3	240.8
Total revenues	**2,647.1**	**5,619.8**	**5,896.0**	**2,676.7**	**3,434.7**	**1,559.5**
Bonus	(479.6)	(1,168.6)	(946.2)	(425.6)	(456.2)	(207.1)
Retention expenses	(32.5)	(5.9)	-	-	-	-
Salaries and benefits	(213.2)	(326.0)	(494.0)	(226.1)	(322.8)	(146.6)
Administrative and others	(293.1)	(537.1)	(629.5)	(277.1)	(386.4)	(175.4)
Goodwill amortization	(31.2)	(467.4)	(191.9)	(90.4)	(86.0)	(39.1)
Tax charges, other than income tax	(177.0)	(241.4)	(266.6)	(138.3)	(123.6)	(56.1)
Total operating expenses	**(1,226.7)**	**(2,746.4)**	**(2,528.2)**	**(1,157.5)**	**(1,374.9)**	**(624.3)**
Income before taxes	**1,420.4**	**2,873.4**	**3,367.7**	**1,519.2**	**2,059.8**	**935.2**
Income tax and social contribution revenue (expense)	56.6	(812.2)	(698.0)	(269.9)	(251.9)	(114.4)
Net income	**1,477.1**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**	**820.8**

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

Overview

Banco BTG Pactual is a global investment bank, asset manager and wealth manager with a dominant franchise in Latin America. In addition, Banco BTG Pactual has established a successful international investment and distribution platform. It was founded in 1983 and has operated as a meritocratic partnership since its inception. Currently, Banco BTG Pactual has offices on five continents, and provides a comprehensive range of financial services to a Latin American and global client base that includes corporations, institutional investors, governments and HNWI.

Banco BTG Pactual's Business

Banco BTG Pactual's seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **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 across a wide range of asset classes, including equities, derivatives and commodities, in addition to interest rate and foreign exchange transactions for hedging and trading purposes;
- **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;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **Principal Investments**, which involves Banco BTG Pactual's capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments primarily in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by its asset management unit; and
- **Banco Pan**, Banco BTG Pactual's commercial and consumer banking business conducted through Banco Pan, an independent Brazilian bank that Banco BTG Pactual has co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil.

Banco BTG Pactual is committed to further expanding its platform to additional markets around the world. Following its successful completion of two acquisitions in Latin America, Banco BTG Pactual has continued the implementation of strategies to consolidate and expand its Latin American franchise, including the opening of a bank in Chile, which it expects to occur in 2014. In addition, Banco BTG Pactual recently received approval from the Mexican Central Bank and the CNBV to operate a broker-dealer in Mexico, where Banco BTG Pactual has already begun its operations and has achieved consistent gains in market share. Beyond its Latin American initiatives, Banco BTG Pactual recently launched a diversified global commodities business that operates 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.

Banco BTG Pactual recently signed an agreement in July 2014 to acquire BSI, a global wealth management company based in Lugano, Switzerland with a strong presence in all major European markets as well as Asia, the Middle East and Latin America. The transaction remains subject to the satisfaction of a number of conditions typical of a transaction of this type, including the receipt of all required regulatory approvals. Upon completion of the acquisition, Banco BTG Pactual will seek to replicate its business model in markets where it currently has a less significant presence and expects to achieve substantial benefits in its wealth management, asset management, corporate lending and sales and trading platforms worldwide. Banco BTG Pactual believes that its transaction with BSI represents a milestone in its efforts to replicate its history of success in Latin America throughout the world, and advances its goal of becoming a true global leader in financial services.

Our Group

Banco BTG Pactual is part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. Banco BTG Pactual, the principal operating company in the group, was founded as a small broker-dealer and has grown by creating new business units and expanding its activities within these business units. BTGI, the investment vehicle for many of the BTG Pactual Group's principal investments (including most of its non-Brazilian investments and some of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by Banco BTG Pactual's asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by Banco BTG Pactual as revenues from its asset management unit. BTGI will not participate in this offering as either an issuer or a guarantor.

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. 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.

Brazil began to tighten macroeconomic policy in 2011. The Brazilian federal government announced cuts to the budget and, on July 20, 2011, the Central Bank increased the SELIC rate to 12.5%**.** Regulatory measures of credit restraint were also adopted. However, due to the worsening global macroeconomic environment and its potential impact on Brazilian economic growth and inflation levels, the Central Bank decided to gradually decrease the SELIC rate over the course of the second half of 2011, settling at 11.0% as of December 31, 2011, in order to stimulate the economy while maintaining inflation within the acceptable range established by the Central Bank. In 2011, the IPCA inflation reached 6.5%, while the exchange rate reached R$1.88 per US$1.00 as of December 31, 2011, representing a 12.0% depreciation compared to the exchange rate as of December 31, 2010.

The unstable international economic environment in 2011, including concerns about fiscal difficulties in Europe, impacted Brazil's stock market, and the IBOVESPA fell by 18.1% that year.

After a first half of 2011 marked by risk events and political turmoil in Greece, elections in France and the Spanish bank bailout, there was an improved political scenario and more accommodative monetary policies in many advanced and emerging economies in the third quarter of 2011. In Brazil, the loosening of monetary policy since mid-2011, along with several other economic stimulus measures implemented by the government were expected to generate greater momentum toward the end of the year.

2012 brought signs of recovery in economic activity. The unemployment rate remained at historic lows, while slower formal employment growth appeared to reflect supply side constraints. Credit aggregates showed only moderate growth in 2012 but overall credit conditions improved towards the end of the year, with a continued decline in interest rates, lower delinquency rates and some recovery in vehicle financing. Retail sales growth continued to strengthen while industrial activity, a weak spot of the economy in 2011 and the beginning of 2012, strengthened slightly towards the end of the year. There were also signs of more adjusted inventories.

Brazil's IPCA consumer price index at the end of 2012 was 5.8%, far above the 4.5% center point of the Central Bank's annual inflation target. This increase was mainly due to food and beverages inflation (which represents 39% of the index) increasing 9.86%, primarily as a result of an increase in food prices. In 2012, the price of food consumed at home increased 10.04%, mostly due to climatic problems, which was significantly higher than the 5.43% increase in 2011. In addition, there was an upward contribution from the fading impact of tax breaks for durable goods which had previously played a crucial role. The general price index (IGP) also accelerated during 2012, increasing 7.2%.

Regarding monetary policy, the SELIC rate was gradually cut by 325 basis points in 2012, from 10.50% in January 2012 to 7.25% in early October 2012, which was maintained at the December 2012 meeting of the Central Bank's Committee on Monetary Policy (*Comitê de Política Monetária*), or COPOM.

Economic growth accelerated much less than expected in 2013, mainly due to a combination of: (i) a broad slowdown in the private credit markets; (ii) high inventory levels in the manufacturing sector; (iii) deceleration of labor income growth; (iv) higher interest rates; and (v) decreased business and consumer confidence. However, GDP growth improved in 2013 as compared to 2012 as real GDP increased by an estimated 2.2%, while in 2012, real GDP increased by 1.0% compared to the prior year. Investment levels rose by more than 5.0% in 2013 due to BNDES credit expansion, while in 2012, investment levels decreased 4.0%.

In 2013, inflation increased more than expected, mainly in the first half of 2013, leading the Central Bank to increase the interest rate. COPOM raised the SELIC rate by 275 basis points to 10% in 2013. This tightening cycle continued through the first quarter of 2014. Despite the interest rate increase and weak economic activity, inflation ended the year at 5.91%, slightly higher than the 5.84% rate of 2012 and still well-above the target of 4.5%.

In 2013, the Brazilian government adopted several measures to increase the primary surplus temporarily. The primary surplus amounted to 1.9% of GDP in 2013, slightly below its level in 2012, which was 2.4% of GDP. This surplus was bolstered by certain non-recurring revenue sources, including revenues from (i) the Brazilian debt renegotiation program and (ii) the signing-fee for the Libra oil field, an ultra deepwater oil prospect located off the coast of Rio de Janeiro.

Fiscal policy coupled with increased government intervention in certain sectors (e.g. oil and electricity) weighed on the *real* in 2013, which depreciated 13.0% against the U.S. dollar. In order to curb further *real* depreciation, the Central Bank introduced an intervention program pursuant to which it sold US$3.0 billion per week (starting at the end of August 2013) through swap auctions and credit lines. The Central Bank extended the program through the end of the first half of 2014, although it reduced weekly U.S. dollar sales to US$2.0 billion.

Regarding external accounts, Brazil's current account deficit increased from negative 2.4% of GDP in 2012 to negative 3.7% in the 12-month period ended November 30, 2013. However, foreign direct investment has not been sufficient to finance the current account deficit, as it remained roughly stable at 2.8% of GDP throughout 2013. In addition, the Central Bank continues to face challenges in addressing the short-term imbalances due to high level of reserves.

The first quarter of 2014 started on a risk off mode, reflecting the escalation of tensions in emerging markets currencies. Economic indicators in the US (the labor market in particular) and in China disappointed. However, the risk aversion started to abate at the end of January when the central bank of Turkey finally hiked interest rates in an intermeeting decision and the economic indicators in the US started to show that the slowdown was temporary, reflecting in large part the unusually cold winter. The months of February and March were marked by a risk on mode in spite of the problems in Ukraine.

The S&P 500 Index posted a small increase of 1.3% in first quarter, and its price dynamics within the quarter was reflected in the main emerging markets equity indices. The emerging market equity index (MSCI EM Index) declined 1.2% in the first quarter, but rose 6.2% from February 5 (the lowest level) to the end of March. On the other hand, the DAX was flat and the Nikkei declined by 9%, in large part due to disappointment with the Bank of Japan, which decided not to increase its asset purchase program that was expected by investors. In Brazil, the IBOVESPA index declined by 2.1% in the same quarter (having previously risen 12.1% from the quarter's low at the beginning of March), despite the downgrade of the Brazil's sovereign credit rating by S&P (from BBB to BBB-, the lowest investment grade rating).

Global economic growth slowed down in the first quarter of 2014, led by the US economy, and inflation remained low, mainly in the developed economies. Although some part of the economic growth deceleration is likely to be structural, as in the case of China, a large part was due to temporary factors (i.e. weather effects). In Brazil, inflation remained high in the first quarter of 2014. The Central Bank raised the SELIC rate by 100bp in the first four months of the year (50bp in January and 25bp in both February and April) to 11% per annum and signaled that the tightening cycle is close to an end.

Investment banking market developments in the first quarter of 2014 were mainly related to M&A and DCM activity, since equity markets continued to show no significant signs of recovery, potentially in Brazil. M&A activity has not repeated the abnormally strong results of the last quarter of 2013, but was still up by 119% and 38% in Brazil and Latin America, respectively, compared to the same quarter of last year. By the same token, international DCM markets in both Brazil and Latin America have almost doubled when compared to first quarter of 2013, and risen even more if compared to last quarter of 2013. The exception was domestic DCM in Brazil, where volumes fell 50% as compared to the last quarter of 2013. ECM has also repeated disappointing volumes, with no transactions in Brazil and low levels in Latin America.

The second quarter of 2014 was positive for asset prices because of a combination of higher growth and accommodative monetary policies. In the US, economic activity improved in the second quarter of 2014, especially in the labor market, in sharp contrast with the weather-affected GDP figures of the first quarter of 2014. The Federal Reserve however, did not change its view that there will be a considerable period of time between its first rate hike and the end of its quantitative easing program. Monetary policy remained accommodative in Europe as well. The European Central Bank cut the deposit rate to -0.10% and announced new facilities to stimulate credit to small and medium firms in order to reduce the deflationary risks. In China, concerns of a hard lending dissipated as the economic indicators accelerated in the second quarter of 2014 in response to the easing measures adopted by the government. All in all, the risks of a disappointing economic growth abated in the second quarter of 2014 and financial conditions became more accommodative.

The favorable environment for risk-taking, coupled with low volatility in major asset classes, led to a decline in long term interest rates, higher stock prices and an appreciation of the major currencies against the U.S. dollar. Most of the currencies appreciated against the U.S. dollar. The Canadian dollar appreciated 3.6%, the *real* 2.6%, the Yen 1.9%, the Australian dollar 1.8% and the Mexican Peso 0.7%. Stock markets also reflected the risk taking environment. The S&P 500 appreciated by 4.7% in the second quarter of 2014, the Mexbol by 5.6%, BOVESPA by 5.5%, the DAX by 2.9% and the Nikkei by 2.3%.

In Brazil, economic activity continued to disappoint. Business confidence declined by 7% in the second quarter of 2014 while consumer confidence fell by 3.2%, the eighth consecutive decline. The market consensus for GDP growth for the year went down from 1.7% at the end of March to 1.1% at the end of June and 0.9% at the end of July. The slowdown in growth and the lag effect of monetary policy on economic activity and inflation were key determinants of the Central Bank's decision to end its 375bp tightening cycle. The COPOM, however, is likely to maintain the 11% interest rate on hold for some time because inflation remains high. Food inflation receded after a strong rise in the first quarter of 2014 but 12 months inflation accelerated from 6.15% in March to 6.52% in June. The market expects 12 months inflation to accelerate further in the third quarter of 2014 but ending the year slightly below the 6.5% top of the target inflation rate band.

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

	For the year ended December 31,			**For the six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
GDP growth	2.73%	0.87%	2.28%	2.53%	n.a.
CDI rate[(1)]	11.60%	8.37%	8.02%	3.43%	4.93%
TJLP[(2)]	6.00%	5.25%	5.50%	5.00%	5.00%
SELIC rate[(3)]	11.00%	7.25%	10.00%	8.00%	11.00%
Appreciation (depreciation) of *real* against the U.S. dollar[(4)]	(11.98)%	(8.57)%	(12.85%)	(7.77%)	6.36%
Selling exchange rate (at period end) R$ per US$1.00[(5)]	R$1.88	R$2.04	R$ 2.34	R$ 2.22	R$ 2.20
Average exchange rate R$ per US$1.00[(6)]	R$1.67	R$1.95	R$ 2.15	R$ 2.03	R$ 2.30
Inflation (IGP-M)[(7)]	5.10%	7.81%	5.51%	1.75%	2.45%
Inflation (IPCA)[(8)]	6.50%	5.84%	5.91%	3.15%	3.75%

Sources: BNDES, Central Bank, IBGE and Economática.

(1) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of the years and quarters).

(2) *Taxa de Juros de Longo Prazo*, or TJLP, represents the long-term interest rate applied by BNDES for long-term financing (at the end of the years and quarters).

(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 years and quarters).

(4) Calculated for 2011, 2012 and 2013 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, for June 30, 2013 and 2014, using the exchange rate for conversion of U.S. dollars into reais on June 30 as compared to January 1 of the same year

(5) The selling exchange rate at the end of the years and quarters.

(6) Average of the selling exchange rates on the last day of each month during the years and quarters.

(7) The inflation rate is the general index of market prices (*Índice Geral de Preços – Mercado*) or IGP-M, as calculated by FGV.

(8) The inflation rate is the Consumer Price Index, as calculated by the IBGE.

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 that reduce investor confidence; (vi) natural disasters or pandemics; (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 units, such as its principal investments unit 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 our 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. For example, although it is not materially exposed to the debt of European countries such as Greece, Ireland, Italy, Portugal and Spain, there can be no assurance that the market disruptions that have affected Europe since 2010, including the increased cost of funding for such countries' governments and financial institutions, will not continue to be problematic or spread, nor can there be any assurance that future financial assistance will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere, including Brazil and other markets in which it operates. 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.

- Certain of Banco BTG Pactual's sales and trading activities as well as its principal investment unit depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these business units. However, while increased volatility can increase trading volumes and spreads, such volatility also increases risk as measured by VaR and may expose Banco BTG Pactual to increased risks in connection with its sales and trading and principal investments units or cause us to reduce the size of these units in order to avoid increasing our VaR. Limiting the size of Banco BTG Pactual's sales and trading or principal investment units can adversely affect it.

- The performances of its asset management 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 term 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.

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 grown, the amount and duration of Banco BTG Pactual's credit exposures have been increasing over the past several years, and the number of entities to which it has credit exposures has increased. 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

Banco BTG Pactual's businesses are highly dependent on its ability to process, monitor and settle, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets and in many currencies. These transactions, as well as the information technology associated with the services Banco BTG Pactual provides to clients, must often adhere to jurisdiction or client specific guidelines as well as legal, tax and regulatory standards. Banco BTG Pactual relies on proprietary and vendor systems to conduct its business within its business units and its ability to conduct business may be adversely impacted by a disruption in the technology and infrastructure that supports its businesses and the communities in which it is located. A disruption may involve electrical, communications, internet, transportation or other services used by Banco BTG Pactual or third parties with whom it conducts business.

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 materially impact its ability to conduct business.

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 have been operating in a difficult regulatory environment. Recent market disruptions have led to numerous proposals for significant additional regulation of the worldwide financial services industry. 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 ourselves 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—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 the SEC. Through BTG Pactual Europe LLP, one of Banco BTG Pactual's operating entities authorized by the Financial Conduct Authority, or 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. In addition, through BTG Pactual Asia, one of Banco BTG Pactual's operating entities authorized by the Hong Kong Securities and Futures Commission, or the SFC, Banco BTG Pactual must also comply with the applicable SFC requirements and other regulatory requirements of Hong Kong. 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—Risk Factors Relating to the Regulatory Environment—The enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act may subject its investment adviser and broker-dealer in the U.S. to substantial additional regulations, and Banco BTG Pactual cannot predict the effect of such regulation on its business," "Regulatory Overview—Regulation in the United States," "Regulatory Overview—Regulation in the United Kingdom" and "Regulatory Overview—Regulation in Luxembourg." Its Chilean, Colombian, Peruvian and Luxembourg operations are, and its Mexican operations will be, subject to regulatory capital requirements determined by the laws of such countries and their regulators, respectively, calculated based on their own capital considered individually.

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 our 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 carefully and selectively reviews 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; 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 offer extensive training for all of its staff.

Financial Statements

Applicable Accounting Standards

Banco BTG Pactual maintains its books and prepares its consolidated financial statements in *reais* in accordance with Brazilian GAAP. 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 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 which follow certain of the IFRS standards as originally issued by IASB, as from December 31, 2010.

As a result of Banco BTG Pactual's registration as a public company with the CVM, it was also required to prepare consolidated financial statements as of and for the year ended December 31, 2010 and subsequent periods in accordance with IFRS. Unless the context requires otherwise, any reference to financial statements as of and for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 in this Offering Memorandum are to its consolidated financial statements prepared in accordance with Brazilian GAAP. No financial statements prepared in accordance with IFRS for any period are being included in this Offering Memorandum. See "Annex A: Differences Between Brazilian GAAP and IFRS."

Functional Currency

Banco BTG Pactual's financial statements and the summary and selected financial information are based on its financial statements, as well as the accounting information that generated accounting records for preparing such financial statements were prepared in *reais*.

Emphasis Paragraphs Included in the Auditors' Reports

The auditors' reports included elsewhere in this Offering Memorandum include emphasis paragraphs that are described in detail under "Presentation of Financial and Other Information—Financial Statements – Emphasis Paragraphs Included in the Auditors' Reports."

Reclassification of Prior Period Statements

In 2012, Banco BTG Pactual reevaluated the presentation of the results for the years ended December 31, 2011 from energy trading contracts generated by Coomex that is described in detail under "Presentation of Financial and Other Information—Financial Statements – Reclassification of Prior Period Statements." Banco BTG Pactual decided to present the results from energy derivatives from Coomex and Banco BTG Pactual in a single line in its income statement in order to improve comparability and classification of these transactions.

Selected Balance Sheets and Income Statements

Banco BTG Pactual's balance sheet and income statement data as of and for the years ended December 31, 2011, 2012 and 2013 are derived from and should be read in conjunction with its consolidated audited financial statements and related notes for the year ended December 31, 2013, 2012 and 2011. Banco BTG Pactual's balance sheet and income statement data as of June 30, 2013 and 2014 and for the six months ended June 30, 2013 and 2014 are derived from and should be read in conjunction with its unaudited interim consolidated financial statements and related notes for the six months ended June 30, 2013 and 2014.

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.

Derivative financial instruments

Banco BTG Pactual engages in derivative transactions, both for hedging and speculative purposes, and in both cases records its derivative financial instruments according to management's intention, on the transaction date, regardless of whether such transactions are for hedging purposes. Transactions using financial instruments from Banco BTG Pactual's own portfolio, or that do not comply with hedge criteria (mainly derivatives used to manage overall risk exposure), are accounted for at fair value, with gains and losses, realized or unrealized, recorded directly as income (loss).

Banco BTG Pactual deems derivative financial instruments to be for hedging purposes if: (i) they are used to mitigate risks arising from exposure to changes in the fair value of financial assets and financial liabilities; (ii) changes in their fair value are highly correlated to the fair value of the hedged item, both at the beginning and throughout the agreement; and (iii) they are deemed as effective in the reduction of risks associated with the exposure for which hedging is sought. Derivative financial instruments deemed as hedge are recorded according to their nature (i.e., cash flow or fair value hedge.)

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 for options, 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 such amount and the market price of the good or right in the appropriate assets or liabilities account. The income and expenses are recorded according to the maturity of the underlying agreements. Assets and liabilities resulting from swap and currency forward transactions of non-delivery forward agreements (NDF) are recognized as assets and liabilities at their carrying amount, with adjustments to fair value, recorded in income (loss).

Banco BTG Pactual considers estimates related to the valuation of financial assets and financial liabilities, including derivative financial instruments where quoted market prices are not available, to be critical accounting policies. Such estimates are susceptible to significant changes from period to period because they require management to make assumptions about interest rates, volatility, exchange rates, the credit rating of counterparties, valuation adjustments and specific features of the subject transactions.

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

Through December 31, 2011, no specific accounting pronouncement had addressed the recording of transfers of financial assets pursuant to Brazilian GAAP, except for when such a transfer involved a special purpose entity that was controlled by the reporting entity. In addition, the sale or transfer of financial assets was not recognized on the balance sheet when the transferor retained all or substantially all of the risks and benefits relating to the ownership of such transferred asset. Beginning on January 1, 2012, 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 cases, financial liabilities are recognized for the consideration received for such asset.

Loans and other receivables (operations with credit characteristics)

Loans and other receivables are recorded at present value, calculated on a "pro rata die" basis on the index variation based on the agreed interest rate and updated through the 59th day of default, provided that Banco BTG Pactual continues to believe that it will receive payment through this period. From the 60th day of default and thereafter, Banco BTG Pactual recognizes income (loss) only at the time of actual receipt of installments. When Banco BTG Pactual renegotiates loans and other credit instruments, it assumes the same level of credit risk (or higher) as prior to the renegotiation. If Banco BTG Pactual decides to write-off any loan or credit receivable, such amounts are fully provisioned, and it records gains in the event that payment is actually received.

Allowance for loan losses

Allowance for loan losses are recognized based on an analysis of loan risk losses at an amount deemed to be sufficient to cover probable losses, in accordance with CMN Resolution 2,682, of December 21, 1999, pursuant to which: (i) Banco BTG Pactual records allowances based on the classification of a client's risk, which is determined based on a periodic analysis of client quality and the environment in which such client operates, not only upon default; (ii) considering exclusively default, written-off loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with a term maturity of over 36 months; and (iii) 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. Events and factors that may significantly affect our estimates include, among others, judgments and assumptions regarding the loan portfolio and the methodology used in determining losses.

Investments

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

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 on the basis of expected future results of acquired subsidiaries, are 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, until the investment is realized. Events and factors that may significantly affect the estimates include, among other things, competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures, changes in discount rates and specific industry or market sector conditions.

Impairment

Whenever there is clear evidence that assets are measured at an unrecoverable amount, it is recorded as loss in the results for the year. 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 lower of value in use and fair value less costs to sell the assets. The main estimates used in determining the provision are, with respect to our expectation of future cash flows, discount rates and illiquidity, among others.

Contingent liabilities

Contingent liabilities are recognized when, based on the opinion of legal counsel and management, the risk of loss in a legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably. Contingent liabilities assessed by legal advisors as possible losses are only disclosed in the notes to Banco BTG Pactual's financial statements, while those classified as remote losses do not require the recording of provisions or disclosure. Contingent liabilities are inherently uncertain and assessments regarding the likelihood of their occurrence and the potential amounts that Banco BTG Pactual would be required to pay in the event of an adverse judgment are based on estimates made by its management and its legal advisors.

Deferred income tax and social contribution

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 probable, at the rate of (i) 15% for income tax, in addition to a 10% surtax on annual taxable income exceeding R$240,000, and (ii) 15% for social contribution of financial institutions and 9% for non-financial institutions. Significant judgment is required to interpret the applicable law in order to determine the adjustments to income and the timing of realization.

Banco BTG Pacutal's Adjusted Income Statement

The presentation of Banco BTG Pactual's 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. Its management believes that the additional presentation of an adjusted income statement provides information which is more consistent with the manner in which its publicly-traded global investment banking competitors present financial information to the market.

Banco BTG Pactual's adjusted income statement includes a 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 years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014, and a discussion of such adjusted income statement. Banco BTG Pactual's 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 years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014. The classification of the line items in its adjusted income statement, however, has not been 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 adjusted income statement has not been audited nor reviewed by its auditors Ernst & Young.

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

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

Initial Public Offering

On April 30, 2012, the BTG Pactual Group completed its initial public offering, consisting of 103,500,000 units, each representing, directly or through depositary receipts, (i) one common share and two preferred shares of Banco BTG Pactual's capital stock and (ii) one voting share and two non-voting shares of BTG Pactual Participations. The majority of these units were listed in Brazil on the BM&FBOVESPA, and 129,000 units were also listed in Europe on the Alternext Amsterdam, the multilateral trading facility operated by Euronext Amsterdam N.V. The majority of the units offered in the initial public offering are represented by primary securities, resulting in gross proceeds to the BTG Pactual Group of approximately R$2,587.5 million, of which we received R$2,070.0 million. Banco BTG Pactual has used its portion of the proceeds from the initial public offering of the BTG Pactual Group to, among other things, increase its corporate lending and sales and trading operations and develop new lines of business. The IPO proceeds received by Banco BTG Pactual qualify as Tier 1 capital for regulatory purposes.

On October 10, 2013, Banco BTG Pactual and BTG Pactual Participations completed the migration of their units previously listed on Alternext Amsterdam, an unregulated market, to the NYSE Euronext Amsterdam, a regulated market. No new shares or units were offered or issued in connection with this process. All units listed and traded on the NYSE Euronext Amsterdam remain wholly interchangeable with the units in Brazil listed and traded on BM&FBOVESPA.

Acquisition of Banco Pan Co-Controlling Interest and BFRE

In January 2011, Banco BTG Pactual entered into an agreement to purchase all outstanding shares in Banco Pan held by Grupo Silvio Santos for R$450.0 million, representing a 37.64% equity interest in Banco Pan (composed of 51.0% 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. Such acquisition triggered a requirement that Banco BTG Pactual commences a tender offer to purchase additional shares of Banco Pan held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an immaterial amount of additional non-voting shares of Banco Pan. As a result, Banco BTG Pactual maintained its 34.06% equity interest in Banco Pan's total outstanding equity. In connection with this acquisition, Banco BTG Pactual and CaixaPar, the co-controlling entity which owns a 37.0% equity interest in Banco Pan's total capital stock, entered into a shareholders agreement governing their shared control of Banco Pan. In addition, CaixaPar reiterated its commitment to preserve our strategic alliance with Banco Pan by entering into a cooperation agreement under which CaixaPar agreed to acquire credits originated by, and invest in deposits issued by Banco Pan. Banco Pan and CaixaPar also intend to expand the range of the financial products and services they offer through leveraging on their distribution channels. Banco BTG Pactual believes that this transaction has strengthened our partnership with CaixaPar.

The banking supervision and compliance with regulatory capital requirements of Banco Pan are performed and measured on a segregated basis from those of Banco BTG Pactual. Accordingly, Banco BTG Pactual calculates its regulatory capital without giving effect to the assets, liabilities, risks and financial position of Banco Pan, and Banco BTG Pactual does not perform the proportional consolidation of Banco Pan into Banco BTG Pactual's balance sheet. This results in each of Banco BTG Pactual and Banco Pan continuing to calculate their respective regulatory capital requirements on a stand-alone basis, as two independent banks.

In November 2010, Banco Pan disclosed that a series of accounting inconsistencies had been uncovered which resulted in losses totaling R$2.5 billion. Upon this 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 by injecting capital into it for the full amount of such losses. Subsequently, additional financial irregularities totaling R$1.3 billion and other adjustments totaling R$0.5 billion 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 Banco BTG Pactual. Banco BTG Pactual elected new officers and directors of Banco Pan in April 2011. As a result of the significant weaknesses and irregularities in the accounting systems and internal controls of Banco Pan at the time of Banco BTG Pactual's acquisition, Banco Pan is currently executing important investments in technology and processes in order to improve operational and competitive conditions. In addition, Banco BTG Pactual, together with CaixaPar, elected the new management of Banco Pan.

In April 2011, Banco BTG Pactual acquired senior quotas of a credit receivable investment fund, or FIDC, representing 80% of the fund's capital. The FIDC is composed exclusively of credits originated by Banco Pan in the total amount of approximately R$3.5 billion. Such credits were previously acquired from Banco Pan indirectly by Fundo Garantidor de Crédito, or FGC, which established the FIDC and retained ownership of subordinated quotas representing 20% of the FIDC's capital. In December 2011, Banco BTG Pactual acquired the subordinated quotas of the FIDC, as a result increasing our ownership in the FIDC to 100%.

Banco Pan generated a consolidated net income of R$67.0 million in 2011 and consolidated net losses of R$495.9 million in 2012, R$151.2 million in 2013, and R$148.9 million for the six months ended June 30, 2014, calculated in accordance with Brazilian GAAP. Banco BTG Pactual cannot assure you that Banco Pan will not continue to generate net losses in 2014 or thereafter. We record the results of operations from Banco Pan using the equity method of accounting, pursuant to which Banco BTG Pactual's share of Banco Pan's net income or net losses, as deducted by accumulated losses adjustments relating to previous periods, is recognized in Banco BTG Pactual's income statement as equity in the earnings of associates and jointly controlled entities. Banco Pan recorded substantial adjustments to accumulated losses in 2011. Accordingly, Banco BTG Pactual recorded losses in its income statement of R$27.2 million, R$160.3 million, R$51.3 million and R$50.7 million in connection with Banco Pan's equity pick-up for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, respectively, and a loss in other comprehensive income of R$5.5 million in December 31, 2013 and a gain of R$0.3 million in the six months ended June 30, 2014 due to fair value adjustment in available for sale financial statements. Banco Pan's management is taking several initiatives aiming to improve Banco Pan's profitability and to avoid further losses.

On January 18, 2012, Banco Pan's shareholders approved a capital increase in an amount of up to R$1.8 billion, with an issue price of R$6.05 per share. Banco BTG Pactual and CaixaPar committed to exercise preemptive rights for an aggregate amount of R$1.335 billion, with Banco BTG Pactual's share amounting to R$677.0 million. However, Banco BTG Pactual agreed that, upon the request of TPG Axon, it would transfer to TPG Axon part of its preemptive rights with respect to a total of R$182 million of its R$677 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco Pan's preferred shares and 5.55% of its total capital stock, thus reducing Banco BTG Pactual's contribution to R$495.4 million. Following such exercise, Banco BTG Pactual maintained its 51.0% equity interest in Banco Pan's common shares, and Banco BTG Pactual and CaixaPar continue to co-control Banco Pan pursuant to the terms of a shareholders agreement which governs their shared control.

On January 31, 2012, Banco BTG Pactual and Banco Pan entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price was approximately R$1.21 billion (without including the R$335 million purchase price of certain assets by Banco BTG Pactual described below), of which R$940 million was paid by Pan and R$270 million was paid by Banco BTG Pactual. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company (Brazilian Capital Companhia de Gestão de Investimentos, or Brazilian Capital), which Banco BTG Pactual acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, Banco BTG Pactual paid approximately R$335 million to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE remained in the second company, which was purchased by Banco Pan.

On June 13, 2014, Banco Pan approved a R$3.0 billion capital increase through the issuance of: (i) up to R$1.5 billion of 443,786,982 new, nominative and non-par shares, of which up to 242,566,348 are common shares and up to 201,220,634 are preferred shares, at the issuance price of R$ 3.38 per common or preferred share, for private subscription by Banco Pan's shareholders; and (ii) up to R$1.5 billion of redeemable preferred shares with a term of five years, which will receive annual, fixed, cumulative priority dividends of 104% of the Certificado de Depósito Interbancário, or CDI, over the issue price and which will not be traded on the BM&FBOVESPA.

As of the date of this Offering Memorandum, we and Caixapar are joint holders of all voting shares and 80.7% of Banco Pan's total capital stock after the exercise of their preemptive rights in relation to the increase in common and preferred shares and the partial subscription of the unsubscribed shares by other shareholders as a result of the capital increase described in (i) of the immediately preceding paragraph. The total capital contribution was R$1,331.6 million, of which Caixapar and Banco BTG Pactual contributed R$597.4 million and R$651.1 million, respectively. Caixapar and Banco BTG Pactual each currently hold 40.35% of Banco Pan's total capital stock (49.0% and 51.0% of the common shares and 28.6% and 25.9% of the preferred shares, respectively).

On August 15, 2014, Banco Pan's shareholders approved the issuance of the redeemable preferred shares described above and we expect such issuance to be concluded in the second half of 2014. CaixaPar and Banco BTG Pactual have guaranteed, in the aggregate, 100% of the subscription of the redeemable preferred shares.

In addition, on August 21, 2014, Banco Pan's independent committee, constituted by its board of directors, approved the sale of its entire equity interest in Pan Seguros and its entire equity interest in Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to Banco BTG Pactual for an aggregate amount of R$580.0 million, subject to adjustments prior to closing of the transaction. As part of the transaction and upon the satisfaction of certain conditions, CaixaPar may acquire a jointly controlling interest in an entity composed of both Banco BTG Pactual's currently existing insurance business and the insurance business acquired from Banco Pan. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals.

Banco BTG Pactual believes that the actions described above will enhance the capital structure of Banco Pan and will support its growth plans for the future. However, it is possible that the initiatives to return Banco Pan to profitability may not achieve the results expected and, in such case, new capital injections at Banco Pan will be required. See "Risk Factors—Risk Factors Relating to Banco BTG Pactual's Business and Industry—Banco BTG Pactual's inability to successfully implement our strategy relating to, or to realize the intended benefits from, our recent acquisition of a co-controlling interest in Banco Pan or Banco Pan's acquisition of BFRE could have a material adverse effect on Banco BTG Pactual."

Acquisition of Celfin and Incorporation of Banco BTG Pactual Chile

On November 13, 2012, Banco BTG Pactual concluded the purchase of all of the outstanding shares of Celfin. In connection with the transaction, Banco BTG Pactual, through BTG Pactual Chile Spa., paid the owners of Celfin, which was subsequently renamed BTG Pactual Chile, a total of US$451.0 million in cash, and the former owners of Celfin acquired approximately 2.2% of the total outstanding equity interests in Banco BTG Pactual and BTGI for R$391.8 million and US$49.1 million, respectively. Such equity interest is subject to repurchase by Banco

BTG Pactual at a nominal amount in certain limited circumstances during the four years following completion of the transaction. Such provisions are designed to provide the former shareholders of Celfin with incentives to remain active participants in the combined entity following the closing of the transaction, and Banco BTG Pactual expects that the majority of them will do so. In 2013, Banco BTG Pactual renamed Celfin to incorporate the BTG Pactual brand.

For accounting purposes, Celfin's results have been consolidated into Banco BTG Pactual's since November 1, 2012. We recorded goodwill in the amount of R$726 million in connection with this transaction in accordance with Brazilian GAAP. See "Business—Celfin".

On April 22, 2013 the Central Bank of Chile approved the incorporation of Banco BTG Pactual Chile in Santiago, Chile, which had previously applied for a banking license in Chile and has initial capital of US$150 million. Banco BTG Pactual has not yet obtained the license and this process remains subject to the final approval of the Chilean authorities.

Establishment of One Properties and Merger into BR Properties

On June 10, 2011, Banco BTG Pactual entered into an investment agreement with WTorre Properties S.A. to establish One Properties S.A., or One Properties, a jointly-controlled company focused on the development, acquisition, leasing and sale of commercial & industrial/logistics real estate properties in Brazil. Under the terms of this transaction, which settled on November 22, 2011, a real estate vehicle controlled by Banco BTG Pactual through a 91.9% equity interest, Saíra Diamante Empreendimentos Imobiliários S.A., transferred real estate assets and cash to One Properties in the aggregate amount of R$1.5 billion in exchange for 49.9% of the ownership interests in the joint venture, plus warrants that permit it to purchase an additional 23.4% ownership interest, subject to certain conditions.

On January 14, 2012, Banco BTG Pactual and WTorre Properties S.A. agreed to merge One Properties with BR Properties S.A., or BR Properties, another leading real estate company in Brazil. On March 29, 2012, the transaction closed, resulting in the creation of the largest publicly traded commercial real estate company in Brazil, with over R$10 billion in assets. In connection therewith, 129,813,498 new common shares of BR Properties were issued to the original shareholders of One Properties in exchange for the shares of One Properties previously held by them. As a result, One Properties' original shareholders hold a 41.9% equity interest in BR Properties, with Banco BTG Pactual owning 28.3% of BR Properties' shares at that time. As part of this transaction, Saíra Diamante Empreendimentos Imobiliários S.A., Banco BTG Pactual's subsidiary, was also merged into BR Properties. Banco BTG Pactual records the results of operations from BR Properties using the equity method of accounting.

On November 21, 2013, Banco BTG Pactual sold 21.42% of its 24.53% equity interest in BR Properties to BTGI for a total amount of R$1,261.4 million. The sale price for the transaction was based on the opening trading price of BR Properties shares that day. In connection with this transaction, Banco BTG Pactual recorded a gain of R$271.0 million under "non-operating income" corresponding to the difference between the sale price and the equity value of Banco BTG Pactual's investment, net of allowance.

On April 10, 2014, BTGI sold 18.65% of its equity interest in BR Properties to Propertyco FIM CP IE, a fund owned by Banco BTG Pactual. This transaction was carried out through BM&FBOVESPA based on the closing price of BR Properties shares on April 10, 2014.

In connection with Banco BTG Pactual's investment in BR Properties, Banco BTG Pactual recorded: (i) equity losses of R$0.8 million in the six months ended June 30, 2014; (ii) equity losses of R$332.0 million in 2013, net of allowances for non-permanent impairment of R$401.0 million; and (iii) equity gains of R$383.0 million in 2012, net of allowances for non-permanent impairment of R$402.0 million. In 2013, Banco BTG Pactual also recorded a gain of R$270.6 million in non-operating income due to the sale of 21.42% of Banco BTG Pactual's equity interest in BR Properties above book value. As of December 31, 2013 and 2012 and June 30, 2014, Banco BTG Pactual's non-permanent impairment balance was R$65.0 million, R$402.0 million and R$2.9 million, respectively.

Banco BTG Pactual's remaining equity interest in BR Properties held directly by Banco BTG Pactual continues to be measured using the equity pick-up method, less impairment, in accordance with Resolution No.

3,566 of the Central Bank (CPC 01 - Reduction in Recoverable Value of Assets) to reflect the estimated realizable value of the shares of the affiliate. The equity interest in BR Properties held by Propertyco FIM CP IE is measured at fair value based on the closing price of BR Properties shares published by BM&FBOVESPA.

Establishment of BW Properties S.A.

In connection with the One Properties transaction, on November 22, 2011, Banco BTG Pactual entered into an investment agreement with WTorre Properties S.A. to establish BW Properties S.A., or BW Properties, a real estate development company which holds long term real estate commercial development projects. Pursuant to the terms of the agreement, Banco BTG Pactual holds a 67.5% equity interest in BW Properties, which was established to focus on the development of two commercial real estate assets located in São Paulo, Brazil.

Acquisition of Coomex Empresa Operadora do Mercado Energético Ltda.

On September 20, 2010, Banco BTG Pactual acquired all of the issued shares of Coomex, a leading independent energy trader in Brazil for a total purchase price of R$183.0 million, including estimated deferred payments. During the first quarter of 2013, we recorded a gain of R$28.0 million as a result of early settlement of the deferred consideration, calculated pursuant to the mechanisms set forth in the purchase agreement roughly based on the average EBITDA of Coomex for the period from 2010 to 2012. Following the acquisition, Coomex's energy trading operations were integrated into our structure to form Banco BTG Pactual's energy trading desk. The acquisition of Coomex was an important step in consolidating our commodities trading activities and expanding Banco BTG Pactual's product mix. In the second semester of 2011, BTG Pactual Agente – Comercializador de Energia Ltda. was merged into Coomex Empresa Operadora do Mercado Energético Ltda.

Corporate Restructuring

In September 2011, following the granting of the required regulatory approvals, Banco BTG Pactual and BTGI concluded a corporate restructuring pursuant to which BTGI's former subsidiaries responsible for conducting the BTG Pactual Group's international platforms in London, New York and Hong Kong were transferred to Banco BTG Pactual. The purpose of this transaction was to transfer BTGI's remaining operating subsidiaries to Banco BTG Pactual, and was realized at book value in an aggregate amount of US$188.1 million. Although this corporate restructuring has not affected the financial condition or results of operations of the BTG Pactual Group, it has materially affected the administrative and personnel expenses on a stand-alone basis of BTGI and Banco BTG Pactual going forward. After the completion of this corporate restructuring, BTGI continued to function as the investment vehicle for part of the principal investment business of the BTG Pactual Group. As a result of the restructuring, BTGI does not have employees and consequently does not conduct any operating activities, directly or through any of its subsidiaries, and its assets will continue to be managed by Banco BTG Pactual's asset management unit.

Acquisition of Bolsa y Renta

On December 20, 2012, Banco BTG Pactual concluded the purchase of all of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume, for a total consideration of US$58.4 million in cash. As a result of the transaction, the former owners of Bolsa y Renta acquired equity interests in Banco BTG Pactual and BTG Pactual Participations equal to R$52.5 million and US$6.4 million, respectively, representing approximately 0.25% of the capital stock of each company. The value of the equity investment was negotiated and pre-determined in U.S. dollars at the end of 2011, prior to Banco BTG Pactual's and BTG Pactual Participations' initial public offering. Banco BTG Pactual expects that Bolsa y Renta's current executives will continue to manage operations in Colombia and, accordingly, Banco BTG Pactual anticipates paying additional amounts in the form of retention bonuses and deferred compensation to certain of the Bolsa y Renta's executives from the second through the fourth anniversaries of the date on which Banco BTG Pactual entered into a definitive agreement with respect to the transaction.

For accounting purposes, Bolsa y Renta's assets and liabilities have been consolidated with Banco BTG Pactual's since December 31, 2012 and their results of operations were consolidated with Banco BTG Pactual's starting on January 1, 2013. Banco BTG Pactual recorded goodwill in the amount of R$47.1 million in this transaction in accordance with Brazilian GAAP. See "Business – Bolsa y Renta."

Acquisition of Bamerindus

On January 30, 2013, Banco BTG Pactual entered into definitive agreements related to its acquisition of certain credits and rights held by Fundo Garantidor de Créditos, or FGC, against Banco Bamerindus do Brasil S.A., or Bamerindus, in extrajudicial liquidation, and other companies in Bamerindus's economic group. In connection with the transaction, Banco BTG Pactual will pay approximately R$418.0 million to FGC in five installments, the first of which will be paid at the closing of the transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted by CDI. This transaction will result in Banco BTG Pactual's acquiring: (i) control of Bamerindus and its subsidiaries; (ii) an interest in Bamerindus greater than 98.0% of its total and voting capital; and (iii) the receivables and assets held by the Bamerindus, which will be used in the context of Banco BTG Pactual's credit operations.

The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. In October 2013, Banco BTG Pactual signed an amendment to the agreement extending the period that the parties had to satisfy the typical closing conditions. Banco BTG Pactual expects the transaction to close in 2014, although there can be no assurance that the transaction will be consummated. Banco BTG Pactual does not expect that the transaction, if consummated, will materially affect its financial condition or results of operations.

Acquisition of Equity Interest in Petrobras Oil & Gas B.V.

On June 14, 2013, Banco BTG Pactual through its subsidiary BTG Pactual Holding S.a.r.l, and Petróleo Brasileiro S.A. – Petrobras, or Petrobras, through its subsidiary Petrobras International Braspetro B.V., or PIBBV, established a joint venture for oil and gas exploration and production in Africa, which Banco BTG Pactual refers to as the Petrobras Joint Venture.

The Petrobras Joint Venture was established upon Banco BTG Pactual's acquisition of 50% of the shares of Petrobras Oil & Gas B.V, or PO&G, from PIBBV for US$1.525 billion. As of December 31, 2013, following the sale of a portion of Banco BTG Pactual's economic interest in PO&G to its clients, Banco BTG Pactual held a 32.82% economic interest in PO&G. Banco BTG Pactual continues to manage its clients' investments in PO&G for which it receives customary fees.

Banco BTG Pactual's equity interest in PO&G through the Petrobras Joint Venture is measured using the equity pick-up method. In 2013 and the six months ended June 30, 2014, Banco BTG Pactual recognized gains of R$515.0 million and losses of R$93.4 million, respectively, from such equity pick-up, which reflects the foreign exchange effects in translating U.S. dollars to *reais*.

Sale of BTG Pactual Absolute Return Fund II, L.P.

In December 2013, Banco BTG Pactual sold its interests in BTG Pactual Absolute Return Fund II, L.P., or ARF II, to an independent third party for a total purchase price equal to the net asset value of such interests. On the same date, the third party entered into a separate binding agreement to sell such interests in ARF II to BTGI, which is the primary investment vehicle for the principal investments business unit of the BTG Pactual Group.

The legal title to the interests in ARF II will be transferred from Banco BTG Pactual to the third party (and from the third party to BTGI) only upon payment of the total purchase price for the transaction. In December 2013, however, the transaction was considered for all relevant purposes to represent the immediate transfer of the risk and rewards from Banco BTG Pactual to the third party (and from the third party to BTGI).

As a result of the transaction, Banco BTG Pactual will continue to manage ARF II through its asset management unit and receive fees for such services. However, Banco BTG Pactual will no longer present the assets, liabilities and capital gains (or losses, if any) of ARF II in its consolidated financial statements. As of November 30, 2013, R$782 million of Banco BTG Pactual's revenues (including an estimated R$198 million of implied management and performance fees that would have been earned even if the transaction had occurred as of January 1, 2013) and R$54.2 billion of Banco BTG Pactual's total assets were attributable to ARF II. Since BTGI purchased the interests in ARF II, the overall exposure of the BTG Pactual Group to the assets, liabilities and results of operations of ARF II will remain unchanged as a result of this transaction.

Commodities Business

In 2013, Banco BTG Pactual launched 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 are primarily concentrated on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows. Banco BTG Pactual conducts extensive fundamental research to manage and mitigate the risks inherent to such trading flows.

Banco BTG Pactual believes that it will be able to draw upon its existing relationships in the raw materials sector to build market share in the trading flows of the world's principal commodities markets and that its extensive market knowledge will enable it to identify strategic opportunities and optimize its physical and proprietary trading capabilities. Banco BTG Pactual seeks to exploit arbitrage opportunities that arise in the fragmented and often volatile global commodities markets and to leverage its long-standing relationships with clients to partner with commodity producers to support the physical flows of the business.

Banco BTG Pactual has enhanced its commodities risk management techniques and strategies by making significant investments in fundamental research, as well as hiring a dedicated and experienced risk management team which seeks to mitigate risks with strategies that attempt to minimize the effects of market-driven events that could impact negatively its business. See "—Risk Management."

Acquisition of TTG Brasil Investimentos Florestais and Regions Timberland Group.

On December 26, 2012, Banco BTG Pactual entered into a definitive agreement to purchase 93.96% of the outstanding shares of TTG Brasil Investimentos Florestais, or TTG, one of the largest timberland investment management companies in Latin America with offices in Brazil and the United States. On July 26, 2013, Banco BTG Pactual concluded the purchase of such outstanding shares of TTG.

On September 6, 2013, Banco BTG Pactual completed the acquisition of Regions Timberland Group, or RTG, a division of Regions Bank. Following the acquisition and RTG's integration into Banco BTG Pactual's merchant banking group, the BTG Pactual Group is one of the leading independent timberland managers in Latin America and one of the largest worldwide, with committed and invested assets of nearly US$3.0 billion and a portfolio of over 1.77 million acres (716,000 hectares) in the United States, Latin America, Europe and South Africa.

Pending Acquisition of BSI

On July 14, 2014, Banco BTG Pactual entered into a definitive share purchase agreement, or the BSI share purchase agreement, providing for its acquisition, directly or indirectly, of 100% of the capital shares of BSI SA, a Swiss financial institution, or BSI, from a subsidiary of Assicurazioni Generali S.p.A. Banco BTG Pactual believes the business of BSI has complementary geographic and client coverage to its existing client portfolio with limited overlap. Subject to the terms and conditions of the BSI share purchase agreement, the aggregate consideration payable by Banco BTG Pactual will consist of: (i) CHF1.2 billion in cash; (ii) a number of our common and preferred shares underlying the units of the BTG Pactual Group with a value of CHF300 million (based on trading price over a period prior to closing of the acquisition of BSI); and (iii) an additional CHF cash amount to fund the acquisition by Generali NV of a corresponding number of equity interests of BTG Pactual Participations needed to form such units. On July 14, 2014, BTG Pactual Participations entered into a subscription agreement with Generali NV, or the BTG Pactual Participations subscription agreement, providing for the sale of such BTG Pactual Participations equity interests to Generali NV at the closing of the acquisition of BSI.

In certain limited circumstances involving required regulatory approval, Banco BTG Pactual may be obligated to pay Generali NV cash following the closing in exchange for the return and cancellation of the equity consideration issued at closing.

The cash consideration and value of the equity consideration will bear 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 are subject to certain adjustments as provided in the BSI share purchase agreement, including that we may be required to make capital injections in BSI of, or to increase the cash purchase price for, up to CHF300 million. In addition, BSI is currently 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, or 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 will be proportionately decreased for certain pre-closing liabilities of BSI, including any payment by BSI under or in connection with the DOJ Program.

The closing of the acquisition of BSI is subject to a number of conditions under the BSI share purchase agreement, including receipt of required regulatory approvals from the Swiss Financial Market Supervisory Authority FINMA, the Central Bank and other authorities without imposition of an unreasonable burdensome condition. In addition, the closing is conditioned upon BSI's entry into a non-prosecution agreement under the DOJ Program with respect to the matters described above. The BSI share purchase agreement may be terminated by either party under certain circumstances, including if the closing has not occurred on or before July 31, 2015 or if regulatory authorities impose an unreasonable burdensome condition in connection with required approvals in certain situations. In addition, Generali NV may terminate if a payment by BSI under a non-prosecution agreement under the DOJ Program exceeds a certain amount. In certain limited circumstances, a party may be required to pay the other party a termination fee of CHF45 million under the BSI share purchase agreement. Completion of the transaction under the BTG Pactual Participations subscription agreement is conditioned on the closing of the acquisition of BSI, and the BTG Pactual Participations subscription agreement will terminate if the BSI share purchase agreement is terminated. No assurance can be given as to whether the foregoing transactions will be completed, as such transactions are subject to a number of conditions that are outside of the BTG Pactual Group's control.

If the acquisition of BSI is completed, the parties to the BSI share purchase agreement and the BTG Pactual Participations subscription agreement will have certain indemnity obligations under the respective terms and conditions of such agreements for breach of representations and warranties, covenants and certain other specified matters, including in the case of Generali NV with respect to BSI's involvement in the DOJ Program and liability for similar pre-closing conduct. The indemnity obligations under such agreements are subject to various limitations, including as to the time periods for bringing claims and indemnifiable amounts.

Banco BTG Pactual's Business Following the Acquisition of BSI

Following the consummation of Banco BTG Pactual's pending acquisition of BSI, Banco BTG Pactual will hold 100% of the equity interest of BSI and its financial statements will be consolidated into those of Banco BTG Pactual. The following table shows key performance data for BSI for the periods indicated:

	As of and for the year ended December 31,			
	2013		**2012**	
	(R$)	**(CHF)**	**(R$)**	**(CHF)**
Total Revenue (millions)	2,013.0	863.1	1,802.5	865.0
Consolidated Gross Profit (millions)	(1,683.9)	(722.0)	148.0	71.0
WUM (millions)	236,444	89,376	193,305	86,262
Net New Money (NNM) (millions)	4,545	2,181	17,537	7,519
Deposits (millions)	57,206	21,624	44,601	19,903
Shareholders' Equity (millions)	4,552.6	1,720.9	5,548.7	2,476.1
Total Capital Ratio	18.2%	18.2%	17.0%	17.0%

BSI's revenues and gross consolidated profit decreased from CHF865.0 million (R$1,802.5 million) and CHF71.0 million (R$148.0 million), respectively, in the year ended December 31, 2012 to CHF863.1 million (R$2,013.0 million) and a net loss of CHF722.0 million (R$1,683.9 million), respectively, in the year ended December 31, 2013. While revenues were consistent, BSI's profitability was negatively impacted in 2013 by the amortization of goodwill expenses related to the acquisition of Banca del Gottardo in 2008 of CHF750.7 million

(R$1,751.0 million). In recent years, BSI's financial condition and results of operations were positively affected by stable revenues derived from client commissions and the contribution of high growth markets, especially the Middle East, Latin America and Asia, where BSI has expanded its activities and has benefited from substantial growth of their HNWI and UHNWI's.

BSI's WUM increased 3.6% from CHF86.3 billion (R$193.3 billion) as of December 31, 2012 to CHF89.4 billion (R$236.4 billion) as of December 31, 2013, while net new money, or NNM, decreased from CHF7.5 billion (R$17.5 billion) as of December 31, 2012 to CHF2.2 billion (R$4.5 billion) as of December 31, 2013. BSI's deposit base also increased from CHF19.9 billion (R$44.6 billion) as of December 31, 2012 to CHF21.6 billion (R$57.2 billion) as of December 31, 2013.

BSI's shareholders' equity decreased from CHF2.5 billion (R$5.5 billion) as of December 31, 2012 to CHF1.7 billion (R$4.5 billion) as of December 31, 2013, due to the amortization of the Banca del Gottardo goodwill during the course of 2013. In addition, as of December 31, 2013, BSI's total capital ratio grew to 18.2% compared to 17.0% as of December 31, 2012.

BSI's platform is mainly commission-based, comprising 58.4% of its total revenues in 2013. In the year ended December 31, 2013, BSI earned CHF504.1 million (R$1,175.7 million) from commission and service fee activities compared to CHF458.7 million (R$955.8 million) earned in the year ended December 31, 2012, representing an increase of 9.9%.

For further information related to the potential effect of Banco BTG Pactual's pending acquisition of BSI, you should carefully read this Offering Memorandum in its entirety, including the financial statements of Banco BTG Pactual and BSI included elsewhere in this Offering Memorandum.

In the event that Banco BTG Pactual acquires control of BSI, Banco BTG Pactual expects the following significant effects in its consolidated balance sheet, results of operations and regulatory capital:

Wealth Management

Banco BTG Pactual expects a significant increase in its revenues from its wealth management business unit, including performance fees from services provided to wealth management clients and commissions resulting from brokerage activities. In addition, it expects a significant increase in short term deposits and an increase in its credit portfolio as a result of loans made to newly acquired wealth management clients and to financial institutions.

Corporate Lending

Banco BTG Pactual expects to derive substantial new revenue from BSI's significant corporate lending portfolio which includes: (i) customized residential mortgages and other bespoke financing solutions for the purchase and renovation of real property; (ii) loans that are secured against marketable securities held by BSI clients in BSI's custody accounts to provide liquidity to such clients without divesting assets (which are commonly referred to as "Lombard Loans"); (iii) letters of credit and guarantees; and (iv) commercial finance for institutions, businesses and independent professionals. As of December 31, 2013, BSI had a total credit portfolio of approximately CHF10.3 billion (R$27.3 billion), representing 11.5% of its total WUM. Allowance for loan losses may be adversely affected by the increase of the corporate lending portfolio as well as additional credit provided to newly acquired wealth management clients.

Sales & Trading

BSI also maintains a diversified portfolio of securities, and consequently gains and losses from trading activities, and commissions related to securities and derivatives are expected to increase significantly.

Regulatory Capital

We expect a significant increase in our risk weighted assets (RWAs) immediately following the consummation of the BSI acquisition. BSI's RWAs is calculated according to Swiss regulatory requirements. When BSI's RWAs are combined with the RWAs of Banco BTG Pactual, we expect that the total amount of RWAs of Banco BTG Pactual to increase by approximately 15%. In addition, the rules currently applied by the Central Bank, especially with respect to credit risk, may be more restrictive than those applied in Switzerland, which could further increase the amount of Banco BTG Pactual's RWAs.

Despite such increase, Banco BTG Pactual expects that its regulatory capital ratios will continue to be in compliance with its minimum internal levels, which it sets above the minimum capital requirements, set by its regulators. In addition, as described above, Banco BTG Pactual expects to pay for part of the acquisition price to Generali with newly issued shares of Banco BTG Pactual. Banco BTG Pactual also expects that the effects of such issuance when combined with the effect of the offering of Tier 1 Notes under this Offering Memorandum will fully offset the adverse impact on our regulatory capital ratios caused by the additional RWAs from the acquisition of BSI and will allow us to maintain or improve regulatory capital ratios.

Acquisition of Ariel

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 of July 9, 2014, Banco BTG Pactual agreed to acquire 100% of the shares of Ariel Re (Holdings) Limited, or Ariel, a non-life international reinsurance group, based in London and Bermuda, that specializes in property catastrophe reinsurance. The subsidiaries of Ariel include Ariel Re P&C Midco Ltd., Arrow Corporate Member Holdings, LLC, Ariel Re Bda Limited, Ariel Re UK Limited and AFCL Inc. The transaction remains subject to the satisfaction of several customary closing conditions, including the receipt of all required regulatory approvals from Brazilian regulators such as the Central Bank and other non-Brazilian regulators. Subsequent to the receipt of regulatory approval, which is expected to occur by the first quarter of 2015, Ariel will be transferred to the joint venture and as a result, our interest will be equivalent to 50%.

Consolidated Income Statement (Brazilian GAAP)

The following table sets forth the income statement of Banco BTG Pactual for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 and is derived from the financial statements prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Memorandum:

(Unaudited for June 30, 2013 and 2014)	For the year ended December 31,			For the six months ended June 30,	
	2011	2012	2013	2013	2014
	(in R$ millions)				
Financial income	**6,050.1**	**8,582.9**	**9,583.3**	**4,135.9**	**6,929.5**
Loans	945.6	1,333.6	1,811.3	840.2	905.4
Securities	4,589.1	6,773.2	7,639.7	3,025.7	3,637.2
Derivative financial instruments	225.0	296.4	-	93.1	1,372.8
Foreign exchange	249.3	116.5	110.7	166.3	998.8
Mandatory investments	41.1	63.2	21.6	10.6	15.2
Financial expenses	**(4,549.6)**	**(5,277.3)**	**(6,686.1)**	**(2,417.0)**	**(4,125.1)**
Funding operations	(4,002.0)	(4,227.7)	(4,920.5)	(1,895.7)	(3,890.7)
Borrowings and onlending	(517.6)	(581.3)	(1,147.0)	(361.8)	(118.9)
Derivative financial instruments	-	-	(386.6)		
Allowance for loan losses and other receivables	(30.0)	(468.3)	(232.0)	(159.4)	(115.4)
Net financial income	**1,500.4**	**3,305.6**	**2,897.2**	**1,718.9**	**2,804.4**
Other operating income (expenses)	**174.3**	**454.4**	**881.5**	**134.9**	**50.5**
Income from services rendered	1,107.6	2,219.2	2,614.3	1,229.7	1,299.3
Personnel expenses	(359.7)	(605.7)	(602.8)	(248.9)	(339.6)
Other administrative expenses	(355.5)	(677.9)	(973.2)	(433.6)	(547.3)
Tax charges	(286.0)	(283.9)	(350.6)	(155.9)	(196.8)
Equity in the earnings of associates and jointly controlled entities	(3.5)	245.8	134.9	(285.2)	(115.2)
Other operating income	158.1	109.0	468.9	181.1	159.3
Other operating expenses	(86.6)	(552.1)	(410.0)	(152.3)	(209.3)
Operating income	**1,674.9**	**3,760.0**	**3,778.7**	**1,853.8**	**2,854.8**
Non-operating income (expenses)	9.2	(12.0)	304.4	1.0	4.0
Income before taxation and profit sharing	**1,684.1**	**3,748.0**	**4,083.1**	**1,854.8**	**2,858.8**

(Unaudited for June 30, 2013 and 2014)	For the year ended December 31,			For the six months ended June 30,	
	2011	2012	2013	2013	2014
			(in R$ millions)		
Income tax and social contribution	**199.2**	**(727.5)**	**(430.0)**	**(137.4)**	**(612.7)**
Provision for income tax	(116.6)	(607.5)	(523.5)	(307.7)	(467.3)
Provision for social contribution	(54.6)	(285.7)	(215.6)	(172.5)	(218.4)
Deferred income tax and social contribution	370.4	165.7	309.1	342.8	72.9
Statutory profit sharing	**(401.2)**	**(938.2)**	**(876.4)**	**(421.2)**	**(441.8)**
Non-controlling interest	(5.0)	(21.1)	(107.0)	(46.9)	3.6
Net income	**1,477.1**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**
Interest on equity	**(319.0)**	**(440.0)**	**(501.9)**	**(255.0)**	**(301.8)**

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.

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 BM&FBOVESPA; (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.

Six Months Ended June 30, 2014 versus Six Months Ended June 30, 2013

Banco BTG Pactual's net financial income increased 63.2%, from R$1,718.9 million in the six months ended June 30, 2013 to R$2,804.4 million in the same period in 2014, mainly due to better performance of Banco BTG Pactual's overall businesses.

Financial Income. Banco BTG Pactual's financial income increased 67.5%, from R$4,135.9 million in the six months ended June 30, 2013 to R$6,929.5 million in the same period of 2014. This increase was due to the following factors:

Loans. Banco BTG Pactual's revenues from loans increased 7.8%, from R$840.2 million in the six months ended June 30, 2013 to R$905.4 million in the same period of 2014, mainly due to: (i) a 41.1% increase in its loan portfolio, from an average balance of R$10,875.5 million in the six months ended June 30, 2013 to an average balance of R$15,344.4 million in the same period of 2014; and (ii) higher CDI rates, which increased from an average of 8% in the six months ended June 30, 2013 to an average of 11% in the same period of 2014. These increases were partially offset by a 20.8% decrease in its private credit portfolio, which includes primarily payroll loans and vehicle financing through Banco BTG Pactual's FIDC, from an average balance of R$2,402.7 million in the six months ended June 30, 2013 to an average balance of R$1,903.1 million in the same period of 2014.

Securities. Banco BTG Pactual's revenues from securities increased 20.2%, from R$3,025.7 million in the six months ended June 30, 2013 to R$3,637.2 million in the same period of 2014, mainly due to: (i) higher trading revenues from cash equities; and (ii) an increase in the SELIC rate, from an average of 8.0% in the six months ended June 30, 2013 to an average of 11.0% in the same period in 2014. This SELIC increase impacted most of Banco BTG Pactual's securities revenues, particularly: (i) from open market investments in Brazil, which generated expenses of R$1,042.2 million in the six months ended June 30, 2013, compared to R$1,813.0 million in 2014, despite the decrease in the average balance from R$34,179.0 in the six months ended June 30, 2013 to R$23,385.4 in the same period of 2014; and (ii) from securities with credit exposure, such as debentures, promissory notes and real estate certificate receivables. Such increases were partially offset by a decrease in revenues from the trading of securities in international markets mainly due to the sale of ARF II in November 2013.

Derivative Financial Instruments. Banco BTG Pactual's results from derivative financial instruments increased from a gain of R$93.1 million in the six months ended June 30, 2013 to a gain of R$1,372.8 million in the same period of 2014, mainly due higher gains from energy and commodities derivative transactions resulting from the better performance of its commodities desks coupled with higher volume of derivative operations.

Foreign Exchange. Banco BTG Pactual's foreign exchange results increased from R$166.3 million in the six months ended June 30, 2013 to R$998.8 million in the same period of 2014, primarily as a result of the higher foreign exchange rate volatility in the Brazilian market coupled with higher volumes traded in foreign exchange spot markets in Brazil in 2014 following the reduction of the IOF tax on foreign exchange transactions in June 2013.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from mandatory deposits placed with the Central Bank, increased 43.4%, from R$10.6 million in the six months ended June 30, 2013 to R$15.2 million in the same period in 2014. This increase in revenues is primarily due to an increase in the SELIC rate, from an average of 8% in the six months ended June 30, 2013 to an average of 11% in the same period in 2014.

Financial Expenses. Banco BTG Pactual's financial expenses increased 70.7%, from R$2,417.0 million in the six months ended June 30, 2013 to R$4,125.1 million in the same period of 2014. This increase was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations increased 105.2%, from R$1,895.7 million in the six months ended June 30, 2013 to R$3,890.7 million in the same period of 2014, mainly due to an increase in: (i) mark-to-market adjustment on the short sale of government bonds, from a gain of R$257.3 million on the six month period ended June 30, 2013 to a loss of R$381.5 million in the same period of 2014; and (ii) higher CDI rates, which increased from an average of 8% in the six months ended June 30, 2013 to an average of 11% in the same period in 2014. This CDI rate increase affected most of Banco BTG Pactual's expenses from funding transactions, particularly: (1) its open market funding in Brazil, which generated expenses of R$1,258.8 million in the six months ended June 30, 2013, compared to R$2,153.8 million in the same period in 2014, despite the decrease in the average balance from R$64,621.0 in the six months ended June 30, 2013 to R$32,450.1 in the same period of 2014; (2) its expenses related to financial bills, which increased from R$378.2 million in the six months ended June 30, 2013 to R$645.6 million in the six months ended June 30, 2014, along with an increase in the average balance of such investments from R$3,669.3 million in the six months ended June 30, 2013 to R$7,942.1 million in the same period of 2014; and (3) its CDB and CDI portfolios, which together generated expenses of R$305.6 million in the six months ended June 30, 2013, compared to R$399.5 million in the same period in 2014 along with a 7.9% increase in the average balance of such portfolios, which increased from an aggregate average balance of R$16,318.7 million in the six months ended June 30, 2013 to R$17,607.0 million in the same period in 2014.

Borrowing and onlending. Banco BTG Pactual's expenses from borrowing and onlending decreased 67.1% from R$361.8 million in the six months ended June 30, 2013 to R$118.9 million in the same period of 2014, mainly due to foreign exchange effects on borrowings denominated in U.S. dollars as a result of the higher volatility of the *real* against the US dollar, from a depreciation of 7.8% in the six months ended June 30, 2013 to an appreciation of 6.4% in the same period of 2014. Such decrease was partially offset by: (i) mark-to-market adjustments of equity short positions traded on BM&FBOVESPA, which generated gains of R$170.7 million in the six months ended June 30, 2013, compared to losses of R$208.1 million in the same period in 2014; and (ii) increased interest expenses due to an increase in the balance of borrowing and onlending, from an average of R$11,376.2 million as of June 30, 2013 to an average of R$16,201.5 million as of June 30, 2014.

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$159.5 million in the six months ended June 30, 2013 to R$115.4 million in the same period of 2014. The expenses in 2014 were mainly due to: (i) reversal of R$13.6 million for other credit receivables, including payroll loans, vehicle financing through a FIDC, that Banco BTG Pactual owns, and off-balance sheet items such as letters of credit and commitments, for which, as of June 30, 2013, the aggregate provision amounted to R$1,093.5 million, or 54.1% of Banco BTG Pactual's portfolio of other credit receivables of R$2,021.8 million, compared to R$1,110.0 million, or 62.2% of its portfolio of other credit receivables of R$1,784.4 million, as of June 30, 2014; and (ii) expenses in the amount of R$129.0 million for credit receivables, for which, as of June 30, 2014, the total provisions amounted to R$214.2 million, or 1.3% of Banco BTG Pactual's total loan portfolio of R$16,868.6 million, compared to R$329.7 million, or 2.2%, of its total loan portfolio of R$14,886.2 million as of June 30, 2014. In the six months ended June 30, 2013, the expenses on allowance for loan losses for other credit receivables were R$83.3 million and expenses for credit receivables and off-balance sheet items were R$76.2 million.

2013 versus 2012

Banco BTG Pactual's net financial income decreased 12.4%, from R$3,305.6 million in 2012 to R$2,897.2 million in 2013, mainly due to the more volatile and uncertain markets, which affected the FX, equities and rates markets in 2013.

Financial Income. Banco BTG Pactual's financial income increased 11.7%, from R$8,582.9 million in 2012 to R$9,583.3 million in 2013. This increase was due to the following factors:

Loans. Banco BTG Pactual's revenues from loans increased 35.8%, from R$1,333.6 million in 2012 to R$1,811.3 million in 2013, mainly due to a 48.1% increase in its loan portfolio, from an average balance of R$6,654.0 million in 2012 to an average balance of R$9,855.5 million in 2013. This increase was partially offset by: (i) a 17.9% decrease in its credit receivable portfolio, which includes primarily payroll loans and vehicle financing through Banco BTG Pactual's FIDC, from an average balance of R$2,771.8 million in 2012 to an average balance of R$2,275.7 million in 2013; and (ii) lower CDI rates, which decreased from an average of 8.4% in 2012 to an average of 8.0% in 2013.

Securities. Banco BTG Pactual's revenues from securities increased 12.8%, from R$6,773.2 million in 2012 to R$7,639.7 million in 2013, mainly due to: (i) an increase in revenues from open market investments in Brazil, due to the increase in the average balance of such investments from R$18,866.5 million in 2012 to R$27,063.0 million in 2013; and (ii) higher revenues from securities with credit exposure, such as debentures, promissory notes and real estate certificate receivables, which increased from an average balance of R$8,527.7 million in 2012 to an average balance of R$10,114.7 million in 2013. These increases were partially offset by: (i) a decrease in trading revenues from the trading of securities in international markets; and (ii) lower CDI rates, which decreased from an average of 8.4% in 2012 to an average of 8.0% in 2013.

Derivative Financial Instruments. Banco BTG Pactual's results from derivative financial instruments varied from a gain of R$296.4 million in 2012 to a loss of R$386.6 million in 2013, mainly due to losses from: (i) derivatives linked to interest rates, as a result of the higher volatility of the CDI rate in 2013 compared to 2012; and (ii) equity linked derivatives, as a result of recent emerging markets turmoil, which negatively impacted the Brazilian equities market in 2013 compared to 2012.

Foreign Exchange. Banco BTG Pactual's foreign exchange results decreased 5.0%, from R$116.5 million in 2012 to R$110.7 million in 2013, primarily as a result of higher foreign exchange volatility in the Brazilian market, which was partially offset by higher volumes traded in the foreign exchange spot markets in Brazil in 2013, following the reduction of the IOF tax on foreign exchange transactions from 6.0% to zero.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from its mandatory deposits placed with the Central Bank, decreased 65.8%, from R$63.2 million in 2012 to R$21.6 million in 2013. This decrease in revenues is due to: (i) a decrease in the average balance of such investments from

R$749.6 million in 2012 to R$314.5 million in 2013 as a result of changes in its funding portfolio; (ii) a decrease in the percentage of mandatory deposits subject to interest as a result of changes in the Central Bank's requirements; and (iii) lower CDI rates, which decreased from an average of 8.4% in 2012 to an average of 8.0% in 2013.

Financial Expenses. Banco BTG Pactual's financial expenses increased 26.7%, from R$5,277.3 million in 2012 to R$6,686.1 million in 2013. This increase was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations increased 16.4%, from R$4,227.7 million in 2012 to R$4,920.5 million in 2013, mainly as a result of: (i) an increase in its open market funding expenses, from R$2,579.1 million in 2012 to R$2,974.9 million in 2013, in connection with the 7.7% increase in the average balance of its open market funding portfolio, from R$49,663.2 million in 2012 to R$53,511.2 million in 2013; (ii) an increase in expenses, of R$86.4 million, in 2013, related to the issuance of US$800.0 million 10-year subordinated notes in September 2012, at a fixed-rate of 5.75% per annum; (iii) an increase in expenses of R$61.9 million in 2013, due to the issuance of US$1.0 billion senior notes in January 2013 and US$235.0 million five-year senior notes in September and October 2012; and (iv) an increase in expenses related to financial bills for funding purposes, which grew from R$465.5 million in 2012 to R$793.0 million in 2013. These increases were partially offset by lower CDI rates, which declined from an average of 8.4% in 2012 to an average of 8.0% in 2013. This decrease impacted most of Banco BTG Pactual's funding instruments, particularly its CDB and CDI portfolios, which together generated expenses of R$636.3 million in 2013, compared to R$881.0 million in 2012, despite the 8.9% increase in the average balance of such portfolios, which together increased from an aggregate average balance of R$15,345.4 million in 2012 to R$16,711.2 million in 2013.

Borrowings and onlending. Banco BTG Pactual's expenses from borrowings and onlending increased 97.3% from R$581.3 million in 2012 to R$1,147.0 million in 2013, mainly due to (i) an increase in expenses due to the increase in the average balance of its borrowings and onlending from R$1,410.6 million in 2012 to R$3,461.0 million in 2013; and (ii) an increase in expenses due to exchange rate fluctuations on its borrowings denominated in currencies other than the *real*, which generated expenses of R$756.1 million in 2013, compared to expenses of R$226.7 million in 2012. These increases partially offset decreased expenses related to negative mark-to-market adjustments of Banco BTG Pactual's equity short positions traded on BM&FBOVESPA, which generated losses of R$96.9 million in 2013, compared to losses of R$280.2 million in 2012.

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$468.3 million in 2012 to R$232.0 million in 2013. The expenses in 2013 were mainly due to: (i) expenses in the amount of R$126.3 million for other credit receivables, including payroll loans and vehicle financing through a FIDC, that Banco BTG Pactual owns, for which, as of December 31, 2012, the total provision amounted to R$1,017.2 million, or 40.1% of Banco BTG Pactual's portfolio of other credit receivables of R$2,537.1 million compared to R$1,150.5 million, or 56.9% of its portfolio of other credit receivables of R$2,021.7 million, as of December 31, 2013; and (ii) expenses in the amount of R$105.6 million for credit receivables and off-balance sheet items such as letters of credit and commitments, for which, as of December 31, 2012, the total provisions amounted to R$191.4 million, or 0.9% of Banco BTG Pactual's total loan portfolio of R$20,178.2 million compared to R$222.8 million, or 0.8%, of its total loan portfolio of R$27,452.6 million as of December 31, 2013. In 2012, the expenses on allowance for loan losses for other credit receivables were R$355.5 million and expenses for credit receivables and off-balance sheet items were R$112.8 million.

2012 versus 2011

Banco BTG Pactual's net financial income increased 120.3%, from R$1,500.4 million in 2011 to R$3,305.6 million in 2012, mainly due to the general growth of its businesses and the deployment of proceeds from the BTG Pactual Group's initial public offering in April 2012.

Financial Income. Banco BTG Pactual's financial income increased 41.9%, from R$6,050.1 million in 2011 to R$8,582.9 million in 2012. This increase was due to the following factors:

Loans. Banco BTG Pactual's revenues from loans increased 41.0%, from R$945.6 million in 2011 to R$1,333.6 million in 2012, mainly due to: (i) a 28.4% increase in its loan portfolio, from an average balance of R$5,183.9 million in 2011 to an average balance of R$6,654.0 million in 2012; and (ii) a 141.7% increase in its credit receivable portfolio, which includes primarily payroll loans and vehicle financing through Banco BTG Pactual's FIDC, from an average balance of R$1,146.8 million in 2011 to an average balance of R$2,771.8.0 million in 2012. This increase was partially offset by lower CDI rates, which decreased from an average of 11.6% in 2011 to an average of 8.4% in 2012.

Securities. Banco BTG Pactual's revenues from securities increased 47.6%, from R$4,589.1 million in 2011 to R$6,773.2 million in 2012, mainly due to (i) higher trading revenues from securities traded in the international markets; (ii) higher revenues from securities with credit exposure, such as debentures, promissory notes and certificate of real estate receivables, which increased from an average balance of R$3,254.4 million in 2011 to an average balance of R$8,527.7 million in 2012, and (iii) higher trading revenues from cash equities due to the performance of the IBOVESPA index (particularly in the first quarter of 2012), which increased 7.3% in 2012, compared to a 18.1% decrease in 2011.

Derivative Financial Instruments. Banco BTG Pactual's results from derivative financial instruments increased 31.7%, from R$225.0 million in 2011 to R$296.4 million in 2012, mainly due to: (i) increased gains from equity-linked derivatives; and (ii) increased gains from derivatives linked to interest rates as a result of the positive impact of the CDI rate decreases during the period, from an average of 11.6% in 2011 to an average of 8.4% in 2012. This gain was partially offset by losses from derivative transactions related to Banco BTG Pactual's global market strategy and lower gains from energy contracts.

Foreign Exchange. Banco BTG Pactual's foreign exchange results decreased 53.3%, from R$249.3 million in 2011 to R$116.5 million in 2012, primarily as a result of higher foreign exchange rate volatility in the foreign exchange markets in Brazil in 2011.

Mandatory Investments. Banco BTG Pactual's revenues from mandatory investments, which are derived from its mandatory deposits placed with the Central Bank, increased 53.8%, from R$41.1 million in 2011 to R$63.2 million in 2012. While the average balance of its mandatory deposits (which are indexed to the SELIC rate) remained relatively stable from July to December 2011 and through 2012, Banco BTG Pactual recorded higher revenues in 2012 as a result of full-year interest recognition in 2012 compared to only half-year interest recognition in 2011. Banco BTG Pactual's mandatory deposits are required by the Central Bank as a function of its balance of time deposits, which has been growing consistently over the past three years. In the second half of 2011, Banco BTG Pactual's total balance of time deposits for the first time exceeded the threshold above which it is required to place mandatory deposits with the Central Bank. This increase in revenues from mandatory investments was partially offset by a decrease in the CDI rates, from an average of 11.6% in 2011 to an average of 8.4% in 2012.

Financial Expenses. Banco BTG Pactual's financial expenses increased 16.0%, from R$4,549.6 million in 2011 to R$5,277.3 million in 2012. This increase was due to the following factors:

Funding Operations. Banco BTG Pactual's expenses from funding operations increased 5.6%, from R$4,002.0 million in 2011 to R$4,227.7 million in 2012, mainly as a result of: (i) an increase in expenses, from R$200.4 million in 2011 to R$465.5 million in 2012, due to its issuance of R$3.975 billion in subordinated notes in April 2011, with an average maturity of 7.8 years with no principal payments due until October 2016; (ii) an increase in expenses of R$24.8 million in 2012 related to the issuance of US$800.0 million 10-year subordinated notes in September 2012, at a fixed-rate of 5.75% per annum; and (iii) an increase in expenses, from R$23.8 million in 2011 to R$51.9 million in 2012, due mainly to the issuance of (a) US$500 million five-year senior notes in July 2011 and (b) US$235.0 million five-year senior notes in September and October 2012. These increases were partially offset by lower CDI rates, which decreased from an average of 11.6% in 2011 to an average of 8.4% in 2012. This decrease impacted expenses related to most of Banco BTG Pactual's funding instruments, particularly: (i) its open market funding, which decreased from R$2,645.9 million in 2011 to R$2,584.0 million in 2012, despite an increase in the average balance of its open market funding portfolio, from R$39,610.7 million in 2011 to R$49,663.2 million in 2012; and (ii) its CDB and CDI portfolios which generated expenses of R$866.8 million in 2012, compared to R$943.3 million in 2011 despite a 38.0% increase in its average balance, from an average of R$10,125.2 million in 2011 to an average of R$13,973.9 million in 2012.

Borrowings and onlending. Banco BTG Pactual's expenses from borrowings and onlending increased 12.3% from R$517.6 million in 2011 to R$581.3 million in 2012, mainly due to negative mark-to-market adjustments of its equity short positions traded on BM&FBOVESPA, which generated losses of R$280.2 million in 2012, compared to a loss of R$58.3 million in 2011, partially offset by a decrease in losses from exchange rate fluctuations on its borrowings denominated in currencies other than the *real*, which generated expenses of R$264.7 million in 2012, compared to expenses of R$422.6 million in 2011.

Allowance for loan losses and other receivables. Banco BTG Pactual's expenses related to its allowance for loan losses and other receivables increased from R$30.0 million in 2011 to R$468.3 million in 2012. The expenses in 2012 were mainly due to: (i) expenses in the amount of R$355.5 million for other credit receivables, including payroll loans and vehicle financing through a FIDC that Banco BTG Pactual owns, for which, as of December 31, 2011 the total provision amounted to R$659.6 million, or 21.3% of Banco BTG Pactual's portfolio of other credit receivables of R$3,090.3 million compared to 1,017.2 million, or 40.1% of its portfolio of other credit receivables of R$2,537.1 million, as of December 31, 2012; and (ii) expenses in the amount of R$112.8 million for credit receivables and off-balance sheet items such as letters of credit and commitments, for which as of December 31, 2011 the total provisions amounted to R$85.9 million, or 0.8% of Banco BTG Pactual's total loan portfolio of R$11,252.6 million compared to R$191.4 million, or 0.9% of its total loan portfolio of R$20,178.2 million, as of December 31, 2012. In 2011, the expenses on allowance for loan losses for other credit receivables were R$11.8 million and expenses for credit receivables and off-balance sheet items were R$18.2 million.

Other Operating Income (Expenses)

Banco BTG Pactual's other operating income (expenses) are primarily affected by revenues from services rendered, compensation, headcount, levels of client activity and, prior to February 2012, retention expenses related to its retention plan which has since then expired.

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

	For the year ended December 31,			For the six months ended June 30,	
(Unaudited for June 30, 2013 and 2014)	**2011**	**2012**	**2013**	**2013**	**2014**
	(in R$ millions)				
Income from services rendered	1,107.6	2,219.2	2,614.3	1,229.7	1,299.3
Personnel expenses	(359.7)	(605.7)	(602.8)	(248.9)	(339.6)
Other administrative expenses	(355.5)	(677.9)	(973.2)	(433.6)	(547.3)
Tax charges	(286.0)	(283.9)	(350.6)	(155.9)	(196.8)
Equity in the earnings of associates and jointly controlled entities	(3.5)	245.8	134.9	(285.2)	(115.2)
Other operating income	158.1	109.0	468.9	181.1	159.3
Other operating expenses	(86.6)	(552.1)	(410.0)	(152.3)	(209.3)
Other operating income	**174.3**	**454.4**	**881.5**	**134.9**	**50.5**

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

(Unaudited for June 30, 2013 and 2014)	For the year ended December 31,			For the six months ended June 30	
	2011	2012	2013	2013	2014
	(in R$ millions)				
Management fee and performance premiums for investment funds and portfolio	511.4	1,329.4	1,341.1	552.5	628.0
Underwriting and advisory fees[(1)]	415.8	584.1	852.4	452.9	477.2
Other services[(2)]	180.4	305.7	420.8	224.3	194.1
Income from services rendered	**1,107.6**	**2,219.2**	**2,614.3**	**1,229.7**	**1,299.3**

(1) Underwriting and advisory fees include consulting and structuring 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.

Banco BTG Pactual's personnel expenses consist of salaries, benefits (such as health insurance) and other payments made to its personnel on its payroll, including retention expenses up to February, 2012, consisting of payments to key employees who continued their involvement with Banco BTG Pactual following its acquisition by its controlling shareholder from UBS AG.

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 Contribution for the Social Integration Program (*Programa de Integração Social*), or PIS, the Contribution for Social Security *(Contribuição para o Financiamento da Seguridade Social*), or COFINS. In addition, Banco BTG Pactual's fee income generated from services rendered is subject to the payment of the Tax on Services of Any Nature (*Imposto Sobre Serviços de Qualquer Natureza*), or 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 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: (i) companies in which it holds a minority or a co-controlling equity stake, including Banco Pan (which it acquired in May 2011), BR Properties (since January 2012) and BTG Pactual Holding S.a.r.l., its investment vehicle through which we acquired shares of PO&G (since June 2013); and (ii) any company in which Banco BTG Pactual may have held interests, but had the intent to sell such interest within a one-year period from the applicable date to which the balance sheet relates.

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, and (iii) fair value of investment properties for sale from its real estate operations which are consolidated companies.

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; (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) expenses incurred in connection with Banco BTG Pactual's establishment in June 2013 of the investment in the Petrobras Joint Venture, including in relation to due diligence and legal advisory fees.

Six months Ended June 30, 2014 versus Six months Ended June 30, 2013

Banco BTG Pactual's other operating income (expenses) decreased from R$134.9 million in the six months ended June 30, 2013 to R$50.5 million in the same period of 2014.

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

(Unaudited)	For the six months ended June 30, 2013	% of total	2014	% of total	Variation (%)
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	552.5	44,9%	628.0	48,3%	13,7%
Underwriting and advisory fees[(1)]	452.9	36,8%	477.2	36,7%	5,4%
Other services[(2)]	224.3	18,2%	194.1	14,9%	(13,5%)
Income from services rendered	**1,229.7**	**100,0%**	**1,299.3**	**100,0%**	**5,7%**

(1) Underwriting and advisory fees include consulting and structuring 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 5.7%, from R$1,229.7 million in the six months ended June 30, 2013 to R$1,299.3 million in the same period of 2014, due to the following factors:

Management fee and performance premium for investment funds and portfolio. Banco BTG Pactual's income from management fee and performance premium for investment funds and portfolio increased 13.7%, from R$552.5 million in the six months ended June 30, 2013 to R$628.0 million in the same period of 2014. This increase was mainly due to: (i) an increase of 2.5% in AUM and AUA, from R$186.1 billion as of June 30, 2013 to R$190.7 billion as of June, 2014, and (ii) a shift in the composition of AUM and AUA, which migrated gradually over the periods from conservative and short-term (mostly traditional fixed income) products to alternative and long-term (mostly liquid and illiquid equities) products.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees increased 5.4%, from R$452.9 million in the six months ended June 30, 2013 to R$477.2 million in the same period of 2014, mainly due to Banco BTG Pactual's higher financial advisory fees resulting from its significant market share in Brazil and Latin America. This increase was partially offset by a decrease in underwriting fees from equity and debt issuances due to weaker market activity in the six months ended June 30, 2014 compared to the same period in 2013. In the six months ended June 30, 2014, Banco BTG Pactual acted as underwriter in equity and debt transactions with aggregate amounts of R$0.7 billion and R$1.8 billion, respectively, compared to R$1.7 billion and R$3.7 billion in the same period of 2013.

Other services. Banco BTG Pactual's revenue from other services decreased 13.5%, from R$224.3 million in the six months ended June 30, 2013 to R$194.1 million in the same period of 2014. This decrease was mainly due a 32.5% decrease in brokerage transactions in the six months ended June 30, 2014 compared to the same period in 2013, partially offset by higher revenues from structuring fees and commissions related to credit transactions and credit facilities, including letters of credit.

Personnel expenses. Banco BTG Pactual's personnel expenses increased 36.4%, from R$248.9 million in the six months ended June 30, 2013 to R$339.6 million in the same period of 2014. This increase in personnel expenses was due to: (i) an average annual salary adjustment of 8.0% for employees pursuant to the terms of the annual union agreement reached in September 2013; and (ii) an increase in the number of employees, from 2,553 as of June 30, 2013 to 3,054 as of June 30, 2014 due to the organic growth of business, mainly related to its commodities desks.

Other administrative expenses**.** Banco BTG Pactual's other administrative expenses increased 26.2%, from R$433.6 million in the six months ended June 30, 2013 to R$547.3 million in the same period of 2014. This increase was mainly due to: (i) higher information technology expenses in connection with investments in software development associated with the update of Banco BTG Pactual's operational platform; and (ii) additional expenses related to the overall growth of Banco BTG Pactual's businesses, including, advertising, public relations and financial system expenses.

Tax charges**.** Banco BTG Pactual's tax charges increased 26.2%, from R$155.9 million in the six months ended June 30, 2013 to R$196.8 million in the same period of 2014. The increase in tax charges was mainly due to a 53.9% increase in Banco BTG Pactual's net financial income, from R$1,719.0 million in the six months ended June 30, 2013 to R$2,804.4 million in the same period of 2014. Such increase was partially offset by an increase in revenues not subject to tax charges in Brazil, mainly an increase in revenues generated by the Cayman Islands branch.

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$285.2 million in the six months ended June 30, 2013 to a loss of R$115.2 million in the same period of 2014. In the six months ended June 30, 2014, the losses from equity in the earnings of associates and jointly controlled entities were mainly attributable to Banco BTG Pactual's proportional share of net losses of: (i) BTG Pactual Holding S.a.r.l. (its investment vehicle through which Banco BTG Pactual participates in the Petrobras Joint Venture) in the amount of R$93.4 million; and (ii) Banco Pan in the amount of R$50.7 million. These losses were partially offset by Banco BTG Pactual's proportional share of net income of Warehouse 1 Empreendimentos Imobiliários in the amount of R$29.1 million. In the six months ended June 30, 2013, the losses from equity in the earnings of associates and jointly controlled entities were mainly attributable to the share of net losses of BR Properties in the amount of R$306.4 million, which includes a non-permanent impairment provision resulting from adverse changes in its market capitalization.

Other operating income**.** Banco BTG Pactual's other operating income decreased 12.0%, from R$181.1 million in the six months ended June 30, 2013 to R$159.3 million in the same period of 2014, due to: (i) recognition of gains in the amount of R$28.0 million related to price adjustments on the acquisition of Coomex in the six months ended June 30, 2013 with no recurrence in the same period in 2014; and (ii) fair value of investment properties for sale in the subsidiary BW Properties in the amount of R$99.4 million in the six months ended June 30, 2013 compared to R$18.1 million in the same period in 2014. These lower gains were partially offset by: (i) monetary adjustment of receivables in the amount of R$48.5 million in the six months ended June 30, 2014, and (ii) higher revenues from adjustments for inflation on judicial deposits due to higher inflation rates in the six months ended June 30, 2014.

Other operating expenses**.** Banco BTG Pactual's other operating expenses increased 37.4%, from R$152.3 million in the six months ended June 30, 2013 to R$209.3 million in the same period of 2014, mainly due to increased expenses related to: (i) interest charges in connection with deferred payment obligations relating to the acquisition of certain investments, primarily Banco Pan, due to higher CDI rates, which increased from an average of 8.0% in the six months ended June 30, 2013 to an average of 11% in the same period in 2014; (ii) exchange rate variations on certain assets and liabilities denominated in U.S. dollars as a result of the higher volatility of the *real* against the US dollar, from a depreciation of 7.8% in the six months ended June 30, 2013 to an appreciation of 6.4% in the same period of 2014; and (iii) higher interest revenues on adjustments for inflation on tax liabilities due to higher inflation rates in the six months ended June 30, 2014 compared to the same period in 2013.

2013 versus 2012

Banco BTG Pactual's other operating income increased 94.0%, from R$454.4 million in 2012 to R$881.5 million in 2013. This increase was due to the following factors:

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,				
	2012	% of total	2013	% of total	Variation (%)
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	1,329.4	59.9%	1,341.1	51.3%	0.9%
Underwriting and advisory fees(1)	584.1	26.3%	852.4	32.6%	45.9%
Other services(2)	305.7	13.8%	420.8	16.1%	37.7%
Income from services rendered	**2,219.2**	**100.0%**	**2,614.3**	**100.0%**	**17.8%**

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

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

Banco BTG Pactual's income from services rendered increased 17.8%, from R$2,219.2 million in 2012 to R$2,614.3 million in 2013, due to the following factors:

Management fee and performance premium for investment funds and portfolio. Banco BTG Pactual's income from management fee and performance premium for investment funds remained relatively stable from R$1,329.4 million in 2012 to R$1,341.1 million in 2013. In 2013 fees increased due to: (i) an 11.0% increase in AUM and AUA, from a combined R$170.7 billion in 2012 to R$189.4 billion in 2013; and (ii) a shift in the composition of AUM and AUA, which migrated gradually over the year from conservative, short-term fixed assets, to alternative and equities products. The increase was partially offset by lower performance fees revenues recognized in 2013 compared to 2012, due to the better performance from most of Banco BTG Pactual's global hedge funds in 2012, when compared to 2013, in line with a smaller risk appetite in 2013 due to unfavorable market conditions, and one extraordinary performance fee from a real estate investment fund recognized in 2012.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees increased 45.9%, from R$584.1 million in 2012 to R$852.4 million in 2013. This increase was mainly due to: (i) increased revenues from its Latin American clients following the acquisition of Celfin and Bolsa y Renta, in November 2012 and December 2012, respectively; and (ii) higher revenues from structuring fees.

Other services. Banco BTG Pactual's revenue from other services increased 37.7%, from R$305.7 million in 2012 to R$420.8 million in 2013. This increase was mainly due to: (i) higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, mainly as a result of Banco BTG Pactual's strategy to grow its loan portfolio; and (ii) higher brokerage revenues from its clients' trading activities.

Personnel expenses. Banco BTG Pactual's personnel expenses remained relatively stable from R$605.7 million in 2012 to R$602.8 million in 2013. In 2013 personnel expenses increased due to: (i) salary adjustments for its employees pursuant to union agreements renegotiated annually, resulting in a 7.5% average increase in September 2012 and an 8.0% average increase in September 2013; and (ii) an increase in the number of employees, from 2,195 as of December 31, 2012 to 2,715 as of December 31, 2013, associated with the organic growth of its business. These increases were offset by a decrease in expenses from salaries and benefits paid to Banco BTG Pactual's statutory executive officers.

Other administrative expenses. Banco BTG Pactual's other administrative expenses increased 43.6%, from R$677.9 million in 2012 to R$973.2 million in 2013. This increase was mainly due to: (i) higher information technology expenses, in connection with investments in software development associated with the upgrade of Banco BTG Pactual's operational platform; (ii) expenses emanating from the overall growth of its operational platform, including the acquisition of Celfin and Bolsa y Renta, whose results were consolidated in November 2012 and December 2012, respectively; and (iii) additional expenses related to the establishment of its commodities business, including recruiting, travelling and professional fees.

Tax charges. Banco BTG Pactual's tax charges increased 23.5%, from R$283.9 million in 2012 to R$350.6 million in 2013 due to: (i) an increase in income before taxation and profit sharing from R$3,748.0 million in 2012 to R$4,083.1 million in 2013; (ii) a decrease in the portion of its taxable income emanating from gains from its equity in the earnings of associates and jointly controlled entities, which are not subject to tax charges; and (iii) increase in tax expenses related to its application to the Fiscal Refinancing Program (REFIS), established by Law no. 12,865.

Equity in the earnings of associates and jointly controlled entities. Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities decreased 45.1%, from R$245.8 million in 2012 to R$134.9 million in 2013. In 2013, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly attributable to its proportional share of net income of BTG Pactual Holding S.a.r.l. (its investment vehicle through which Banco BTG Pactual participates in the Petrobras Joint Venture) in the amount of R$515.0 million, which was partially offset by its proportional share of net losses of: (i) BR Properties in the amount of R$334.3 million, which includes the provision for devaluation, in the amount of R$ 400.9 million; and (ii) Banco Pan in the amount of R$51.3 million.

In 2012, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly attributable to its proportional share of net income of: (i) BR Properties, in the amount of R$383.0 million, net of a provision for devaluation in the amount of R$402.0 million; (ii) Warehouse 1 Empreendimentos Imobiliários S.A., in the amount of R$7.0 million, net of a loss related to goodwill impairment in the amount of R$14.1 million; and (iii) One Properties, in the amount of R$15.4 million. Such equity in the earnings of associates and jointly controlled entities was partially offset by Banco BTG Pactual's proportional share of net losses from Banco Pan in the amount of R$160.4 million in 2012.

Other operating income. Banco BTG Pactual's other operating income increased 330.2%, from R$109.0 million in 2012 to R$468.9 million in 2013 mainly due to: (i) the recognition of gains in the amount of R$28.0 million related to price adjustments on the acquisition of Coomex in 2013; and (ii) gains of R$305.1 million in 2013 related to the revaluation of BW Properties' permanent assets.

Other operating expenses. Banco BTG Pactual's other operating expenses decreased 25.7%, from R$552.1 million in 2012 to R$410.0 million in 2013 due to a R$221.8 decrease in goodwill amortization expenses, which was partially offset by a R$82.0 million increase in fees and expenses incurred in connection with the Petrobras Joint Venture.

In 2013, Banco BTG Pactual's goodwill expenses totaled R$172.5 million, consisting of: (i) goodwill amortization expenses of R$152.2 million from the acquisition of Celfin in November 2012; and (ii) goodwill amortization expenses of R$19.5 million from the acquisition of Bolsa y Renta in December 2012.

In 2012, Banco BTG Pactual goodwill amortization expenses totaled R$394.3 million, consisting of: (i) R$69.5 million in amortization expenses from the acquisition of Coomex (reflecting an increase from 2011 as a result of profits generated by Coomex since its acquisition); (ii) R$247.9 million in goodwill amortization from the acquisition of BFRE, related to profitability and recognition of deferred income tax asset due to a corporate restructuring; and (iii) R$76.9 million in extraordinary goodwill amortization, resulting from an impairment on other investments.

2012 versus 2011

Banco BTG Pactual's other operating income (expenses) increased 160.7%, from R$174.3 million in 2011 to R$454.4 million in 2012. This increase was due to the following factors:

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,				
	2011	% of total	2012	% of total	Variation (%)
	(in R$ millions, except percentages)				
Management fee and performance premium for investment funds and portfolio	511.4	46.2%	1,329.4	59.9%	160.0%
Underwriting and advisory fees(1)	415.8	37.5%	584.1	26.3%	40.5%
Other services(2)	180.4	16.3%	305.7	13.8%	69.5%
Income from services rendered	**1,107.6**	**100.0%**	**2,219.2**	**100.0%**	**100.4%**

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

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

Banco BTG Pactual's income from services rendered increased 100.4%, from R$1,107.6 million in 2011 to R$2,219.2 million in 2012, due to the following factors:

Management fee and performance premium for investment funds and portfolio. Banco BTG Pactual's income from management fee and performance premium for investment funds and portfolio increased 160.0%, from R$511.4 million in 2011 to R$1,329.4 million in 2012. This increase was mainly due to: (i) an increase of 42.1% in Banco BTG Pactual's AUM and AUA, from R$120.1 billion in 2011 to R$170.7 billion in 2012 (which includes R$10.6 billion of AUM and AUA from the acquisition of Brazilian Capital in August 2012 and R$8.5 billion from the acquisition of Celfin in November 2012) and the resulting positive impact on management fees; and (ii) an increase in performance fees received from Banco BTG Pactual's funds, particularly its global hedge funds, due to strong performance as a result of improved market conditions.

Underwriting and advisory fees. Banco BTG Pactual's revenues from underwriting and advisory fees increased 40.5%, from R$415.8 million in 2011 to R$584.1 million in 2012. This increase was mainly due to: (i) an increase in M&A advisory fees in 2012 compared to 2011 as a result of both an increase in the value of M&A transactions in which Banco BTG Pactual participated, from R$45.0 billion in 2011 to R$51.7 billion in 2012, and the receipt of certain advisory fees in 2012 for material transactions that were announced in 2011 (as such fees are generally payable at settlement); (ii) an increase in the value of debt offerings in which Banco BTG Pactual participated as underwriters, from R$7.2 billion in 2011 to R$11.2 billion in 2012, as a result of strong levels of activity in the Brazilian debt market, as well as transactions that recorded higher than average fees; and (iii) increased revenues from equity offerings, mainly due to an increase in the number and value of transactions in which Banco BTG Pactual acted as underwriters, from R$3.3 billion in 2011 to R$3.6 billion in 2012.

Other services. Banco BTG Pactual's revenue from other services increased 69.5%, from R$180.4 million in 2011 to R$305.7 million in 2012. This increase was mainly due to: (i) the transfer of Banco BTG Pactual's United States and Europe broker-dealer operations to Banco BTG Pactual in September 2011 pursuant to the corporate restructuring of the BTG Pactual Group. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring"; and (ii) higher brokerage revenues due to higher revenues from commissions related to credit transactions and credit facilities, including letters of credit, mainly as a result of Banco BTG Pactual's strategy to grow its loan portfolio.

Personnel expenses. Banco BTG Pactual's personnel expenses increased 68.4% from R$359.7 million in 2011 to R$605.7 million in 2012. This increase in Banco BTG Pactual's personnel expenses was due to: (i) two annual salary adjustments of 9.0% and 7.5% in October 2011 and September 2012, respectively, benefitting Banco BTG Pactual's employees pursuant to the terms of union agreements that are adjusted annually; (ii) an increase in personnel expenses for Banco BTG Pactual's statutory officers; and (iii) an increase in the number of Banco BTG Pactual's employees, from 1,311 in 2011 to 2,195 in 2012. This increase in the number of employees was associated with the organic growth of Banco BTG Pactual's business as well as from the addition of 599 new employees as a result of Banco BTG Pactual's acquisition of Celfin in November 2012.

Other administrative expenses. Banco BTG Pactual's other administrative expenses increased 90.7%, from R$355.5 million in 2011 to R$677.9 million in 2012. This increase was mainly due to: (i) expenses incurred in 2012 with respect to the BTG Pactual Group's initial public offering and Banco BTG Pactual's bond issuances; (ii) higher expenses related to Banco BTG Pactual's new office in São Paulo, particularly rental expenses during the refurbishment period; (iii) higher information technology consulting fees in connection with software developments for Banco BTG Pactual's operational platform; and (iv) additional expenses such as rental and travel, related to Banco BTG Pactual's international activities in London, New York and Hong Kong. Such activities were transferred to Banco BTG Pactual from us in September 2011 as part of the corporate restructuring of the BTG Pactual Group. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Corporate Restructuring."

Tax charges. Banco BTG Pactual's tax charges remained relatively stable, from R$286.0 million in 2011 to R$283.9 million in 2012. While there was an increase in Banco BTG Pactual's revenues resulting from its overall business growth, a portion of that increase was generated by its Cayman Island branch (whose revenues are not taxable in Brazil) and also from higher gains from Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities, which are also not subject to tax charges. Most of Banco BTG Pactual's tax charges result from revenues generated in Brazil.

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$3.5 million in 2011 to a gain of R$245.8 million in 2012. In 2012, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly attributable to its proportional share of net income of: (i) BR Properties, in the amount of R$383.0 million, net of a provision for devaluation in the amount of R$402.0 million; (ii) Warehouse 1 Empreendimentos Imobiliários S.A., in the amount of R$7.0 million, net of a loss related to goodwill impairment in the amount of R$14.1 million; and (iii) One Properties, in the amount of R$15.4 million. Such equity in the earnings of associates and jointly controlled entities was partially offset by Banco BTG Pactual's proportional share of net losses from Banco Pan in the amount of R$160.4 million in 2012. In 2011, Banco BTG Pactual's equity in the earnings of associates and jointly controlled entities was mainly attributable to its proportional share of: (i) net loss of Banco Pan in the amount of R$27.2 million; and (ii) net income of One Properties, in the amount of R$22.6 million.

Other operating income. Banco BTG Pactual's other operating income decreased 31.1%, from R$158.1 million in 2011 to R$109.0 million in 2012. This decrease was mainly due to higher income recognized in 2011 resulting mainly from: (i) gains on exchange rate variations on certain investments and receivables denominated in U.S. dollars; (ii) monetary variation on court deposits and others, affected by the SELIC rate, which decreased from 11.6% in 2011 to 8.4% in 2012; and (iii) the reversal of provisions for labor costs as a result of favorable evaluations of Banco BTG Pactual's outside legal advisors.

Other operating expenses. Banco BTG Pactual's other operating expenses increased 537.5%, from R$86.6 million in 2011 to R$552.1 million in 2012 mainly due to: (i) R$394.3 million in goodwill amortization expenses incurred in 2012, which include (a) R$69.5 million in amortization expenses from the acquisition of Coomex, which expenses were greater than in 2011 as a result of profits generated by Coomex since Banco BTG Pactual's acquisition in 2010, (b) R$247.9 million in goodwill amortization from the acquisition of BFRE, related to profitability and recognition of deferred income tax asset due to a corporate restructuring, and (c) R$77.0 million in extraordinary goodwill amortization, resulting from impairment on other investments; (ii) interest charges of R$54.1 million incurred in 2012 compared to R$33.4 million in 2011, in connection with Banco BTG Pactual's acquisition of certain investments, primarily Banco Pan in 2011, which amount shall become payable on July 31, 2028; and (iii) other expense increases such as expenses from Banco BTG Pactual's broker-dealer operations, including execution and commission fees.

Non-operating Income (Expenses)

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

Six months Ended June 30, 2014 versus Six months Ended June 30, 2013

Banco BTG Pactual's non-operating income (expenses) increased from a gain of R$1.0 million in the six months ended June 30, 2013 to a gain of R$4.0 million in the same period of 2014. Banco BTG Pactual's non-operating income in the six months June 30, 2013 consisted primarily of gains from the sale of a portion of its equity interest in BR Properties. In the six months ended June 30, 2014, Banco BTG Pactual's non-operating income was primarily comprised of gains on sale of permanent assets in Chile and upward price adjustments on the sale of a portion of its equity interest in the Petrobras Joint Venture.

2013 versus 2012

Banco BTG Pactual's non-operating income (expenses) varied from a loss of R$12.0 million in 2012 to a gain of R$304.4 million in 2013.

In 2013, Banco BTG Pactual's non-operating income consisted mainly of gains of: (i) R$30.7 million on the sale of a portion of its equity interest in PO&G to its clients in connection with the Petrobras Joint Venture. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Equity Interest in Petrobras Oil & Gas B.V."; and (ii) R$270.6 million on the sale of 21.42% of its 24.53% equity interest in BR Properties to BTGI See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties".

Banco BTG Pactual's non-operating expenses in 2012 consisted of losses from the derecognition of property and equipment in use in the amount of R$26.8 million, which was partially offset by gains from the sale of a portion of Banco BTG Pactual's equity interest in BR Properties in the amount of R$14.8 million.

2012 versus 2011

Banco BTG Pactual's non-operating income (expenses) varied from a gain of R$9.2 million in 2011 to a loss of R$12.0 million in 2012. Banco BTG Pactual's non-operating income in 2011 was primarily composed of gains from the sale of Banco BTG Pactual's remaining ownership interests in CETIP in April 2011 in the amount of R$8.1 million. Banco BTG Pactual's non-operating expense in 2012 consisted of losses from the derecognition of property and equipment in use in the amount of R$26.8 million, which was partially offset by gains from the sale of a portion of Banco BTG Pactual's equity interest in BR Properties in the amount of R$14.8 million.

Income Before Taxation and Profit Sharing

As a result of the foregoing, Banco BTG Pactual's income before taxation and profit sharing: (i) increased 54.1% from R$1,854.8 million in the six months ended June 30, 2013 to R$2,858.8 million in the same period of 2014; (ii) increased 8.9%, from R$3,748.0 million in 2012 to R$4,083.1 million in 2013; and (iii) increased 122.6%, from R$1,684.1 million in 2011 to R$3,748.0 million in 2012.

Income Tax and Social Contribution

Banco BTG Pactual's income tax and social contribution in Brazil are recorded under current or deferred liabilities. Banco BTG Pactual's effective tax rate was 5.9% and 18.6% for the six months ended June 30, 2013 and 2014, respectively; and was 13.9%, 29.1% and 22.0% (excluding deferred tax assets from goodwill) in 2013, 2012 and 2011, respectively. See "—Critical Accounting Policies—Deferred Income Tax and Social Contribution."

Six months Ended June 30, 2014 versus Six months Ended June 30, 2013

Banco BTG Pactual's income tax and social contribution in Brazil increased 345.9%, from an expense of R$137.4 million in the six months ended June 30, 2013 to an expense of R$612.7 million in same period of 2014. This increase was mainly due to: (i) a 68.6% increase in Banco BTG Pactual's income before tax adjusted by its profit-sharing expenses; and (ii) recognition of deferred income tax revenues on the non-permanent impairment of BR Properties in the six months ended June 30, 2013 due to adverse changes in its market capitalization in this period. This increase was partially offset by a 18.4% increase in interest on shareholders equity, from R$255.0 million in the six months ended June 30, 2013 to R$301.8 million in the same period of 2014, coupled with a decrease in Banco BTG Pactual's effective tax rate due to dividends received from BR Properties in the six month ended June 30, 2014, which are not subject to tax charges.

2013 versus 2012

Banco BTG Pactual's income tax and social contribution expenses in Brazil decreased 40.9% from R$727.5 million in 2012 to R$430.0 million in 2013. This decrease was mainly due to: (i) losses related to equity pick-up on Banco BTG Pactual's investment in BR Properties, net of non-permanent impairment recognition, which was tax deductible in 2013 following Banco BTG Pactual's sale of 21.42% of its 24.53% equity interest in BR Properties to BTGI. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Establishment of One Properties and Merger into BR Properties"; (ii) the constitution of a deferred tax asset on allowance for non-permanent impairment in connection with Banco BTG Pactual's remaining equity interest in BR Properties; and (iii) a 14.1% increase in interest on equity (which is a substitute dividend payment that can be treated as a tax deductible expense), from R$440.0 million in 2012 to R$501.9 million in 2013.

2012 versus 2011

Banco BTG Pactual's income tax and social contribution in Brazil varied from income of R$199.2 million in 2011 to an expense of R$727.5 million in 2012. This variation was mainly due to the recognition of tax credits of R$481.4 million in December 2011, resulting from Banco BTG Pactual's merger with the investment vehicle used by the members of the Consortium to acquire Banco BTG Pactual's equity interests in December 2010 see "—Critical Accounting Policies—Deferred Income Tax and Social Contribution". This increase was partially offset by: (i) a 38.0% increase of interest on equity (which is a substitute dividend payment that can be treated as a tax deductible expense), from R$319.0 million in 2011 to R$440.0 million in 2012; and (ii) increased gains on equity in its associates, which are not subject to income tax charges.

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 three years ended December 31, 2013, 2012 and 2011 and in the six months ended June 30, 2014 and 2013, subject only to slight variations.

Six months Ended June 30, 2014 versus Six months Ended June 30, 2013

Banco BTG Pactual's statutory profit sharing increased 4.9%, from R$421.2 million in the six months ended June 30, 2013 to R$441.8 million in same period of 2014. This increase was mainly due to the increase in its revenues in the period, excluding interest and other revenues, which was partially offset by an increase in operating expenses.

2013 versus 2012

Banco BTG Pactual's statutory profit sharing decreased 6.6%, from R$938.2 million in 2012 to R$876.4 million in 2013. This decrease was mainly due to a decrease in Banco BTG Pactual's revenues during the period.

2012 versus 2011

Banco BTG Pactual's statutory profit sharing increased 133.8%, from R$401.2 million in 2011 to R$938.2 million in 2012. As explained above, Banco BTG Pactual's bonus pool is calculated as a percentage of annual revenues, net of costs and expenses and, accordingly, this increase is mainly due to the fact that Banco BTG Pactual's revenues growth outpaced the growth in its expenses for the period.

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 its subsidiaries BW Properties and Recovery do Brasil Consultoria S.A. and certain investment funds consolidated into its financial statements, including FIP Saúde and FIDC NPL.

Six months Ended June 30, 2014 versus Six months Ended June 30, 2013

Banco BTG Pactual's non-controlling interest totaled a loss of R$46.9 million in the six months ended June 30, 2013 and a gain of R$3.6 million in the six months ended June 30, 2014. In both periods these amounts were mainly attributable to the results of BW Properties (gains in 2013 and 2014), TTG Brasil Investimentos Florestais Ltda. (losses in 2014), and the results of certain investment funds consolidated into Banco BTG Pactual's financial statements.

2013 versus 2012

Banco BTG Pactual's non-controlling interest increased mainly due to gains from BW Properties in 2013 related to the revaluation of BW Properties' permanent assets.

Banco BTG Pactual's non-controlling interest totaled a loss of R$107.0 million in 2013, mainly attributable to BW Properties and certain investment funds consolidated into its financial statements, and R$21.1 million in 2012, mainly attributable to Recovery do Brasil Consultoria S.A, BW Properties and results from investment funds consolidated into its financial statements.

2012 versus 2011

Banco BTG Pactual's non-controlling interest totaled a loss of R$21.1 million in 2012, mainly attributable to Recovery do Brasil Consultoria S.A, BW Properties and results from investments funds consolidated into its financial statements, and R$5.0 million in 2011 attributable to BW Properties and Recovery do Brasil Consultoria S.A.

Net Income

As a result of the foregoing, Banco BTG Pactual's net income: (i) increased 44.7%, from R$1,249.3 million in the six months ended June 30, 2013 to R$1,807.9 million in the same period of 2014; (ii) increased 29.5%, from R$2,061.2 million in 2012 to R$2,669.7 million in 2013; and (ii) increased 39.5%, from R$1,477.1 million in 2011 to R$2,061.2 million in 2012.

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 net 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's 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$501.9 million in 2013, R$440.0 million in 2012 and R$319.0 million in 2011 and R$255.0 million and R$301.8 million in the six months ended June 30, 2013 and 2014, respectively. 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 December 31, 2011, 2012 and 2013 and as of June 30, 2014 and is derived from the financial statements prepared in accordance with Brazilian GAAP, included elsewhere in this Offering Memorandum:

(Unaudited for June 30, 2014)	As of December 31,			As of June 30, 2014
	2011	2012	2013	
	(in R$ millions)			
Assets				
Cash at banks	517.3	552.2	1,074.0	1,264.5
Interbank investments	19,583.0	23,968.9	23,812.3	33,110.5
Securities and derivative financial instruments	42,893.9	74,202.7	42,657.2	53,300.6
Interbank transactions	876.7	475.0	239.9	357.8
Loans	4,665.2	7,268.6	15,080.0	12,943.0
Securities trading and brokerage	4,403.8	3,885.6	11,531.6	8,454.2
Other receivables	7,641.7	9,430.9	20,793.6	16,246.5
Other assets	25.1	35.5	98.2	40.3
Permanent assets	1,405.3	3,496.9	4,514.5	4,093.7
Total assets	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**
Liabilities and Shareholders' equity				
Deposits	14,211.1	14,624.0	17,652.7	17,904.0
Open market funding	39,061.0	52,650.7	31,293.3	33,606.9
Funds from securities issued and accepted	3,774.6	8,480.1	14,897.0	17,506.0
Interbank transactions	–	0.3	2.5	4.3
Loans and onlending	919.7	1,904.7	5,080.5	5,074.0
Derivative financial instruments	2,953.8	8,063.7	7,493.4	18,175.6
Securities trading and brokerage	7,930.0	14,575.6	6,533.7	3,657.9
Subordinated debt	4,158.3	6,246.1	6,748.7	6,966.2
Other liabilities	2,419.9	6,469.6	17,485.8	12,502.8
Deferred income	31.5	111.9	151.9	128.0
Non-controlling interest	212.2	88.1	334.0	805.9
Shareholders' equity	6,339.8	10,101.5	12,127.8	13,479.6
Total liabilities and shareholders' equity	**82,012.0**	**123,316.3**	**119,801.3**	**129,811.1**

As of June 30, 2014, Banco BTG Pactual's assets totaled R$129.8 billion, representing an 8.4% increase as compared to R$119.8 billion as of December 31, 2013. This increase was due primarily to an increase in Banco BTG Pactual's trading portfolio, particularly on repurchase agreements, derivative financial instruments and foreign exchange products, all of which reflected the higher trading volume in the period.

As of June 30, 2014, Banco BTG Pactual's shareholders' equity reached R$13.5 billion, representing an 11.1% increase as compared to R$12.1 billion as of December 31, 2013. This increase was primarily due to our net income of R$1,807.9 million for the six months ended June 30, 2014, which was partially offset by interest on equity and dividends distributed in the period in the amount of R$301.8 million and R$146.6 million, respectively.

As of December 31, 2013, Banco BTG Pactual's assets totaled R$119,801.3 million, representing a 2.9% decrease as compared to R$123,316.3 million at December 31, 2012.

In December 2013, Banco BTG Pactual sold its interests in ARF II (see "−Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations−Sale of BTG Pactual Absolute Return Fund II, L.P"). Since ARF II's formation, Banco BTG Pactual has consolidated the results of ARF II and, therefore, ARF II's assets, liabilities and results of operations have historically impacted Banco BTG Pactual's consolidated financial statements. As from the transaction date for the sale of ARF II, however, Banco BTG Pactual no longer consolidates ARF II's assets, liabilities and results of operations. In connection with the sale of ARF II, Banco BTG Pactual recognized a settlement amount receivable equivalent to the deferred consideration to the third party seller recorded under "Securities trading and brokerage" in its consolidated balance sheet. Assets of ARF II as of December 31, 2013 totaled R$54.2 billion.

This decrease in assets and liabilities as a result of the sale of ARF II was partially offset by: (i) 107.5% increase in loans, from R$7,268.6 in 2012 to R$15,080.0 in 2013, mainly as a result of Banco BTG Pactual's strategy to grow its loan portfolio; and (ii) an increase in Banco BTG Pactual's trading portfolio, particularly as a result of repurchase agreements and FX products.

Banco BTG Pactual shareholders' equity reached R$12,127.8 million as of December, 31, 2013, representing a 20.1% increase compared to R$10,101.5 million as of December 31, 2012. This increase reflects the 2013 net gain of R$2,669.7 million, partially offset by R$694.6 million related to dividends and interest on equity paid or declared in 2013.

Adjusted Income Statement

The following table sets forth Banco BTG Pactual's adjusted income statement, which was not prepared in accordance with Brazilian GAAP and materially differs from its income statement:

	For the year ended December 31,			For the six months ended June 30,	
(Unaudited)	**2011**	**2012**	**2013**	**2013**	**2014**
	(in R$ millions)				
Investment banking	338.3	448.0	459.4	279.0	267.2
Corporate lending	366.5	563.6	764.9	393.6	388.1
Sales and trading	999.9	1,516.6	1,729.7	1,132.1	1,591.8
Asset management	443.2	1,190.2	1,172.2	469.3	618.6
Wealth management	144.5	201.7	385.3	202.8	183.8
Principal investments	(111.2)	1,356.9	870.9	(49.7)	(94.3)
Banco Pan	(52.2)	(244.5)	(123.5)	(15.5)	(50.8)
Interest and other	518.1	587.2	637.1	265.2	530.3
Total revenues	**2,647.1**	**5,619.8**	**5,896.0**	**2,676.7**	**3,434.7**
Bonus	(480)	(1,168.9)	(946.2)	(425.6)	(456.2)
Retention expenses	(32.5)	(5.9)	-	-	-
Salaries and benefits	(213.2)	(326.0)	(494.0)	(226.1)	(322.8)
Administrative and others	(293.1)	(537.1)	(629.5)	(277.1)	(386.4)
Goodwill amortization	(31.2)	(467.4)	(191.9)	(90.4)	(86.0)
Tax charges, other than income tax	(177.0)	(241.4)	(266.6)	(138.3)	(123.6)
Total operating expenses	**(1,226.7)**	**(2,746.4)**	**(2,528.2)**	**(1,157.5)**	**(1,374.9)**
Income before taxes	**1,420.4**	**2,873.4**	**3,367.7**	**1,519.2**	**2,059.8**
Income tax and social contribution revenue (expense)	56.6	(812.2)	(698.0)	(269.9)	(251.9)
Net income	**1,477.0**	**2,061.2**	**2,669.7**	**1,249.3**	**1,807.9**

Banco BTG Pactual is a financial services group that provides a wide range of services in investment banking, corporate lending, sales and trading, asset management, wealth management, commercial banking through our interest in Banco Pan and principal investments, and with a balanced and diversified set of revenue streams.

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 consist 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.

Revenues from Pan consist of the equity pick-up from Banco BTG Pactual's equity interest of 34.06% in Banco Pan. Banco Pan generates revenues from its core commercial banking activities in four areas of expertise. In the consumer finance area, Banco Pan generates revenues from a credit portfolio composed mainly of vehicle financing, consumer loans, personal loans, payroll deduction loans and credit cards (including prepaid credit cards and regular credit cards). In the corporate banking area, revenues arise from a portfolio of loans and commercial leasing transactions to middle-sized companies, while revenues in the real estate financing area derive from the portfolio of residential and commercial mortgage financing instruments. In the insurance area, revenues are derived from the insurance policies covering payment capacity of individual clients, including in the event of unemployment and personal accidents, and life insurance.

Banco BTG Pactual's revenues from principal investments are composed of revenues from the global markets and merchant banking and real estate segments. Until December 2013, 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. In December 2013, Banco BTG Pactual sold its interest in ARF II, which represented a significant part of global markets, to BTGI. See "−Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting our Results of Operations−Sale of BTG Pactual Absolute Return Fund II, L.P." 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 (none of its portfolio companies which are consolidated on its financial statements). The most relevant merchant banking investments of the BTG Pactual Group, however, are typically conducted through BTGI, not Banco BTG Pactual. Revenues from real estate investments consists mainly of returns of Banco BTG Pactual's 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. 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 our 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, Banco Pan 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:

Six Months Ended June 30, 2014 versus Six Months Ended June 30, 2013

(Unaudited)	For the six months ended June 30, 2013	% of total	2014	% of total	Variation (%)
	(in R$ millions, except percentages)				
Investment banking	279.0	10.4%	267.2	7.8%	(4.2%)
Corporate lending	393.6	14.7%	388.1	11.3%	(1.4%)
Sales and trading	1,132.1	42.3%	1,591.8	46.3%	40.6%
Asset management	469.3	17.5%	618.6	18.0%	31.8%
Wealth management	202.8	7.6%	183.8	5.4%	(9.4%)
Principal investments	(49.7)	(1.9%)	(94.3)	(2.7%)	89.9%
Banco Pan	(15.5)	(0.6%)	(50.8)	(1.5%)	227.3%
Interest and other	265.2	9.9%	530.3	15.4%	100.0%
Total revenues	**2,676.7**	**100.0%**	**3,434.7**	**100.0%**	**28.3%**

Investment Banking: Revenues from investment banking activities decreased 4.2%, from R$279.0 million in the six months ended June 30, 2013 to R$267.2 million in the same period of 2014. This decrease is mainly due to the lower performance of Banco BTG Pactual's equity underwing team (ECM) and its debt underwriting team (DCM). Both ECM and DCM revenues decreased due to weaker activity in the six months ended June 30, 2014. The decrease was partially offset by its higher financial advisory revenues reflecting its market leadership in Brazil and Latin America.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the years indicated:

(Unaudited)	For the six months ended June 30, 2013	2014	2013	2014
	(number of transactions)(1)		(in R$ billions)(2)(3)	
Financial advisory (M&A)(4)	23	20	18.5	32.8
Equity underwriting (ECM)	12	6	3.7	1.5
Debt underwriting (DCM)	30	17	8.1	4.0

Sources: Dealogic for ECM, M&A and International Brazilian 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 DCM transactions were converted to U.S. Dollars using the end of period 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 in any moment, (ii) canceled transactions will be withdrawn from the rank; (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 slightly 1.4%, from R$393.6 million in the six months ended June 30, 2013 to R$388.1 million in the same period of 2014, mainly as a result of reduced structuring fees on corporate lending transactions despite the 11.1% growth of the average balance of our corporate lending portfolio, from R$34.6 billion in the six months ended June 30, 2013 to R$40.2 billion in the same period of 2014. In the six months ended June 30, 2014, Banco BTG Pactual continued to develop its corporate lending business, especially in Latin America excluding Brazil, which positively affected its origination in the region. It also continued to apply more selective standards for liquidity and credit risk of its clients, which have led to a decrease in its allowance for loan losses and other receivables from R$159.4 million in the six months ended June 30, 2013 to R$115.4 million in the same period of 2014.

Sales and Trading: Revenues from sales and trading increased 40.6%, from R$1,132.1 million in the six months ended June 30, 2013 to R$1,591.8 million the same period in 2014, mainly due to the robust performance of Banco BTG Pactual's global commodities desks which were not operating in 2013 as well as our equity desk. This increase was partially offset by weaker revenues from its rates and foreign exchange desks, which had a very strong performance in the six months ended June 30, 2013.

Asset Management: Revenues from asset management increased 31.8%, from R$469.3 million in the six months ended June 30, 2013 to R$618.6 million the same period of 2014. This increase was mainly due to: (i) a 2.5% growth in AUM and AUA, from an aggregate of R$186.1 billion as of June 30, 2013 to an aggregate of R$190.7 billion as of June 30, 2014; and (ii) an increase in Banco BTG Pactual's return on assets, or ROA, resulting from a shift in the composition of its assets mix.

Wealth Management: Revenues from wealth management decreased 9.4%, from R$202.8 million in the six months ended June 30, 2013 to R$183.8 million in the same period of 2014 mainly due to higher fees charged to the clients as a result of distribution of investment funds which occurred in the first quarter of 2013.

Principal Investments: Revenues from principal investments varied from losses of R$49.7 million in the six months ended June 30, 2013 to losses of R$94.3 million in the same period of 2013. This variation was mainly due to losses from Banco BTG Pactual's merchant banking investments, to which it allocates the cost of capital, as well as its proportional share of net losses in the Petrobras Joint Venture, resulting mainly from the amortization of exploratory investments. These higher losses were partially offset by the positive results in its real estate activities, including the appreciation of its investment in BR Properties reflecting the increase in its average share price and the distribution of dividends of R$6.04 per share in the six months ended June 30, 2014.

Banco Pan: Banco BTG Pactual recognized losses of R$15.5 million and R$50.8 million in the six months ended June 30, 2013 and 2014, respectively. Losses for the six months ended June 30, 2013 consisted of Banco BTG Pactual's proportional share of R$17.9 million in Banco Pan's net profits and funding costs of R$33.4 million charged to this investment. Losses for the six months ended June 30, 2014 reflect only Banco BTG Pactual's proportional share of R$50.8 million share in Banco Pan's net losses as Banco BTG Pactual decided to not allocate any funding costs to this unit in order to allow for a more straightforward comparison with the results posted by Banco Pan.

Interest and Other: Revenues from interest and other increased 100.0%, from R$265.2 million in the six months ended June 30, 2013 to R$530.3 million in 2014, mainly due to an increase in Banco BTG Pactual's average shareholders' equity and the increase in the average interest rates charged to its businesses in the six months ended June 30, 2014 compared to same period 2013. These increases were partially offset by the fact that Banco BTG Pactual did not charge funding costs to its investment in Banco Pan.

The following table sets forth the composition and evolution of Banco BTG Pactual's costs and expenses for the periods indicated:

	For the six months ended June 30,				
(Unaudited)	2013	% of total	2014	% of total	Variation (%)
			(in R$ millions)		
Bonus	(425.6)	36.8%	(456.2)	33.2%	7.2%
Salaries and benefits	(226.1)	19.5%	(322.8)	23.5%	42.8%
Administrative and others	(277.1)	23.9%	(386.4)	28.1%	39.4%
Goodwill amortization	(90.4)	7.8%	(86.0)	6.3%	(4.9%)
Tax charges, other than income tax	(138.3)	11.9%	(123.6)	9.0%	(10.6%)
Total operating expenses	**(1,157.5)**	**100.0%**	**(1,374.9)**	**100.0%**	**18.8%**

Banco BTG Pactual's total operating expenses increased 18.8%, from R$1,157.5 million in the six months ended June 30, 2013 to R$1,374.9 million in the same period for 2014. This decrease was mainly due to the following factors:

Bonus: Bonus expense increased 7.2%, from R$425.6 million in the six months ended June 30, 2013 to R$456.2 million in the same period for 2014 due to higher revenues (excluding interest and other revenues) net of 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, excluding interest and other revenues, reduced by its operating expenses. The calculation methodology was consistently applied in all periods.

Salaries and Benefits: Expenses related to salaries and benefits increased 42.8%, from R$226.1 million in the six months ended June 30, 2013 to R$322.8 million in the same period for 2014. The increase in expenses reflects the growth in the total number of employees from 2,553 as of June 30, 2013 to 3,054 as of June 30, 2014 coupled with a 8.0% increase in annual base salaries in September 2013 to employees in Brazil pursuant to the annual agreement with the banking employees' union.

Administrative and Others: Total administrative expenses increased 39.4%, from R$277.1 million in the six months ended June 30, 2013 to R$386.4 million in 2014, mainly as a result of the overall growth of Banco BTG Pactual's operational platform, including higher technology expenses and its commodities initiative.

Goodwill Amortization: Goodwill amortization remained relatively stable, amounting to R$86.0 million in the six months ended June 30, 2014 compared to R$90.4 million in the same period of 2013. Banco BTG Pactual's goodwill amortization in both periods derived mainly from its acquisitions of Celfin and Bolsa y Renta (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Celfin and Incorporation of Banco BTG Pactual Chile and —Acquisition of Bolsa y Renta").

Tax charges, other than income tax: Tax charges, other than income tax decreased 10.6%, from R$138.3 million in the six months ended June 30, 2013 to R$123.6 million in the same period of 2014. This decrease was mainly due to a larger portion of Banco BTG Pactual's revenues being subject to tax charges in the six months ended June 30, 2014. Its 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 increased 35.6%, from R$1,519.2 million in the six months ended June 30, 2013 to R$2,059.8 million in the same period of 2014.

Income tax and social contribution revenue (expense): Income and social contribution taxes in Brazil consist of current and deferred taxes. Banco BTG Pactual's income and social contribution taxes decreased from R$269.9 million in the six months ended June 30, 2013 to R$251.9 million in 2014, with the effective income and social contribution tax rate decreasing 17.8% to 12.2%, respectively. The decrease in effective tax rate was due to the favorable revenue mix with proportionally less taxable revenues and higher interest on equity distributed in 2014.

Net Income: As a result of the foregoing, Banco BTG Pactual's net income increased 44.7%, from R$1,249.3 million in the six months ended June 30, 2014 to R$1,807.9 million in the same period of 2014, representing a net margin of 46.7% and 52.6%, respectively.

2013 versus 2012

(Unaudited)	For the year ended December 31,				
	2012	% of total	2013	% of total	Variation (%)
	(in R$ millions, except percentages)				
Investment banking	448.0	8.0%	459.4	7.8%	2.5%
Corporate lending	563.6	10.0%	764.9	13.0%	35.7%
Sales and trading	1,516.6	27.0%	1,729.7	29.3%	14.1%
Asset management	1,190.2	21.2%	1,172.2	19.9%	(1.5%)
Wealth management	201.7	3.6%	385.3	6.5%	91.0%
Banco Pan	(244.5)	(4.4%)	(123.5)	(2.1%)	n.a.
Principal investments	1,356.9	24.1%	870.9	14.8%	(35.8%)
Interest and other	587.2	10.5%	637.1	10.8%	8.5%
Total revenues	**5,619.8**	**100.0%**	**5,896.0**	**100.0%**	**4.9%**

Banco BTG Pactual's total revenues, net of expenses allocation, increased 4.9%, from R$5,619.8 million in 2012 to R$5,896.0 million in 2013. This increase was mainly due to the following factors:

Investment Banking: Banco BTG Pactual's revenues from investment banking activities increased 2.5%, from R$448.0 million in 2012 to R$459.4 million in 2013.

This growth was mainly attributable to Banco BTG Pactual's strong DCM performance coinciding with a considerable ECM market share gain in the period, especially in international DCM. Such growth in revenues was partially offset by a small decrease in financial advisory income, mainly due to the recognition of significant revenues from transactions that closed in 2012. ECM revenues in 2013 were in line with the previous year while Banco BTG Pactual's ECM market share expanded, despite weaker overall activity in ECM in 2013 when compared to 2012.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the years indicated:

(Unaudited - in R$ millions, except percentages)	For the year ended December 31,			
	2012	2013	2012	2013
	(number of transactions)(1)		(in R$ billions)(1)	
Financial advisory (M&A)(2)	87	56	63.6	79.4
Equity underwriting (ECM)	16	22	4.0	6.2
Debt underwriting (DCM)	48	56	12.5	15.4

(1) *Sources:* Dealogic for equity capital markets and M&A and ANBIMA for debt capital markets.

(2) While equity and debt capital markets figures consider closed transactions, M&A figures represents announced deals, which typically generate fees upon their subsequent closing.

(3) M&A market data for previous periods may vary because: (i) deal inclusions might occur with delay, in any moment of the year; (ii) canceled transactions will be withdrawn from the ranking; (iii) transaction value revision; and (iv) transaction enterprise values might change due to debt inclusion, which usually occurs weeks after the transaction is announced (mainly for non-listed targets).

Corporate Lending: In 2013, the average balance of Banco BTG Pactual's corporate lending book grew by 34.2% when compared to 2012. Such growth had a direct impact on revenues from corporate lending, which increased 35.7%, from R$563.6 million in 2012 to R$764.9 million 2013. Revenues were also impacted by an increase in total allowances for loan losses in 2013. In 2013, Banco BTG Pactual's corporate lending business experienced significant growth in Latin America (outside of Brazil), which already was an important source of origination. During the year, Banco BTG Pactual applied more selective standards for liquidity and returns.

Sales and Trading: Sales and trading revenues increased 14.1%, from R$1,516.6 million in 2012 to R$1,729.7 million in 2013, mainly due to substantial growth in all Banco BTG Pactual's FICC sales and trading desks, and from its equities brokerage platform. Such revenue growth was partially offset by lower revenues from its equities trading desks.

Asset Management: Revenues from asset management remained relatively stable, varying from R$1,190.0 million in 2012 to R$1,172.2 million in 2013, mainly due to: (i) an 11.0% increase in AUM and AUA, from R$170.7 billion in 2012 to R$189.4 billion in 2013; and (ii) an increase in Banco BTG Pactual's ROA resulting from a shift in the composition of its AUM and AUA, which, during the year migrated from conservative, short-term fixed income products, to alternative and equities products. The increase was partially offset by lower performance fees due to: (i) one-off performance fees from a real estate investment fund recognized in 2012; and (ii) better performance from its global hedge funds in 2012 when compared to 2013.

Wealth Management: Revenues from wealth management increased substantially in 2013, from R$201.7 million to R$385.3 million in 2012, primarily as a result of: (i) a 40.0% growth in average WUM, including the growth realized as a result of the acquisition of Celfin during the last quarter of 2012, which added R$11.5 billion of WUM; (ii) higher ROA on Banco BTG Pactual's asset management funds; and (iii) higher revenues from clients' trading activities.

Banco Pan: Banco BTG Pactual recognized losses of R$244.5 million and R$123.5 million in 2012 and 2013, respectively, in connection with its investment in Banco Pan, reflecting its participation in the losses of Banco Pan in the amounts of R$151.7 million and R$495.9 million for the same periods. In addition, funding costs charged to the investment had a slight increase due to the corresponding increase in interest rates in Brazil as measured by SELIC.

Principal Investments: Revenues from principal investments decreased 35.8%, from R$1,356.9 million in 2012 to R$870.9 million in 2013. The decrease in revenues was mainly due to: (i) the negative contribution from Banco BTG Pactual's real estate investments, primarily its investment in BR Properties, which experienced a 37% decline in share price during the year; and (ii) lower contribution from its global markets desks, especially for rates, emerging market credit and US mortgage, which led to a reduction in its capital usage and risk during the period. Revenues from merchant banking were broadly in line with the previous year, mainly due to: (i) positive results from the conversion of a credit receivable into an equity stake in the Petra Parnaiba gas field; and (ii) a higher share of profits from the merchant banking portfolio companies, partially offset by higher funding costs charged to these investments.

Interest and Other: Revenues from interest and other increased 8.5%, from R$587.2 million in 2012 to R$637.1 million in 2013, mainly due to the 20.0% increase in our average shareholders' equity and the increase in the average interest rates charged to our businesses. The following table sets forth the composition and evolution of Banco BTG Pactual's costs and expenses for the periods indicated:

	For the year ended December 31,				
(Unaudited)	**2012**	**% of total**	**2013**	**% of total**	**Variation (%)**
			(in R$ millions)		
Bonus	(1,168.6)	45.5%	(946.2)	37.4%	(19.0%)
Retention expenses	(5.90)	0.2%	(0.0)	0.0%	n.a.
Salaries and benefits	(326.0)	11.9%	(494.0)	19.5%	51.5%
Administrative and others	(537.1)	19.6%	(629.5)	24.9%	17.2%
Goodwill amortization	(467.4)	17.0%	(191.9)	7.6%	(58.9%)
Tax charges, other than income tax	(241.4)	8.8%	(266.6)	10.5%	10.4%
Total operating expenses	**(2,746.4)**	**100.0%**	**(2,528.2)**	**100.0%**	**(7.9%)**

Banco BTG Pactual's total operating expenses decreased 7.9%, from R$2,746.4 million in 2012 to R$2,528.2 million in 2013. This decrease was mainly due to the following factors:

Bonus: Bonus expenses decreased 19.0%, from R$1,168.6 million in 2012 to R$946.2 million in 2013 due to lower revenues and higher operating expenses in 2013. The decrease of its bonus expenses in 2013 as compared to 2012 was a direct effect of the 13.2% decrease in total revenues of BTG Pactual Group.

Retention Expenses: In 2013, we recorded no expenses related to retention, as its retention program was terminated in February 2012.

Salaries and Benefits: Expenses related to salaries and benefits increased 51.5%, from R$326.0 million in 2012 to R$494.0 million in 2013. The increase in expenses reflects the growth in the total number of employees from 2,195 to 2,715 from December 31, 2012 to 2013. Such expenses were also impacted by the 7.5% and 8.0% increase in annual base salaries granted in September 2012 and 2013, respectively, to employees in Brazil pursuant to the annual agreement with the banking employees' union.

Administrative and Others: Total administrative expenses increased 24.9%, from R$537.1 million in 2012 to R$629.5 million in 2013. This increase is attributable to the overall growth of Banco BTG Pactual's operational platform, including as a result of: (i) the acquisitions of Celfin and Bolsa y Renta in 2012, (ii) higher technology expenses; and (iii) Banco BTG Pactual's commodities initiative (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations —Commodities Business").

Goodwill Amortization: In 2013, Banco BTG Pactual's total goodwill amortization expenses decreased 58.9%, from R$467.4 million in 2012 to R$191.9 million, mainly due to its decision to fully amortize the then-existing goodwill in the last quarter of 2012. Our goodwill amortization expenses in 2013 relate mostly to the acquisitions of Celfin and Bolsa y Renta (see "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Celfin and Incorporation of Banco BTG Pactual Chile and —Acquisition of Bolsa y Renta").

Tax charges, other than income tax: Tax charges, other than income tax increased 10.4%, from R$241.4 million in 2012 to R$266.5 million in 2013. This increase was mainly due to a larger part of Banco BTG Pactual's revenues being subject to tax charges in 2013. Its tax charges, other than income tax are composed 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 increased 17.2%, from R$2,873.4 million in 2012 to R$3,367.7 million in 2013.

Income tax and social contribution revenue (expense): Banco BTG Pactual's income and social contribution taxes decreased from R$812.2 million in 2012 to R$698.0 million in 2013, with the effective income and social contribution tax rate decreasing 28.2% to 20.7%, respectively. The decrease in effective tax rate was due to: (i) the recognition of tax credit over the non-permanent provision in its stake in BR Properties; and (ii) higher interest on equity (R$501.9 million in 2013 compared to R$440.0 million in 2012), partially offset by a change in its revenue mix, with proportionally more taxable revenues in 2013.

Net Income: As a result, Banco BTG Pactual's net income increased 29.5%, from R$2,061.2 million in 2012 to R$2,669.7 million in 2013, representing a net margin of 36.6% and 45.2%, respectively.

2012 versus 2011

The following table sets forth Banco BTG Pactual's revenue composition and evolution by business unit for the periods indicated:

(Unaudited)	For the years ended December 31,				
	2011	% of total	2012	% of total	Variation (%)
	(in R$ millions, except percentages)				
Investment banking	338.3	12.8%	448.0	8.0%	32.4%
Corporate lending	366.5	13.8%	563.6	10.0%	53.8%
Sales and trading	999.9	37.8%	1,516.6	27.0%	51.7%
Asset management	443.2	16.7%	1,190.2	21.2%	168.5%
Wealth management	144.5	5.5%	201.7	3.6%	39.6%
Banco Pan	(52.0)	(2.0)%	(244.5)	(4.4)%	370.2%
Principal investments	(111.2)	(4.2)%	1,356.9	24.1%	1320.2%
Interest and other	518.1	19.6%	587.2	10.5%	13.3%
Total revenues	**2,647.1**	**100.0%**	**5,619.8**	**100.0%**	**112.3%**

Banco BTG Pactual's total revenues, net of direct expenses allocation, increased 112.3%, from R$2,647.1 million in 2011 to R$5,619.8 million in 2012. This increase was mainly due to the following factors:

Investment Banking: Revenues from investment banking activities increased 32.4%, from R$338.3 million in 2011 to R$448.0 million in 2012.

The increase in revenues was mainly due to: (i) a 14.9% increase in revenues from M&A advisory services as a result of an increase in the value of the transactions in which Banco BTG Pactual participated, from R$45.0 billion in 2011 to R$51.7 billion in 2012, plus the receipt of fees in 2012 for material transactions that were announced in 2011 (as such fees are generally payable at settlement); (ii) a 135.9% increase in revenues from debt offerings in which it participated as underwriters due to an increase in value of transactions in which it participated, from R$7.2 billion in 2011 to R$11.2 billion in 2012, as a result of strong levels of activity in the Brazilian debt market, as well as transactions that recorded higher than average fees; and (iii) a 24.7% increase in revenues from equity offerings, mainly due to an increase in the number and value of transactions in which Banco BTG Pactual acted as an underwriter, from R$3.3 billion in 2011 to R$3.6 billion in 2012.

The following table provides a breakdown of Banco BTG Pactual's investment banking activities for the periods indicated:

	For the year ended December 31,			
	2011	2012	2011	2012
	(number of transactions)(1)		(in R$ billions)(1)	
Financial Advisory (M&A)(2)	51	74	45.0	51.7
Equity underwriting (ECM)	12	16	3.3	3.6
Debt underwriting (DCM)	44	48	7.2	11.2

Sources: Dealogic for equity capital markets and M&A and ANBIMA for debt capital markets

(1) While equity and debt capital markets figures consider closed transactions, M&A figures represents announced deals, which typically generate fees upon their subsequent closing.

(2) M&A market data for previous quarters may vary because: (i) deal inclusions might occur with delay, in any moment of the year; (ii) canceled transactions will be withdrawn from the ranking; (iii) transaction value revision; 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 53.8%, from R$366.5 million in 2011 to R$563.6 million in 2012. This increase was mainly due to an increase of 82.4% in the average balance of Banco BTG Pactual's broader credit portfolio composed 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), from an average balance of R$15,997.6 million in 2011 to an average balance of R$23,604 million in 2012, which was partially offset by an increase in allowance for loan losses. In addition, revenues from corporate lending were positively impacted in 2011 by gains from a sale of a mortgage credit portfolio and a nonperforming loan portfolio.

Sales and Trading: Revenues from sales and trading increased 51.7%, from R$999.9 million in 2011 to R$1,516.6 million in 2012. This increase was mainly due to: (i) higher revenues from Banco BTG Pactual's rates activities, mainly due to an increase in trading volume with clients and market counterparties as well as the convergence of interest rates in Brazil and the resulting positive impact on Banco BTG Pactual's inventory of assets; (ii) strong levels of activity from its foreign exchange desk, which led to increased revenues; (iii) higher revenues from equities trading following the recovery of the BM&FBOVESPA index, which increased 7.4% in 2012 compared to a decrease of 24.5% in 2011; and (iv) higher revenues from brokerage fees and equity-linked derivative instruments. These gains were partially offset by lower revenues from its energy trading desk.

Asset Management: Revenues from asset management operations increased 168.5%, from R$443.2 million in 2011 to R$1,190.2 million in 2012. This increase was mainly due to significant growth in management and performance fees. Management fees were impacted by the increase in Banco BTG Pactual's AUM with: (i) R$18.4 billion of net new money (NNM) in the year; (ii) positive mark to market of funds; (iii) the increase in AUM and AUA in connection with the BFRE, Celfin and Bolsa y Renta transactions; and (iv) a shift in the composition of Banco BTG Pactual's AUM and AUA, that migrated constantly throughout the year from conservative, short term products (mostly traditional fixed income), to alternative, longer term products (mostly liquid and illiquid equities). The increase in performance was due to an increase in performance fees, especially from Banco BTG Pactual's global hedge funds.

Wealth Management: Revenues from wealth management operations increased 39.6%, from R$144.5 million in 2011 to R$201.7 million in 2012. This increase was mainly due to: (i) a 60% growth in wealth under management, from R$38.9 billion as of December 31, 2011, with net inflow of R$7.9 billion, to R$62.2 billion as of December 31, 2012 (which includes R$11.5 billion wealth under management from the Celfin acquisition in November), with a net inflow of R$8.4 billion; and (ii) a higher volume of client trading activities, generating higher brokerage and trading spread revenues.

Banco Pan: Banco BTG Pactual recorded a loss of R$244.5 million from its investment in Banco Pan in 2012 compared to a loss of R$52.2 million in 2011. This variation was mainly due to: (i) a R$151.7 million loss from its equity pick-up of Banco Pan's results in 2012 compared to a loss of R$21.0 million 2011; and (ii) an increase in its funding expenses charged to this investment, from R$31.2 million in 2011 to R$87.8 million in 2012. In addition, Banco BTG Pactual's funding expenses related to Pan have increased following its R$495.4 million additional capital contribution to Banco Pan 2012. See "—Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations—Acquisition of Banco Pan Co-Controlling Interest and BFRE."

Principal Investments: Revenues from principal investments varied from a loss of R$111.2 million in 2011 to a gain of R$1,356.9 million in 2012. This variation was mainly due to: (i) higher gains from Banco BTG Pactual's global markets activities in most of its strategies, from a loss of R$92.6 million in 2011 to a gain of R$1.1 billion in 2012, as a result of overall improvements in market conditions (particularly, lower interest rates in the United States, which positively impacted the U.S. mortgage market and the European central bank intervention, which benefited Banco BTG Pactual's emerging markets and global credits strategies); and (ii) higher gains from Banco BTG Pactual's real estate investments, from a loss of R$39.8 million in 2011 to a gain of R$245.1 million in 2012, mainly due to Banco BTG Pactual's proportional share of the profits of BR Properties.

Interest and Other: Banco BTG Pactual's revenues recorded under "interest and other" increased 13.3%, from R$518.1 million in 2011 to R$587.2 million in 2012. This increase was mainly due to: (i) an increase in interest on its own capital from R$418.9 million in 2011 to R$545.5 million in 2012, resulting from its capital increase in connection with its initial public offering on April 30, 2012; and (ii) the temporary effect of negative mark-to-market accounting of economic hedging instruments in 2011, compared to a positive mark-to-market in 2012.

The following table shows Banco BTG Pactual's costs and expenses composition and evolution for the periods indicated:

(Unaudited)	For the year ended December 31, 2011	% of total	2012	% of total	Variation (%)
	(in R$ millions)				
Bonus	(479.6)	39.1%	(1,168.6)	42.5%	143.7%
Retention expenses	(32.5)	2.7%	(5.9)	0.2%	(82.0)%
Salaries and benefits	(213.2)	17.4%	(326.0)	11.9%	52.9%
Administrative and others	(293.1)	23.9%	(537.1)	19.6%	83.2%
Goodwill amortization	(31.2)	2.5%	(467.4)	17.0%	1399.7%
Tax charges, other than income tax	(177.0)	14.4%	(241.4)	8.8%	36.4%
Total operating expenses	**(1,226.7)**	**100.0%**	**(2,746.4)**	**100.0%**	**123.9%**

Banco BTG Pactual's total operating expenses increased 123.9%, from R$1,226.7 million in 2011 to R$2,746.4 million in 2012.

This increase was mainly due to the following factors:

Bonus: Banco BTG Pactual's bonus expenses increased 143.7%, from R$479.6 million in 2011 to R$1,168.6 million in 2012. Banco BTG Pactual's bonuses are determined in accordance with its profit-sharing program, and are calculated as a percentage of its adjusted net revenue. Banco BTG Pactual's adjusted net revenue consists of its total revenues from business units (excluding interest and other revenues) deducted by salaries and benefits and administrative and other expenses and goodwill amortization. Accordingly, the increase of Banco BTG Pactual's bonus expenses in 2012 as compared with 2011 was due to a higher increase in revenues from business units partially offset by higher expenses.

Retention Expenses: Banco BTG Pactual's retention expenses decreased 82.0%, from R$32.5 million in 2011 to R$5.9 million in 2012. This decrease in its retention expenses was due to the phasing-out of its retention program, which was terminated in February 2012.

Salaries and Benefits: Banco BTG Pactual's expenses related to salaries and benefits increased 52.9%, from R$213.2 million in 2011 to R$326.0 million in 2012. This increase was mainly due to (ii) two annual salary adjustments of 9.0% and 7.5%, in October 2011 and September 2012, respectively, benefitting Banco BTG Pactual's employees pursuant to the terms of union agreements, which are adjusted annually and (ii) an increase in total number of employees, from 1,311 in 2011 to 2,195 in 2012. This increase in the number of employees was associated with the organic growth of its business as well as from the addition of 599 new employees as a result of the acquisition of Celfin in November 2012.

Administrative and Others: Banco BTG Pactual's administrative and others expenses increased 83.2%, from R$293.1 million in 2011 to R$537.1 million in 2012. This increase was mainly due to: (i) expenses incurred in 2012 with respect to its initial public offering and bond issuances; (ii) higher expenses related to its new office in São Paulo, particularly rental expenses during the refurbishment period; and (iii) higher information technology consulting fees in connection with software developments for its operational platform.

Goodwill Amortization: Banco BTG Pactual's goodwill amortization expenses increased from R$31.2 million in 2011 to R$467.4 million in 2012. Banco BTG Pactual's goodwill amortization expenses in 2012 were mostly associated with the extraordinary amortization of goodwill from its investments in Brazilian Capital in the amount of R$247.7, coupled with the amortization of goodwill in the amount of R$69.5 million related to its acquisition of Coomex, and R$1.6 million related to its acquisition of BW Properties and R$104.2 million related to its other investments. In addition, as a result of Banco BTG Pactual's acquisition of Celfin, since November 2012, we amortize goodwill on a monthly basis following such acquisition, totaling R$24.2 million in 2012.

Tax charges, other than income tax: Banco BTG Pactual's tax charges, other than income tax increased 36.4%, from R$177.0 million in 2011 to R$241.4 million in 2012. This increase was mainly due to the 112.3% increase in its revenues, which was partially offset by changes in its revenue mix resulting in a lower portion of its revenues being subject to tax charges in 2012. Banco BTG Pactual's tax charges, other than income tax are composed 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 increased 102.3%, from R$1,420.4 million in 2011 to R$2,873.4 million in 2012.

Income tax and social contribution revenue (expense): Banco BTG Pactual's income and social contribution taxes in Brazil varied from a gain of R$56.6 million in 2011 to a loss of R$812.2 million in 2012. This variation was mainly due to Banco BTG Pactual's recognition of tax credits of R$481.4 million in December 2011, which was partially offset by: (i) higher interest on equity (which is a substitute dividend payment that can be treated as a tax deductible expense), from R$319.0 million in 2011 to R$440 million in 2012; and (ii) changes in its revenue mix, with proportionally more revenues from principal investments in 2012 compared to 2011, which are in part not subject to corporate taxes.

Net Income: As a result of the foregoing, Banco BTG Pactual's net income increased 39.6%, from R$1,477.0 million in 2011 to R$2,061.2 million in 2012, representing a net margin of 55.8% and 36.7% 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. It manages its capital primarily through equity issuances and subordinated debt issuances. Banco BTG Pactual also 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 June 30, 2014 Banco BTG Pactual's total shareholders' equity was R$13,479.6 million compared to R$12,127.8 million and R$10,101.5 million as of December 31, 2013 and 2012, respectively.

Banco BTG Pactual's equity capital was materially enhanced as a result of the issuance of: (i) US$1.44 billion of equity to the members of the Consortium and the Participating Partners in December 2010; and (ii) R$2,070.0 million in equity in its initial public offering in April 2012. Its BIS capital ratios as of December 31, 2012 and 2013 reflect certain changes in the methodology for computing the market risk component of the Basel index (as per the implementation of the requirements under the Basel II Accord known as Basel 2.5). Basel 2.5 is a complex package of international rules that imposes higher capital charges on banks for the market risks they run in their trading books.

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 No. 4,192, of March 1, 2013, determined, among other things, that Brazilian financial institutions must comply with new minimum capital requirements and established new rules for the calculation of the reference shareholders' equity (*Patrimônio de Referência*), or PR. See "Regulatory Overview–Capital Adequacy and Leverage."

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. 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 No. 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*, or principal capital) and Additional Tier 1 Capital (*Capital Complementar*, or 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) 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); (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 No. 4,193, of March 1, 2013, the Central Bank, beginning on January 1, 2016, will be 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 Core Capital (*Adicional de Capital Principal*) and may be imposed upon the following schedule: (i) from 0.625% to 1.25% of RWA, in 2016; (ii) from 1.25% to 2.5% of RWA, in 2017; (iii) from 1.875% to 3.75% of RWA, in 2018; (iv) from 2.5% to 5.0% of RWA, from 2019 on. The imposition of Additional Core Capital (*Adicional de Capital Principal*) must be preceded by a twelve months prior notice by the Central Bank. Non-compliance with Additional Core 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, 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 Core 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 attend all the following conditions to be part of Tier 2 Capital: (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 their date of issuance and maturity date, and may not provide for any repayment before such period; (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 of 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 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 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.

Banco BTG Pactual's Consolidated Capital Ratios

Prior to October 2013, the PR of a financial institution was calculated pursuant to CMN Resolution No. 3,444, of February 28, 2007 and established different definitions for Tier 1 and Tier 2 capital.

Tier 1 capital was represented by the net shareholders' equity plus the balance of positive income accounts and of the deposit in the account designated to compensate capital deficiency, less the amounts corresponding to the balances of negative income accounts, revaluation reserves, contingency reserves, and special profit reserves concerning mandatory dividends not distributed, preferred shares with a redemption clause and preferred shares with cumulative dividends, certain tax credits, deferred fixed assets (less the premiums paid on acquiring the investments), and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the "securities available for sale" category and derivatives used for hedging cash flow.

Tier 2 capital was represented by revaluation reserves, contingency reserves, special reserves of profits concerning mandatory dividends not distributed, preferred cumulative stock issued by financial institutions authorized by the Central Bank, preferred redeemable stock, subordinated debt and hybrid debt capital instruments and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the "securities available for sale" category, and derivatives used for hedging the cash flow.

Because of these different definitions of Tier 1 and Tier 2 capital, the operating ratios with respect to any period prior to October 13, 2013 are not comparable to the operations ratios following the adoption of the Basel III requirements.

The following table sets forth additional information on Banco BTG Pactual's capital ratios as of December 31, 2011 and 2012, as calculated pursuant to the previous methodology established under CMN Resolution No. 3,444:

	As of December 31,	
	2011	**2012**
	(in R$ millions)	
Reference Shareholders' Equity (PR)	**8,431.0**	**14,593.3**
Shareholders' equity – Tier 1	6,331.1	10,249.6
Shareholders' equity – Tier 2	3,165.5	5,124.8
Deductions from the Reference Shareholders' Equity	(1,065.6)	(781.1)
Required Reference Shareholders' Equity (PRE)	**5,250.9**	**9,273.3**
Credit risk	3,416.0	5,606.7
Market risk	1,553.5	3,440.8
Operating risk	281.4	225.8

	As of December 31,	
	2011	2012
	(in R$ millions)	
Exceeding Required Reference Equity: (PR-PRE)	**3,180.1**	**5,319.9**
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	**17.66%**	**17.31%**

In addition, the Central Bank requires a minimum fixed asset to equity-capital ratio, computed by dividing Banco BTG Pactual's fixed assets by adjusted stockholders' equity (*Patrimônio Líquido Ajustado* - PLA). The maximum ratio permitted is 50%. This ratio is determined by CMN Resolution 2283/96, amended by Resolution 2,669/99 and with the wording of Resolutions 2,743/00 and 3,426/06, and it is calculated on a consolidated basis considering all subsidiaries.

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 No. 4,192, of March 1, 2013, determined, among other things, that Brazilian financial institutions must comply with new minimum capital requirements.

The following table sets forth additional information on Banco BTG Pactual's capital ratios. As of June 30, 2014 and December 31, 2013 according to CMN Resolution No. 4,192:

	As of	
	December 31, 2013	**June 30, 2014**
	(in R$ million)	
Reference Shareholders' Equity	**10,966.0**	**13,425.1**
Tier 1	11,375.5	12,780.2
Common Equity	11,375.5	12,780.2
Tier 2	5,113.6	4,545.4
Reference Shareholders' Equity (PR) - (a)	16,489.1	17,325.7
Required Reference Shareholders' Equity (PRE)	10,201.7	11,917.9
Total exposure risk-weighted - (b)	**10,202.0**	**11,917.9**
Credit risk	6,309.4	6,415.0
Operational risk	398.9	694.7
Market risk	3,493.7	4,808.1
Basel ratio - (a/b*11%)	**17.8%**	**16.0%**
Tier 1 capital	12.3%	11.8%
Tier 2 capital	5.5%	4.2%
Fixed assets ratio	73.6%	99.0%
Fixed assets to equity capital ratio	8,237.5	8,656.2
Status for fixed assets to equity capital ratio	6,062.5	8,567.6
Amount of surplus margin	**2,174.9**	**88.6**

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—Risk Factors 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 regulations, and we cannot predict the effect of such regulation on our business," "Regulatory Overview—Regulation in the United States," "Regulatory Overview—Regulation in the United Kingdom" and "Regulatory Overview—Regulation in Luxembourg." Our Chilean, Colombian, Peruvian and Luxembourg operations are, and our Mexican operations will be, 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 – our liquidity buffer – at all times. Banco BTG Pactual's liquidity buffer is calculated to be sufficient to run its operations for a minimum of 90 days assuming that it does not obtain new funding in the period. 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.

Banco BTG Pactual has recently enhanced its liquidity profile through the issuance of the following securities: (i) in April 2011, R$4.0 billion in local subordinated notes with an average maturity of 7.8 years; (ii) in July 2011, US$500.0 million in senior notes due 2016 at a rate of 4.875%, under the Programme; (iii) in December 2011 and January 2012, three additional series of zero-coupon, one-year senior notes under the Programme to a single investor in the total principal amount of US$106.0 million; (iv) in December 2011, a series of notes in the total principal amount of R$0.6 billion with an average maturity of 7.0 years; (v) in September 2012, US$800.0 million subordinated notes due 2022 at a rate of 5.75%, priced at 98.14%; (vi) in September and October 2012, total issuance of US$235.0 million 7.00% senior notes due 2014 denominated in Colombian pesos under the Programme; (vii) in January 2013, US$1.0 billion in senior notes due 2020 at a rate of 4.00%; and (viii) in March 2013, CNY1.0 billion (equivalent to US$160 million) senior notes due 2016 under the Programme. Under the terms of the US$800.0 million 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. In addition, in July 2013, Banco BTG Pactual entered into a syndicated loan in the amount of US$315 million maturing in July 2015.

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. As of June 30, 2014, Banco BTG Pactual had more than 1,200 depositors, including time depositors, and its top 10 depositors represented less than 45% of its total unsecured funding base. 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. Banco BTG Pactual is currently the only entity within the BTG Pactual Group that is permitted to take deposits, directly and through its branches, (including interbank, demand and time deposits) from clients or counterparties.

Our Indebtedness

The following table shows the composition of Banco BTG Pactual's funding as of the dates indicated:

(Unaudited as of June 30, 2014)	**As of December 31, 2011**	**2012**	**2013**	**As of June 30, 2014**
	(in R$ millions)			
Deposits	14,211.1	14,624.0	17,652.7	17,904.0
Demand deposits	1,574.3	283.5	156.5	186.1
Interbank deposits	576.4	627.1	388.6	422.6
Time deposits	12,060.4	13,713.4	17,107.6	17,295.2
Open market funding	39,061.1	52,650.7	31,293.3	33,606.9
Funds from securities issued and accepted	3,774.6	8,480.1	14,897.0	17,506.0
Interbank transactions	-	0.3	2.5	4.3
Loans and onlending	919.7	1,904.7	5,080.5	5,074.0
Subordinated debt	4,158.3	6,246.1	6,748.7	6,966.2
Total	**62,124.8**	**83,906.0**	**75,674.7**	**81,061.3**

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 our 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 our Cayman Islands Branch. As of June 30, 2014, the balance of its demand deposits from local and international clients totaled R$186.1 million, compared to R$156.5 million, R$283.5 million and R$1,574.3 million as of December 31, 2013, 2012 and 2011, respectively.

Interbank Deposits

Banco BTG Pactual receives interbank loans from Brazilian financial institutions in open market operations. The balance of its interbank deposits was R$422.6 million as of June 30, 2014, and R$388.6 million, R$627.1 million and R$576.4 million as of December 31, 2013, 2012 and 2011, respectively.

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 remained relatively stable in 2011 and 2012, from R$12,060.4 million as of December 31, 2011 to R$13,713.4 million as of December 31, 2012. However, as of December 31, 2013 the balance of time deposits had increased significantly to R$17,107.6 million, primarily as a result of a larger client base and Banco BTG Pactual's continuous effort to maintain a high level of market discipline and transparency, pursuant to which its clients and counterparties are informed about its performance and its strategy. Time deposits have further increased to R$17,295.2 million as of June 30, 2014 reflecting Banco BTG Pactual's continuous efforts to increase this source of funding.

The table below shows the composition of Banco BTG Pactual's time deposits issued by maturity as of the dates indicated:

(Unaudited as of June 30, 2014)	As of December 31, 2011	2012	2013	As of June 30, 2014
		(in R$ millions)		
Up to 90 days	3,180.7	6,872.4	10,341.6	10,329.9
From 91 to 365 days	6,184.5	5,134.6	5,057.2	5,022.6
From 1 to 3 years	1,553.5	581.6	823.4	1,225.4
Over 3 years	1,141.5	1,124.6	885.5	717.3
Total	**12,060.4**	**13,713.4**	**17,107.6**	**17,295.2**

The table below shows the concentration of Banco BTG Pactual's time deposits issued by depositors by economic group as of June 30, 2014 and December 31, 2013:

(Unaudited)	As of December 31, 2013	As of June 30, 2014
	(in R$ millions)	
Total number depositors	1,261	1,182
Largest depositor	986.7	2,006.3
10 largest depositors	5,583.3	8,370.5
20 largest depositors	8,790.1	11,437.1
50 largest depositors	12,667.4	14,462.7
100 largest depositors	14,723.7	15,872.0

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., our 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 June 30, 2014, Banco BTG Pactual's own portfolio of repurchase transactions totaled R$9,717.7 million, and as of December 31, 2011, 2012 and 2013 R$22,838.4 million, R$32,227.5 million and R$13,035.3 million, respectively. The decrease in Banco BTG Pactual's open market funding's balance as of December 31, 2013 compared to December 31, 2012 is primarily due to our sale of ARF II in December 2013. See "Impact of Recent Acquisitions, Divestitures and Corporate Restructurings Affecting Our Results of Operations - Sale of BTG Pactual Absolute Return Fund II, L.P."

Funds from securities issued and accepted

Banco BTG Pactual's balance from securities issued and accepted increased from R$3,774.6 million as of December 31, 2011 to R$8,480.1 million as of December 31, 2012 and to R$14,897.0 million as of December 31, 2013, and increased further to R$17,506.0 million as of June 30, 2014. The increase was in line with Banco BTG Pactual's distribution efforts in local and international markets.

Banco BTG Pactual has recently issued notes both in Brazil and abroad, as follows:

- In July 2011, Banco BTG Pactual issued, through its Cayman Islands Branch, a series of senior notes through the Programme in the total principal amount of US$500 million. The maturity date of these notes is July 8, 2016;

- 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 December 2011, Banco BTG Pactual issued, through its Cayman Islands Branch, three series of senior notes through the Programme to a single investor in the total principal amount of US$106.0 million. The maturity date for these notes is one year from the date of issuance;

- In September and October 2012, Banco BTG Pactual issued, through its Cayman Islands Branch, approximately US$235 million aggregate principal of senior notes, denominated in Colombian pesos, at a fixed coupon of 7.00% and maturing in September 2017, marketed primarily to investors in Latin America;

- In January 2013, Banco BTG Pactual issued, through its Cayman Islands Branch, US$1.0 billion in senior notes under the Programme at a fixed coupon of 4.00% and maturing in January 2020; and

- In March 2013, Banco BTG Pactual issued, through its Cayman Islands Branch, CNY1.0 billion (equivalent to US$160 million) in senior notes under the Programme at a fixed coupon of 4.1% and maturing in March 2016.

The table below shows the composition of Banco BTG Pactual's funds from securities issued and accepted by type as of the dates indicated:

(Unaudited as of June 30, 2014)	As of December 31, 2011	2012	2013	As of June 30, 2014
		(in R$ millions)		
Financial bills	932.4	1,827.8	6,568.7	9,315.2
Mortgage bonds/letters of credit for agribusiness	1,692.5	3,978.1	2,533.4	3,064.1
Medium term notes and credit-linked notes	1,149.6	2,674.1	5,794.9	5,101.2
Certificates of structured operation - COE	-	-	-	25.5
Total	**3,774.6**	**8,480.1**	**14,897.0**	**17,506.0**

Loans and onlendings

The funding from loans and onlendings consists of funding facilities, such as revolving credit facilities, trade finance and BNDES lines of credit, among others. As of June 30, 2014 the outstanding balance of these facilities were R$5,074.0 million compared to R$5,080.5 million as of December 31, 2013, and to R$1,904.7 million and R$919.7 million at December 31, 2012 and 2011, respectively. Such increase is directly linked to Banco BTG Pactual's strategy to grow its corporate lending unit, which was boosted by sustained economic growth and credit demand from its corporate clients. As part of its strategy, in July 2013, Banco BTG Pactual obtained a syndicated loan in the amount of US$315 million maturing in July 2015.

Subordinated debt

Banco BTG Pactual's subordinated indebtedness increased from R$4,158.3 million as of December 31, 2011 to R$6,246.1 million as of December 31, 2012 and further to R$6,748.7 million as of December 31, 2013 and to R$6,966.2 million as of June 30, 2014. In April 2011, it issued a series of subordinated notes in Brazil in the total principal amount of R$3,975.0 million, indexed to IPCA plus 1% per annum. The average maturity date of the notes is 7.8 years, and the first maturity date is October 2016. In September 21, 2012 it priced at 98.14% an issuance of US$800 million, 5.75% subordinated notes due September 28, 2022, denominated in U.S. dollars. 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.

Dividends and other distributions

During 2011, Banco BTG Pactual distributed R$692.0 million of dividends to its shareholders, with the portion thereof received by its then current Partners used to amortize the remaining part of the debt of BTG Participações with third parties. In 2011, Banco BTG Pactual further distributed R$319.0 million as interest on shareholders' equity, which was recapitalized into Banco BTG Pactual on the same date. Banco BTG Pactual did not make any distributions to its Partners in 2011.

On August 8, 2012, Banco BTG Pactual's board of directors approved the distribution of proceeds to our shareholders in the amount of R$401.6 million, of which R$220.0 million was distributed as interest on shareholders' equity (subject to withholding taxes) and R$181.6 million was distributed as dividends.

As of December 31, 2012, Banco BTG Pactual recorded R$220.0 million and R$192.2 million as interest on shareholders' equity and dividends, respectively, with such provisions being approved at the special shareholders' meetings held on December 19, 2012 and February 19, 2013. These distributions were paid on March 5, 2013.

As of June 30, 2013, Banco BTG Pactual recorded R$255.0 million and R$60.4 million as interest on shareholders' equity and dividends, respectively, with such provisions being approved at the special shareholders' meetings held on August 6, 2013 and paid on August 20, 2013.

As of December 31, 2013 Banco BTG Pactual had accrued R$246.9 million and R$132.1 million as interest on shareholders' equity and dividends. These amounts were approved in the special shareholders' meeting held on December 17, 2013 and February 18, 2014, respectively. These amounts were paid on March 2014.

As of June 30, 2014 Banco BTG Pactual had accrued R$301.8 million and R$146.6 million as interest on shareholders' equity and dividends, respectively. These amounts were approved in the special shareholders' meeting held on August 5, 2014. These amounts were paid on August 2014.

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:

(Unaudited as of June 30, 2014)	As of December 31,						As of June 30,	
	2011	% of total assets	2012	% of total assets	2013	% of total assets	2014	% of total assets
Assets	(R$ millions)		(R$ millions)		(R$ millions)		(R$ millions)	
Cash at banks	517.3	0.6%	552.2	0.4%	1,074.0	0.9%	1,264.5	1.0%
Interbank investments	19,583.0	23.9%	23,968.9	19.4%	23,812.3	19.9%	33,110.5	25.5%
Securities and derivative financial instruments	42,893.9	52.3%	74,202.7	60.2%	42,657.2	35.6%	53,300.6	41.1%
Interbank transactions	876.7	1.1%	475.0	0.4%	239.9	0.2%	357.8	0.3%
Loans	4,665.2	5.7%	7,268.6	5.9%	15,080.0	12.6%	12,943.0	10.0%
Securities trading and brokerage	4,403.8	5.4%	3,885.6	3.2%	11,531.6	9.6%	8,454.2	6.5%
Other receivables	7,641.7	9.3%	9,430.9	7.6%	20,793.6	17.4%	16,246.5	12.5%
Other assets	25.1	0.0%	35.5	0.0%	98.2	0.1%	40.3	0.0%
Permanent assets	1,405.3	1.7%	3,496.8	2.8%	4,514.5	3.8%	4,093.7	3.2%
Total assets	**82,012.0**	**100.0%**	**123,316.3**	**100.0%**	**119,801.3**	**100.0%**	**129,811.1**	**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 term deposits. Banco BTG Pactual complies with the requirements above by holding cash deposits which amounted to R$355.2 million as of June 30, 2014.

Contractual Obligations

The tables below present the maturity and balances of Banco BTG Pactual's significant contractual financial obligations. As of June 30, 2014:

(Unaudited)	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
			(R$ millions)			
Deposit	10,675.2	5,204.5	1,274.8	747.0	2.4	17,904.0
Open market funding	23,826.9	1,316.5	2,415.3	1,006.6	5,038.5	33,606.9
Funds from securities issued and accepted	2,834.5	4,912.7	5,479.7	1,838.3	2,170.9	17,506.0
Loans and onlending	892.0	1,770.7	1,109.9	66.3	1,235.0	5,074.0
Subordinated debts	-	-	1,063.8	2,174.2	3,728.2	6,966.2

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	12,056.5	1,672.6	4,446.5	18,175.6

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 a limited partner in private equity funds. Banco BTG Pactual manages and invests in these entities as part of its investment portfolio from its investment banking activities. As of June 30, 2014 and December 31, 2013 the total amount of its undrawn commitments was approximately R$1.2 billion, consisting substantially of its investments in private equity funds, mainly BTG Pactual Brazil Infrastructure Fund II LP (FIP Infrastructure fund), and its investment in Sete Brasil, a Brazilian company which builds exploration rigs for ultra-deep waters. 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 have any commitments of this nature as of December 31, 2012 or 2011. Banco BTG Pactual did not record any amounts relating to commitments on our balance sheets for any period.

Capital Expenditures

Banco BTG Pactual's main capital investments in 2011, 2012 and 2013 amounted to R$27.2 million, R$93.0 million and R$91.4 million, respectively. In 2011, most of these expenditures related to investments in premises (43.6%), software (27.8%), data processing systems (21.2%) and communication systems (7.4%), while in 2012, the majority of these expenditures related to investments in connection with the relocation of Banco BTG Pactual's São Paulo operations to a larger office, as well as investments in communication systems and premises. In 2013, most of these expenditures related to investments in premises (56.4%), software (25.7%), data processing systems (15.3%) and communication systems (2.6%). For 2014, Banco BTG Pactual expects its main capital expenditures will amount to approximately R$101.1 million, mostly comprised of investments in premises (40.3%), technology infrastructure, including data processing systems and communication systems (36.5%), and software (23.2%)

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 were R$8,269.4 million as of June 30, 2014, and R$7,422.3 million and R$6,729.5 million as of December 31, 2012 and 2013, respectively.

Risk Management

In the ordinary course of our 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) Credit Risk Committee, which is responsible for approving new credit transactions according to the guidelines set by its Risk Committee; (iv) Market Risk Committee, which is responsible for monitoring market risk, including utilization of its risk limits, and for approving exceptions to such limits; (v) Operational Risk Committee, which assesses main operational risks in light of the established policies and regulatory framework; (vi) AML Compliance Committee, which is responsible for establishing AML rules, and for reporting potential issues involving money laundering; (vii) CFO Committee, which is responsible for monitoring its liquidity risk, including its cash position and balance sheet usage, and for managing its capital structure; and (viii) Audit Committee, which is responsible for the independent verification of the adequacy of its controls, and for assessing whether its books and records are kept appropriately.

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 indices. 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, 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 our 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 our 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 six months ended June 30,**
	2011	**2012**	**2013**	**2014**
	(in R$ millions, except percentages)			
Total average daily VaR	28.4	60.5	52.5	95.5
Average daily VaR as % of average equity	0.47%	0.74%	0.47%	0.75%

Banco BTG Pactual's total average daily VaR increased during 2011 and 2012, as a result of the deployment of additional capital it raised in December 2010 and its April 2012 initial public offering. In 2012, its daily average VaR also increased due to the continuing ramp-up of some business areas in its sales and trading business unit (e.g. the energy trading desk), a larger inventory of assets held and new asset classes. In 2013, Banco BTG Pactual's total average daily VaR decreased in absolute terms and as a percentage of the average shareholders' equity as a result of less favorable market conditions. In the six months ended June 2014, its total average daily VaR increased mainly as a consequence of an increase in its sales and trading global commodities platform and overall FICC market risk exposure. As Banco BTG Pactual has outlined in the past, that is 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 BM&FBOVESPA. The following table sets forth the distribution, by credit rating, of Banco BTG Pactual's credit exposures as of June 30, 2014 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 June 30, 2014**
Rating	**(in R$ millions)**
AA	15,769
A	15,323
B	5,621
C	2,585
D	1,131
E	302
F	38
G	43
H	49
Total	**40,860**

The table below states Banco BTG Pactual's main exposures to credit risk, classified by economic activity of the counterparties As of June 30, 2014:

(Unaudited)	(in R$ million)								
	Governments	Financial institutions	Services	Investment funds	Individuals	Indus-try	Energy	Other	Total
Cash at banks	-	1,264.5	-	-	-	-	-	-	1,264.5
Short-term interbank investments	491.1	22,469.9	-	10,105.6	15.2	23.2	-	5.6	33,110.5
Securities and derivative financial instruments	12,031.4	11,493.0	7,606.2	3,264.9	255.6	7,220.9	8,235.1	3,193.6	53,300.6
Interbank transactions	355.2	-	-	-	-	-	-	2.4	357.6
Loans	-	-	11,451.0	-	718.6	772.5	-	0.8	12,943.0
Other receivables(1)	4,290.9	8,112.5	338.0	860.3	826.9	868.6	458.5	3,802.6	19,558.2
Total	17,168.5	43,339.8	19,395.2	14,230.8	1,816.3	8,885.1	8,693.6	7,005.0	120,534.5

(1) Other receivables include only balances with credit characteristics.

Derivative Contracts

Derivative contracts are financial instruments, such as futures, forwards, swaps or option contracts, which derive their value from underlying assets, indexes, reference rates or a combination of these factors. Derivative instruments may be entered into by us in privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange.

In its sales and trading and principal investments businesses, Banco BTG Pactual actively enters into derivative transactions with its clients and counterparties in different markets in Brazil and abroad. The use of derivatives facilitates its trading activities, as these instruments typically permit the efficient transference and hedging of risks, a feature that is especially desirable given the dynamism of the markets in which it operates.

Derivatives are used in many of Banco BTG Pactual's businesses, and it believes that the associated market risk can only be understood relative to the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed in conjunction with all of its other non-derivative risk.

As of June 30, 2014, Banco BTG Pactual held collateral against these over-the-counter derivative exposures. This collateral consists predominantly of cash and government bonds and is usually received under agreements entitling Banco BTG Pactual to require additional collateral upon specified increases in exposure or the occurrence of negative credit events.

In addition to obtaining collateral and seeking netting agreements, Banco BTG Pactual attempts to mitigate default risk on derivatives by entering into agreements that enable it to terminate or reset the terms of transactions after specified time periods or upon the occurrence of credit-related events, and by seeking third party guarantees of the obligations of some counterparties. Derivatives transactions may also involve the legal risk that they are not authorized or appropriate for a counterparty for which documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. Banco BTG Pactual attempts to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction.

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".

Reputational Risk

Banco BTG Pactual is also subject to reputational risks. For a description of such risk, see "—Principal Factors Affecting Our Financial Condition and Results of Operations—Reputational Risk" and "Risk Factors."

Operational Risk

Operational risk relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems, or from external events. Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents related to, for example, major systems failures. Operational risk may also cause reputational harm. Thus, efforts to identify, manage and mitigate operational risk must be equally sensitive to the risk of reputational damage as well as the risk of financial loss.

Banco BTG Pactual manages operational risk through the application of long standing, but continuously evolving, firm-wide control standards which are supported by the training, supervision and development of its people; the active participation and commitment of senior management in a continuous process of identifying and mitigating key operational risks across our business; and a framework of strong and independent control departments that monitor operational risk on a daily basis. Together, Banco BTG Pactual believes these elements form a strong firm-wide control culture that serves as the foundation of its efforts to minimize operational risk exposure.

Operational Risk Control, a risk management group independent of Banco BTG Pactual's revenue-producing units, is responsible for developing and implementing a formalized framework to identify, measure, monitor, and report operational risks to support active risk management across its business. This framework, which evolves with the changing needs of its businesses and regulatory guidance, incorporates analysis of internal and external operational risk events, business environment and internal control factors, and scenario analysis. The framework has the ultimate goal of ensuring that Banco BTG Pactual always operates under the highest standards of quality in its business processes, protecting its earnings and reputation, providing regular reporting of its operational risk exposures to its board of directors, risk committees and its senior management.

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 Result 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—Risk Factors 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 has 68 professionals divided into groups specialized in investment banking, asset management, principal investments and trading, wealth management, litigation and corporate affairs. Its compliance department has 26 professionals who are 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 global investment bank, asset manager and wealth manager with a dominant franchise in Latin America. In addition, we have established a successful international investment and distribution platform. We were founded in 1983 and have operated as a meritocratic partnership since our inception. Currently, we have offices on five continents, and 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

Our seven business units are:

- **Investment Banking**, which provides financial advisory and capital markets services;
- **Corporate Lending**, which offers financing and loan guarantees to corporations;
- **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 across a wide range of asset classes, including equities, derivatives and commodities, in addition to interest rate and foreign exchange transactions for hedging and trading purposes;
- **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;
- **Wealth Management**, which provides investment advisory and financial planning services and investment products to HNWI;
- **Principal Investments**, which involves our capital investments with respect to a broad range of financial instruments, including merchant banking and real estate investments primarily in Brazil and investments in a variety of financial instruments in global markets, which investments are primarily managed by our asset management unit; and
- **Banco Pan**, our commercial and consumer banking business conducted through Banco Pan, an independent Brazilian bank that we have co-controlled since mid-2011, which focuses on granting automobile loans, direct consumer loans, payroll deduction loans, middle market loans and mortgages, primarily to individuals and corporations in Brazil.

We are committed to further expanding our platform to additional markets around the world. Following our successful completion of two acquisitions in Latin America, we have continued the implementation of strategies to consolidate our Latin American franchise, including the opening of a bank in Chile, which we expect to occur in 2014. In addition, we recently received approval from the Central Bank and the Mexico Securities Commission (CNBV) to operate a broker-dealer in Mexico, where we have already begun our operations and have achieved consistent gains in market share. Beyond our Latin American initiatives, we recently launched a diversified global commodities business that operates 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.

In addition, we recently signed an agreement to acquire BSI, a global wealth management company based in Lugano, Switzerland with a strong presence in all major European markets as well as Asia, the Middle East and Latin America. The transaction remains subject to the satisfaction of a number of conditions typical of a transaction of this type, including the receipt of all required regulatory approvals. Upon completion of the acquisition, we will seek to replicate our business model in markets where we currently have a less significant presence and we expect to achieve substantial benefits in our wealth management, asset management, corporate lending and sales and trading platforms worldwide.

We believe that our transaction with BSI represents a milestone in our efforts to replicate our history of success in Latin America throughout the world, and advances our goal of becoming a true global leader in financial services.

Our Group

We are part of the BTG Pactual Group, which includes both Banco BTG Pactual and BTGI. The two entities are sister entities that have the same ultimate beneficial owners. We, the principal operating company in the group, were founded as a small broker-dealer and have grown by creating new business units and expanding the activities within these business units. BTGI, the investment vehicle for many of the BTG Pactual Group's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments), was originally formed in late 2008. BTGI acts as a vehicle for part of the principal investment business of the BTG Pactual Group, and has no operating activities or employees. Its assets are managed by our asset management unit, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded by us as revenues in our asset management unit. BTGI will not participate in any offering of Notes as either an issuer or a guarantor.

As of June 30, 2014, the BTG Pactual Group had approximately 3,054 professionals and offices on five continents: South America (Brazil: São Paulo, Rio de Janeiro, Brasília, Recife, Ribeirão Preto, Porto Alegre, Curitiba, Salvador, Cuiabá, Belo Horizonte and other local offices; Santiago, Chile; Lima, Peru; Colombia: Medellin, Bogota, Baranquilla and Cali; and Buenos Aires, Argentina), North America (New York, Stamford, Mexico City and other local offices), Europe (London, Geneva and other local offices), Asia (Hong Kong, Shanghai and Singapore) and Africa (Johannesburg, South Africa).

Our Results and Financial Condition

For the year ended December 31, 2013 and the six months ended June 30, 2014, our revenues, as derived from our adjusted income statement, were R$5,896.0 million and R$3,434.7 million, respectively, and our net income was R$2,669.7 million and R$1,807.9 million, respectively. As of June 30, 2014, our shareholders' equity was R$13,479.6 million, and we managed a total of R$190.7 billion in our asset management unit and R$70.5 billion 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, 2013, our average return on equity was 21.9%, with no year being lower than 17.7%.

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 six months ended June 30,		CAGR
	2011	2012	2013	2013	2014	2011-2013
	(in R$ millions, except as otherwise indicated)					%
Total Revenue(1)	2,647.1	5,619.8	5,896.0	2,676.7	3,434.7	49.2
Net Income	1,477.1	2,061.2	2,669.7	1,249.3	1,807.9	34.4
Shareholders' Equity	6,339.8	10,101.5	12,127.8	11,029.0	13,479.6	38.3
ROAE(3)(4) (%)	24.7%	25.1%	24.0%	23.6%	28.2%	(1.4)
AUM and AUA (in R$ billions)(2)	120.1	170.7	189.4	186.1	190.7	25.6
WUM (in R$ billions) (2)	38.9	62.2	67.6	64.9	70.5	31.8
BIS Capital Ratio	17.7%	17.3%	17.8%	17.8%	16.0%	0.3

(1) Derived from our adjusted income statement.

(2) Unaudited.

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

(4) Figures are presented on an annualized basis.

Our Partnership

We operate as a partnership, currently with 205 Partners, who are also executives in our group. The Partners currently own 76.4% of our equity, and 71.9% of our equity is 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, own approximately 64.2% of our equity. The members of a consortium of investors who purchased our equity in December 2010 currently own 7.3% of our equity, and the remaining equity is owned by Partners (including Participating Partners), the selling shareholders in the Celfin and Bolsa y Renta transactions and the persons who purchased units in the initial public offering of the BTG Pactual Group or thereafter in the public markets.

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.

In contrast to other global investment banking and asset management firms that have sold equity to the general market in the past, our partnership model has not changed as a result of our initial public offering completed in April 2012. This was the result of several concrete steps that we implemented to ensure that our initial public offering would not negatively impact the significant benefits we derive from our unique partnership model. Most importantly, 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 at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such 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 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 and presence
- 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.

Dominant franchise. 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 independent investment banks based in the emerging markets. Among other things, we:

- were bookrunners in approximately 52% of all public equity offerings completed in Brazil from 2004 through June 30, 2014, and the leading equity underwriter in terms of number of bookmanaged transactions according to ANBIMA. In terms of total volume underwritten, we were the leading underwriter of equity issued by companies listed on BM&FBOVESPA in 2004, 2005, 2007, 2009 and 2012, the second largest equity underwriter in 2006 and 2011 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, according to Dealogic;

- were ranked first in Brazilian M&A advisory rankings according to Thomson in 2010, 2011 and 2013 and provided advisory services in 322 announced M&A transactions from January 1, 2007 through June 30, 2014. 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, according to Dealogic;

- have an equity research team named among the best research teams in Brazil from 2006 to 2014, and among the best research teams in Latin America from 2012 to 2014, according to *Institutional Investor*;

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

- are the largest asset manager in Brazil, excluding retail banks, according to ANBIMA (June 2014), with R$130.2 billion in AUM and R$190.7 billion in AUA as of June 30, 2014;

- had approximately R$70.5 billion of WUM as of June 30, 2014 and were named by *Euromoney* 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 asset management and wealth managements platforms, including: being named among the best research teams in Brazil from 2006 to 2014, and one of the best research teams in Latin America from 2012 to 2014, as well as Best Sales and Trading Services team in Brazil by *Institutional Investor* from 2012 to 2014; Best Sales and Trading Services team in Latin America by *Institutional Investor* in 2013 and 2014; Most Innovative Investment Bank in Latin America by *The Banker* in 2013; Best Investment Bank in Brazil and Chile by *World Finance* in 2013; Best Private Banking Service in Brazil by *The Banker* and *Euromoney* in 2013; Best High Income Fund Manager and Best Equity Funds Manager in Brazil in 2013 and Best Fund Manager in Brazil in 2012 and 2011 by *Exame* magazine – one of Brazil's leading financial magazines; Best Fund Manager in the Flexible Mixed Allocation categories in 2013 and 2012 and Best Fund Manager in the Largest Fixed Income in 2012 by Standard & Poor's and *Valor Econômico* – Brazil's leading financial newspaper in 2012; Best Global Macro Hedge Fund (for our GEMM fund) in 2012 and 2010 by *Euro Hedge Awards*; Best Fixed Income Fund Manager in 2011 by Standard & Poor's and *Valor Econômico*; Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by FGV (Fundação Getúlio Vargas) and *Exame* magazine; Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by FGV (Fundação Getúlio Vargas) and *Exame* Magazine; Best Multi-Market Fund Manager in 2010, Best Fund Manager in Brazil in the equities category from 2007 to 2009, Top Fixed Income fund manager for 2007 and 2008 and Best Multi-Asset Funds for 2010 by Standard & Poor's and *Valor Econômico*.

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.

Attractive opportunities for further growth of our core franchise. The Latin American financial services industry has grown significantly in recent years, and we believe it is poised for further growth, creating attractive opportunities for the leading market participants such as ourselves. The market for financial services has grown as a result of economic stability and the gains in economic growth momentum and the increase in such services have in turn played a key role in further advancing such improvements in macroeconomic performance.

For example, in Brazil, according to the CVM, issuers engaged in a total of 276 equity transactions from 2004 through June 30, 2014, raising a total of R$433.8 billion, of which R$160.6 billion consisted of initial public offerings. Deeper and more dynamic debt capital markets have created additional opportunities for Brazilian issuers as well as capitalized companies, which were able to seek locally financing more easily.

Consistent with this increase in the number of equity and debt transactions, total credit volume in Brazil grew from 25.7% of GDP in December 2004 to 56.4% of GDP on June 30, 2014, according to the Central Bank.

Despite the considerable progress already made in Brazil and other Latin American countries, we believe there remains substantial potential for further improvements in macroeconomic performance and in the financial sector. We believe the conditions for such improvement are already in place. In particular, there is potential for greater penetration of capital markets and Latin America is well-positioned to gain importance as a provider of financial services. Investor interest in the equity and debt securities of Latin American companies remains strong given the region’s strong growth prospects, and issuers are expected to need substantial additional funding.

The Brazilian asset management industry has also grown considerably, with AUM growing from R$739.0 billion as of December 31, 2000 to R$2,573.2 billion as of June 30, 2014, according to ANBIMA, of which 7.9% corresponds to investments in equity securities. We expect the growth in the size and sophistication of the capital and asset management markets to continue the trend of the last decade. In 2013, the Brazilian gross disposable income was R$4,760.5 billion, compared to R$1,653.6 billion in 2003, representing an increase of 187.9% and an average compound annual growth CAGR of 12.5%, according to the IBGE. We believe that increasing wealth in Brazil and elsewhere in Latin America will stimulate growth in all of our business units.

Established International Asset Management Platform

We have an international asset management platform in London, New York and Hong Kong that, together with our Brazilian and other Latin American offices, provides Latin American, emerging market and global investment products and services to our local and international client base. We have over 140 professionals, including 25 of our most senior executives, in our international offices dedicated exclusively to the international asset management business. Our flagship international hedge fund, GEMM, was awarded Best Global Macro Hedge Fund in 2010 and 2012 by *EuroHedge Awards*, a leading trade publication.

We believe our experience in making our international asset management and commodities platforms integral and fully integrated parts of our partnership culture will be invaluable as we continue our international expansion outside of Latin America.

Broad Network of International Contacts

The members of the Consortium who invested in our equity in December 2010 include affiliates of the Government of Singapore Investment Corporation Pte Ltd (GIC), China Investment Corporation (CIC), Ontario Teachers’ Pension Plan Board (OTPP), Abu Dhabi Investment Council (ADIC), J.C. Flowers & Co. LLC, RIT Capital Partners plc, Marais LLC, the Santo Domingo Group of Colombia, EXOR S.A., the investment company controlled by the Agnelli family of Italy, and Inversiones Bahía, the holding company of the Motta family of Panama. These investors provide us with a broad range of business contacts throughout Asia, the Middle East, Europe and North and South America, and in the years since their initial investment, we have successfully leveraged these contacts to strengthen many of our principal businesses and realize additional revenues. As part of the initial public offering of the BTG Pactual Group in April 2012, J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC, EXOR S.A. and Rendefeld, S.A. sold part of their respective equity interests in the BTG Pactual Group. Subsequent to the initial public offering of the BTG Pactual Group: (i) J.C. Flowers & Co. LLC (through Europa Lux III S.a.r.l.), RIT Capital Partners plc, Marais LLC and EXOR S.A. have sold the remainder of their respective equity interests in the BTG Pactual Group; (ii) Rendefeld S.A. sold an additional portion of its equity interest in the BTG Pactual Group; and (iii) China Investment Corporation (through Beryl County LLP) and the Government of Singapore Investment Corporation Pte Ltd (through Pacific Mezz Investco S.A.R.L.) sold part of their respective equity interests in the BTG Pactual Group.

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. We have 205 Partners that currently own, directly or indirectly, approximately 76.4% 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 both the members of the Consortium and our public shareholders, and our professionals. Virtually all of our key professionals are Partners and their respective equity ownership in Banco BTG Pactual and BTGI represents significant portions of their personal wealth (and in most cases, the vast majority of such wealth). For our 25 most senior Partners, including our senior traders and investment managers, the earnings and capital appreciation on their equity in the BTG Pactual Group exceed the amount they earn in salary and bonuses. 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 and principal investments 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) and the recent international financial crisis.

We have generated strong and consistent returns on our capital throughout these various cycles. We have been profitable during each of the last 16 years ended December 31, 2013. For the five years ended December 31, 2013, our average return on equity was 21.9%, with no year being lower than 17.7%.

While we seek to generate strong and consistent earnings, we also focus on consistently maintaining strong capital ratios and an adequate risk profile. Our capital adequacy ratio at the end of each year from 2008 to 2013 has been on average 19.0%. As of June 30, 2014, we had a capital ratio of 16.0%. 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 the BTG Pactual Group’s 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.

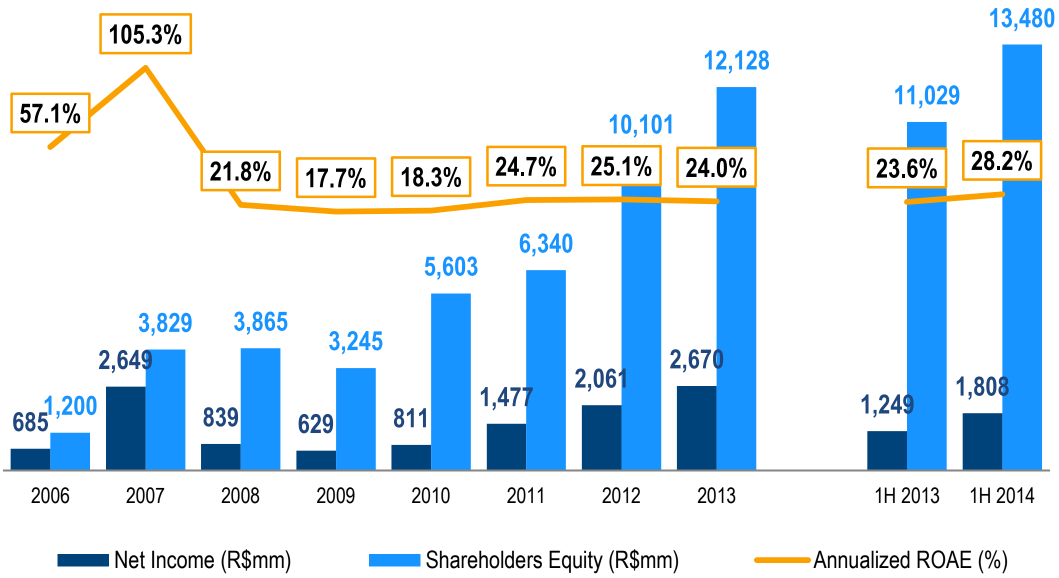
The following table sets forth our average daily VaR for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2011	2012	2013	2013	2014
	(in R$ millions, except percentages)				
Total average daily VaR	28.4	60.5	52.5	48.4	95.5
Average daily VaR as % of average equity[(1)]	0.47%	0.74%	0.47%	0.46%	0.75%

(1) Unaudited

We believe that our risk management policy applies the best practices, which have been tested in extremely adverse conditions, including during the 2008 financial crisis. 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 risk at the BTG Pactual Group 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.

The following chart shows our net income, shareholders' equity and return on average equity for the periods indicated:



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 André Santos Esteves, who was named in 2012 one of the 50 most influential people in global finance by *Bloomberg* and Person of the Year by the Brazilian-American Chamber of Commerce and, in 2010, was named one of the 25 most powerful people in the world of investment banking by *Institutional Investor*, and Persio Arida, who was the President of the Central Bank in 1995, President of the BNDES from 1993 to 1994, and one of the key economists to lead the creation and implementation of the *Real* Plan**.** Outside of Brazil, our team includes numerous executives with substantial experience in international institutions acting as traders of G-10 and non-Brazilian emerging markets securities or as top executives in global investment banking, commodities trading 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.

We believe that our workforce is highly motivated and efficient, in large part due to our partnership model. As a result, we have been able to achieve industry leading employee efficiency (measured by revenue per employee) which enables us to offer extremely attractive compensation that recognizes the contribution of our professionals. For the year ending December 31, 2013, the revenue per employee of the BTG Pactual Group (including BTGI, which is not an issuer of the Notes) was US$1.1 million, while the estimated average for a group of other leading international investment banks composed of Goldman Sachs, Morgan Stanley, UBS, JP Morgan and Credit Suisse was US$610,000.

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 substantial geographic diversification which has positioned us to exploit any changes in market conditions throughout the world.

The following table shows our unaudited revenues breakdown by business unit, which was not prepared in accordance with Brazilian GAAP and materially differs from our income statement:

	For the year ended December 31,			For the six months ended June 30,	
	2011	**2012**	**2013**	**2013**	**2014**
	(Unaudited - in R$ millions)				
Investment banking	338.3	448.0	459.4	279.0	267.2
Corporate lending	366.5	563.6	764.9	393.6	388.1
Sales and trading	999.9	1,516.6	1,729.7	1,132.1	1,591.8
Asset management	443.2	1,190.2	1,172.2	469.3	618.6
Wealth management	144.5	201.7	385.3	202.8	183.8
Principal investments	(111.2)	1,356.9	870.9	(49.7)	(94.3)
Banco Pan	(52.0)	(244.5)	(123.5)	(15.5)	(50.8)
Interest and other(1)	518.1	587.2	637.1	265.2	530.3
Total revenues	**2,647.1**	**5,619.8**	**5,896.0**	**2,676.7**	**3,434.7**

(1) Our revenues recorded under “interest and other” include the interest on our capital, which is the internal opportunity cost for remunerating our net equity, typically determined based on the CDI rate. The interest on our capital, recorded as “Interest and Other,” is in turn deducted as a funding cost directly from our business units’ revenues. The units primarily affected by such deductions are those which carry larger inventories of financial instruments (i.e., sales and trading, commercial lending and principal investments units), as their results are presented in our adjusted income statement net of the interest on our capital, as well as all other costs for obtaining external funding to finance their portfolios.

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, the commencement of our operations in Mexico, our initiative in 2013 to create a substantial global trading platform for commodities and our pending acquisition of BSI. 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 M&A. 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. Examples include our 2010 acquisition of Coomex, an energy trading company, and our May 2011 acquisition of a co-controlling interest in Banco Pan.

In addition, 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.

Strong and Diversified Funding Base with Proven Asset-Liability Management

We have a solid and diversified base for funding our operations through our private banking network, institutional client base, corporate client base, and in the capital markets. We are consistently able to fund our operations and to manage our liquidity risk. We seek to maintain a strong cash position, which is always sufficient to run our operations for 90 days assuming that we do not obtain new funding. Our balance sheet is in a large part composed of very liquid financial instruments, and we obtain funding from a diversified range of unsecured instruments from a broad range of sources. Also, we maintain a contingency plan to manage our liquidity under severely adverse market conditions. We enhanced our liquidity profile in (i) April 2011 through the issuance of R$3.975 billion in local subordinated notes with an average maturity of 7.8 years, (ii) July 2011 with the issuance under our medium term note programme of US$500 million in senior notes due 2016 at an interest rate of 4.875%, (iii) September 2012 with the issuance of US$800 million in subordinated notes due 2022 at an interest rate of 5.75%, (iv) September and October 2012 with the total issuance of the Colombian Peso equivalent of approximately US$235 million in senior notes due 2017 at an interest rate of 7.0%, (v) January 2013 through the issuance of US$1.0 billion in senior notes due 2020 at an interest rate of 4.00%, (vi) March 2013 through the issuance of US$160 million in senior notes due 2016 at an interest rate of 4.1% and (vii) July 2013 through the placement of a US$315 million Syndicated Loan due 2015 at an interest rate of LIBOR + 1.45%. As of June 30, 2014, we had more than 1,200 depositors, including time depositors.

Our Strategy

Our principal strategies are:

Capitalize on Latin America's Outstanding Growth Prospects

We believe that the growth of the financial services sector in Brazil and 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 at the same time being still far from the financial maturity of fully developed economies. These characteristics include:

- a favorable 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, particularly in infrastructure and oil and gas;
- 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 pre-salt oil and gas reserves in Brazil and infrastructure investments in Brazil, Mexico, Peru and Colombia, among others. These opportunities, combined with sustained growth in domestic income and consumption and significant demand for further improvements in infrastructure, are expected to result in an important increase in capital expenditures in Latin American countries. In addition, we expect that strong economic growth elsewhere in Latin America, especially Chile, Peru, 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 substantially as GDP continues to grow.

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 Brazilian 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.

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. Currently, the Partners own approximately 76.4% of our total equity, and 71.9% of our equity is Partnership Equity that is owned by our Partners as part of our partnership. 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 at its then current book value rather than at the value at which such equity is then trading in the market or the fair market value of such 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 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 the persons who purchased units in our initial public offering or in the open market following our initial public offering.

We believe the mechanisms described above create an unprecedented alignment of interests between our Partners, who currently own 76.4% of our equity, and our public shareholders, and minimized the changes to our culture following our initial public offering allowing us to continue our efforts to maximize value for our shareholders while simultaneously managing risk in a proactive manner. See "—Our Partnership."

Take Advantage of Attractive Growth Opportunities

We intend to expand through selective acquisitions. 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. We may also seek to expand our investment banking and asset management activities to other global markets. We believe that our pending acquisition of BSI, if consummated, will substantially increase our wealth management business and our global client base and provide us with the conditions necessary to facilitate growth for our wealth management and asset management businesses in markets where we have had a less significant presence historically. We further believe that our initial public offering has enhanced and will continue to enhance our capability and flexibility to execute strategic acquisitions by strengthening our balance sheet and allowing us to use our publicly traded securities as acquisition currency. For example, each of the Celfin, Bolsa y Renta and the pending BSI acquisitions were structured to include such securities as part of the consideration paid to the respective sellers. See "Summary—Significant Recent Developments."

We also intend to pursue strategic opportunities that further complement our existing businesses through organic growth. We recently commenced operations of our insurance business, through which we offer insurance and reinsurance products in Brazil and elsewhere in Latin America where we have begun to build market share. See "Summary—Significant Recent Developments." We have also recently launched a diversified global commodities business that operates 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. See "—Sales and Trading—Commodities." We believe that the development of these significant new business initiatives reflects our agility and ability to capitalize on growth opportunities as they arise in Latin America and throughout the world.

Expand Our International Operations

Our presence in important financial markets such as São Paulo, New York, London and Hong Kong enables us to better explore business opportunities arising in different regions of the world and demonstrates our intention to continuously seek diversification. We believe there are attractive opportunities for selective and global expansion outside Latin America and intend to pursue these opportunities. We believe, for example, 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 business to other countries, (iii) attract additional talent and teams, and (iv) expand the business that we conduct internationally.

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, which we expect to occur in 2014. In addition, we recently received approval from the Central Bank and the CNBV in Mexico to operate a broker-dealer in Mexico, where we have already begun our operations and have achieved consistent gains in market share. Beyond our Latin American initiatives, we recently launched a diversified global commodities business that operates 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.

We believe that our pending acquisition of BSI represents a significant milestone in our international expansion outside of Latin America and, more specifically, in the establishment of a truly global wealth management platform. We intend to build upon our record of successfully integrating businesses we have acquired and, upon consummation of the BSI acquisition, we intend to leverage its existing business and client base to establish a more substantial presence in Europe and Asia. We believe that BSI's significant client base in Europe and, to a lesser extent, in Asia, will provide us with additional opportunities for cross-selling our products and services.

Selectively Expand Our Portfolio of Products

To support future growth and the corresponding new significant investment needs, Latin America will need to increase the availability of credit. Increased equity offerings by Latin American companies in recent years has greatly increased the number of potential corporate borrowers with transparent financial disclosure and enhanced levels of corporate governance. Simultaneously, many Latin American companies have expanded their operations in recent years and are increasing their transparency in anticipation of a potential public offering. These two groups of companies are likely to need additional debt capital for growth and active management of their capital structure, and accordingly are attractive customers for our credit products.

We recently launched a diversified global commodities business that operates 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. Our activities focus on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows. We believe that we will be able to draw upon our existing relationships in the raw materials sector to build market share in the trading flows of the world's principal commodities markets and that our extensive market knowledge will enable us to identify strategic opportunities and optimize our physical and proprietary trading capabilities.

In addition, as a result of the completion of our initial public offering and the strong growth of our businesses since our IPO, our funding costs have decreased and we believe they will continue to decline and we will have a greater variety of financing options available. We believe these cheaper and more diversified sources of funding will facilitate our efforts to selectively expand our credit products (including derivatives, securitizations, structured credits and pre-IPO financings) on a profitable and prudent basis.

We plan to expand our offering of credit products and derivatives to our current and prospective clients, including through our commercial banking platform. We expect to primarily exploit credit opportunities that are linked to our other core business units – in particular investment banking – and also those that involve structured products and derivatives. We intend to continue to analyze credit opportunities closely, performing rigorous analyses of prospective borrowers' businesses and existing and prospective financial condition and results, in order to select opportunities which will satisfy our stringent standards for achieving high returns within acceptable risk parameters. We consider Banco Pan's origination platform another step in implementing these strategies, as such platform originates consumer finance and middle market assets on a primary basis that are complementary to the institutional credit business that we originate through our own platform.

Continue to Develop Our Merchant Banking and Private Equity Businesses

We believe that the BTG Pactual Group's ability to provide permanent capital to the BTG Pactual Group's clients is an important competitive advantage to us. Accordingly, the BTG Pactual Group intends to continue to develop its merchant banking through us and BTGI and private equity businesses through us, primarily with respect to investments in Brazil. We believe that the BTG Pactual Group's network of contacts and significant deal flow grants us access to numerous attractive investment opportunities that may not be available to our competitors, and that as a result we will be able to attract third party investors to private equity and similar funds for which we will act as the investment manager and generate management and performance fees for our asset management unit. We also expect BTGI to serve as the anchor investor and have a meaningful equity ownership in certain of such entities and funds in connection with the merchant banking activities of the BTG Pactual Group and accordingly enhance our principal investment opportunities and directly generate revenue for the asset management unit.

Subsidiaries

As of June 30, 2014, our principal subsidiaries were the following:

	Share (%) in 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	Equities Broker-Dealer	Brazil
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	99.99	Fund Administration Services	Brazil
BTG Pactual Corretora de Mercadorias Ltda.	99.99	Currencies/ Commodities Broker-Dealer	Brazil
BTG Pactual Securitizadora S.A.	99.99	Real Estate Securitization	Brazil
BTG Pactual Commodities S.A.	99.99	Commodities	Brazil
BTG Pactual Comercializadora de Energia Ltda.	99.99	Energy Trading	Brazil
BTG Pactual Holding International S.A.	99.99	Holding Company	Brazil
BTG Pactual Overseas Corporation	100.00	Holding Company	Cayman
Vivere Soluções e Serviços S.A.	30.00	IT/Mortgages	Brazil
Global Ltd.	100.00	Holding Company	Cayman
BW Properties S.A.	67.49	Real Estate Business	Brazil
G.U.A.S.P.E. S.A.	99.99	Dormant Company	Brazil
BTG Pactual Holding de Seguros Ltda.	99.99	Holding Company	Brazil
BTG Pactual Chile SPA	100.00	Holding Company	Chile
Recovery do Brasil Consultoria S.A.	50.24	Asset Management	Brazil
BTG Pactual S.A. Comisionista de Bolsa	99.99	Broker-Dealer	Colombia
BTG Pactual Chile International Ltd.	100.00	Holding Company	Cayman
BTG Pactual TTG Participações S.A.	100.00	Timber Management	Brazil
Banco BTG Pactual Luxembourg S.A.	100.00	Holding Company	Luxembourg
BTG Pactual Timberland Investment Group LLC	100.00	Timber Management	USA

	Share (%) in total capital	Activity	Jurisdiction
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 Serviços Energéticos Ltda.	100.00	Electrical Energy Trading	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	England
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 Holding Delaware LLC	100.00	Holding Company	USA
BTG Pactual Asia Limited	100.00	Asset Management	Hong Kong
BTG Global Asset Management (UK) Limited	100.00	Holding Company	England
BTG Pactual Seguradora S.A.	100.00	Insurance Holding Company	Brazil
BTG Pactual Resseguradora S.A.	100.00	Insurance	Brazil
BTG Pactual Vida e Previdência S.A.	100.00	Insurance	Brazil
BTG Pactual Chile S.A.	100.00	Holding Company	Chile
BTG Pactual Chile S.A. Corredores de Bolsa	100.00	Broker-Dealer	Chile
BTG Pactual Chile Administradora de Fondos de Capital Extranjero S.A	100.00	Asset Management	Chile
BTG Pactual Chile S.A. Administradora General de Fondos	100.00	Asset Management	Chile
BTG Pactual Chile Inversiones Limitada	100.00	Asset Management	Chile
BTG Pactual Chile Servicios Financieros S.A.	100.00	Advisory Services	Chile
BTG Pactual Chile Proyectos y Rentas S.A.	100.00	Advisory Services	Chile
Inmobilaria BTG Pactual Chile Limitada	100.00	Real Estate	Chile
BTG Pactual Chile Finanzas y Servicios S.A.	100.00	Advisory Services	Chile
BTG Pactual Chile Servicios Empresariales Limitada	100.00	Operational Services	Chile
BTG Pactual Chile S.A. Administración de Activos	100.00	Fund Administration Services	Chile
BTG Pactual Chile International Corp.	100.00	Holding Company	Panama
BTG Pactual Chile S.A. Sociedad Agente de Bolsa	100.00	Broker-Dealer	Peru
BTG Pactual Chile S.A. Sociedad Administradora de Fondos Inversion	100.00	Asset Management	Peru
BTG Pactual Peru S.A.C.	100.00	Broker-Dealer	Peru

	Share (%) in total capital	Activity	Jurisdiction
BTG Pactual Chile S.A. Sociedad Comissionista de Bolsa	100.00	Broker-Dealer	Colombia
Laurel Sociedad Gestora Profissional S.A.	100.00	Asset Management	Colombia
BTGP Corp SAS	100.00	Operational Services	Colombia
BTG Pactual E&P Emprendimentos e Participaçoes S.A.	100.00	Holding Company	Brazil
BTG Pactual E&P S.a.r.l.	100.00	Holding Company	Luxembourg
BTG Pactual Oil and Gas S.a.r.l.	100.00	Holding Company	Luxembourg
BTG Pactual Commodities Holding (UK) Limited	100.00	Commodities Trading	UK
BTG Pactual Commodities (UK) LLP	100.00	Commodities Trading	UK
BTG Pactual Commodities (Singapore) LLC	100.00	Commodities Trading	Singapore
BTG Pactual Commodities (Switzerland) SA	100.00	Commodities Trading	Switzerland
BTG Pactual Commodities Holding (US) LLC	100.00	Commodities Trading	USA
BTG Pactual Commodities (US) LLC	100.00	Commodities Trading	USA
BTG Pactual Commodities (South Africa) (Pty) Ltd.	100.00	Commodities Trading	South Africa
BTG Pactual Commodities Argentina S.A.	100.00	Commodities Trading	Argentina
BTG Pactual Warehousing (SG) PTE	100.00	Commodities Trading	Singapure
BTG Pactual Commodities (Shanghai) Co	100.00	Commodities Trading	China
BTG Pactual Warehousing (US) LLC	100.00	Commodities Trading	USA
BTG Pactual Warehousing (UK) Ltd	100.00	Commodities Trading	UK
BTG Pactual Commodities Trading US LLC	100.00	Commodities Trading	USA
BTG Pactual Commodities Ukraine	100.00	Commodities Trading	Ukraine
BTG Pactual Commodities (Italy) SRL	100.00	Commodities Trading	Italy
BTG Pactual Commodities (Costa Rica) SRL	100.00	Commodities Trading	Costa Rica
BTG Pactual Commodities Absolute Return Ltd.	100.00	Commodities Trading	Cayman
TTG Brasil Investimentos Florestaia Ltda.	94.34	Asset Management	Brazil
BTG Pactual Casa de Bolsa S.A. de C.V.	100.00	Broker-Dealer	Mexico

The Luxembourg Branch

The Luxembourg Branch is registered with the Luxembourg Register of Commerce and Companies under number B 183229 and is a Luxembourg credit institution included on the official list of authorized credit institutions (*le tableau des banques établies au Luxembourg conformément à la loi du 5 avril 1993*). Accordingly, the Luxembourg Branch is subject to the Luxembourg Act, dated April 5, 1993, relating to the financial sector, as amended, or the Luxembourg Banking Act, in addition to other legal and regulatory requirements and the supervision of the Commission de Surveillance du Secteur Financier, or the CSSF and Luxembourg Central Bank, or the BCL.

Luxembourg is internationally recognized as a leading banking center, with clear, sophisticated and transparent regulations, political and economic stability and a large pool of skilled service providers.

The establishment of the Luxembourg Branch was approved by the Central Bank on November 28, 2013, and following review and approval by the CSSF, the Luxembourg Minister of Finance granted authorization to the Luxembourg Branch on January 24, 2014.

The Luxembourg Branch has a dedicated team located in Luxembourg, including two authorized representatives that manage its day-to-day activities. The Luxembourg Branch operates with a universal banking license, authorizing it to perform a wide range of banking activities. In the short term, we expect the Luxembourg Branch to focus primarily on the issuance of debt instruments and corporate lending activities.

The Luxembourg Branch is obligated to comply with the risk limits and guidelines established by or pursuant to the applicable Luxembourg and European legislation, the CSSF and the BCL regarding both assets and liabilities. In addition, the Luxembourg Branch is subject to the legal and regulatory requirements applicable to branches of non-EU and non-EEA credit institutions in Luxembourg. Under Brazilian law, the obligations of the Luxembourg Branch are obligations of Banco BTG Pactual. The current address of the Luxembourg Branch is 2, Avenue Charles De Gaulle, L-1653 Luxembourg.

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 financial statements and related notes thereto included elsewhere in this Offering Memorandum.

Investment Banking

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 BM&FBOVESPA.

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 year ended December 31, 2013 and for the six months ended June 30, 2014, our revenues from our investment banking business unit were R$459.4 million and R$267.2 million, respectively, representing 8.2% and 7.8%, 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 an important 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, 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.

In addition, if the BSI acquisition is consummated, we will seek to leverage its existing business contacts in developed markets in Europe and Asia in order to further strengthen our investment banking franchise in the region and further expand our global investment banking capabilities.

Capital Markets

From January 1, 2010 through June 30, 2014, we acted as lead manager or bookrunner in transactions that have raised approximately R$200.1 billion of capital for our clients in Brazil. We underwrite a wide range of equity and debt securities, including convertible securities.

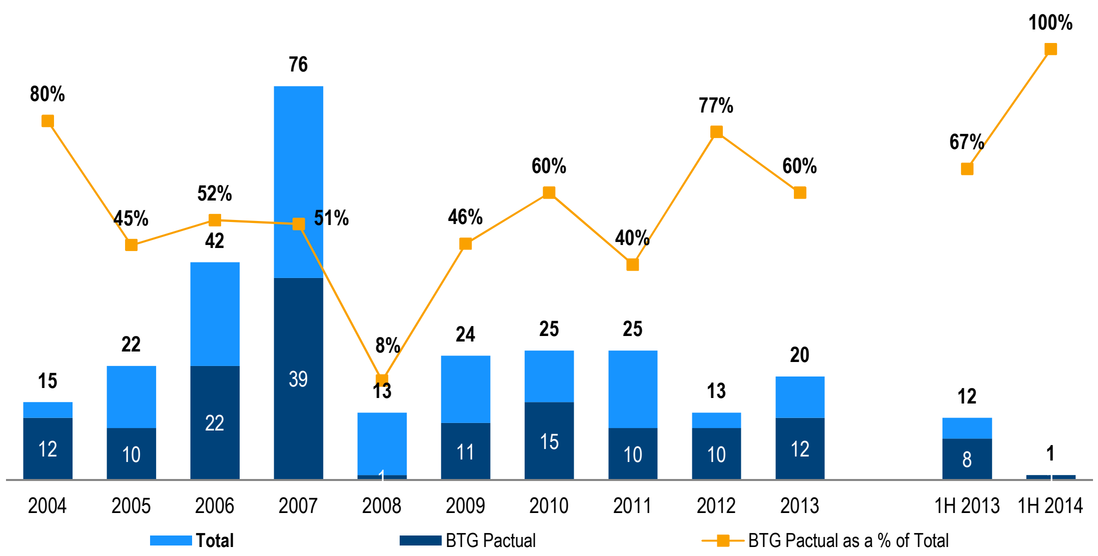
We believe that a key factor in our equity and debt underwriting operations is the close working relationship between our investment banking and capital markets professionals and our sales team. We believe that we have relationships with a large and diverse group of Brazilian and other Latin American issuers as well as Brazilian, other Latin American and global investors.

Following the strengthening of our investment banking platforms in Chile and Colombia since 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

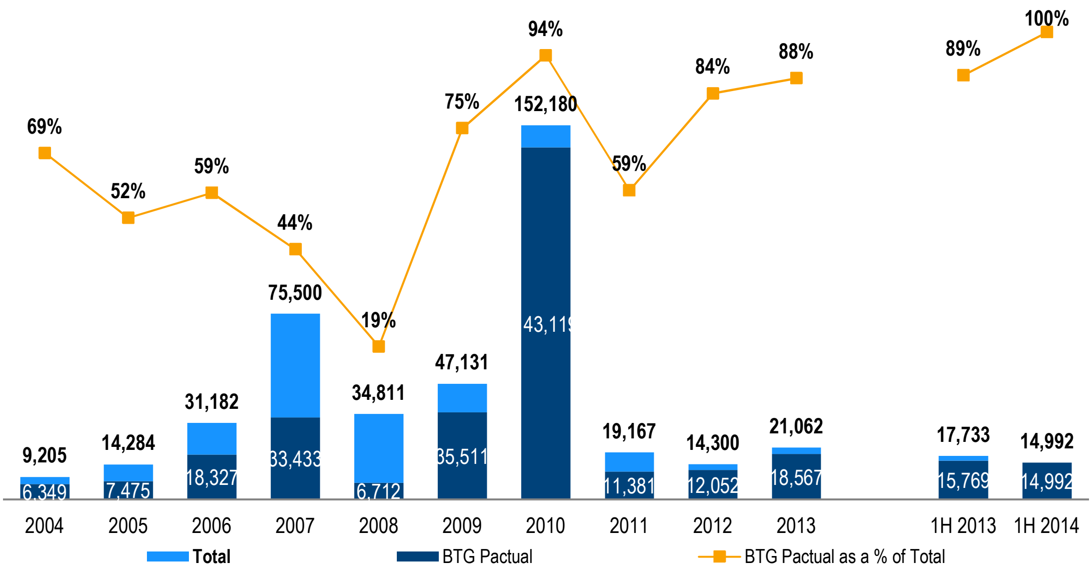
Equity underwriting has been one of our long-term core strengths. The following graphs show our strong position in equity underwriting in Brazil for the periods indicated:

Number of Transactions (Brazil)



Source: CVM

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 BM&FBOVESPA which are registered with the CVM.

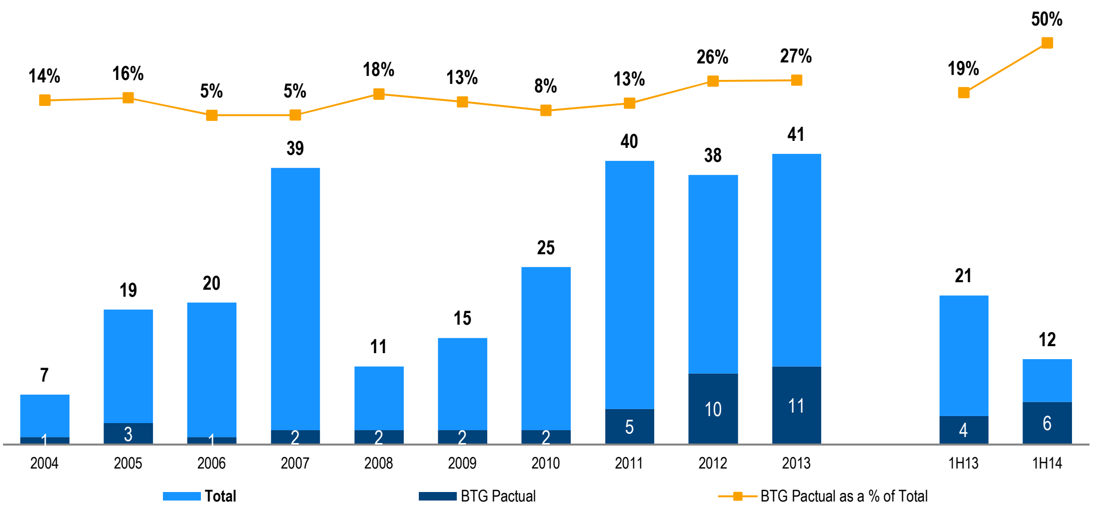
(3) Data for 2010 includes transactions in which we participated but that were credited to UBS AG and the Petrobras equity offering, which significantly increased our total transaction value in 2010 but did not generate a corresponding significant underwriting fee.

Following our Latin American initiatives in Chile, Colombia, Peru and Mexico, we have increased our presence in Latin American equity capital markets. According to Dealogic, we achieved a 61% market share in Chile in 2013 from a 37% market share in 2012; in Colombia, our market share rose from 6% in 2012 to 21% in

2013; and in Mexico, our market share rose from 12% in 2012 to 31% in 2013. Our market share in Latin American markets increased both in terms of number of transactions and transaction volume for the six months ended June 30, 2014, when compared to the same period of the previous year, despite the lower overall number of transactions and transaction volume in the period.

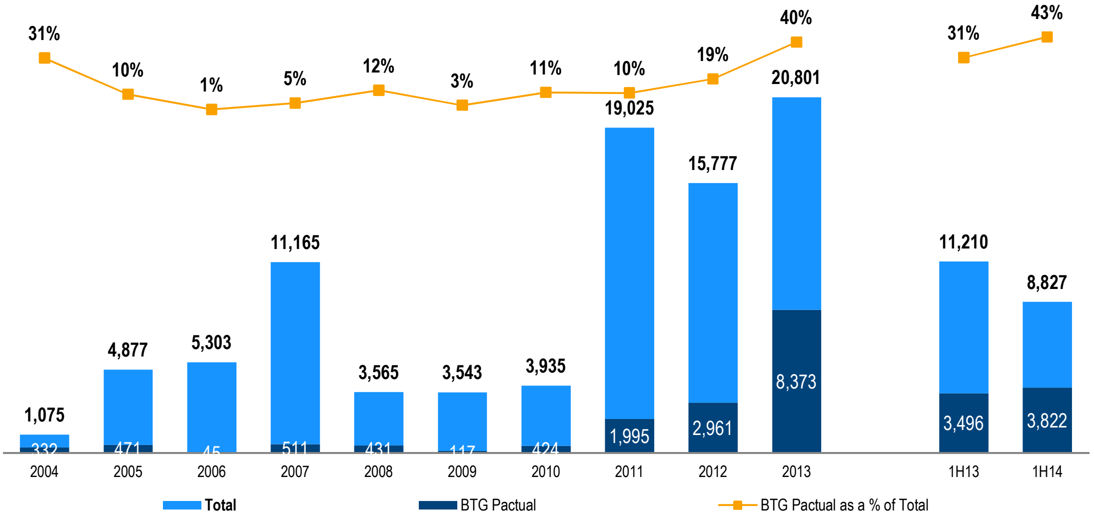
The following graphs sets forth our position in equity underwriting in Latin America for the periods indicated:

Number of Transactions (Latin America ex-Brazil)



Source: Dealogic

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

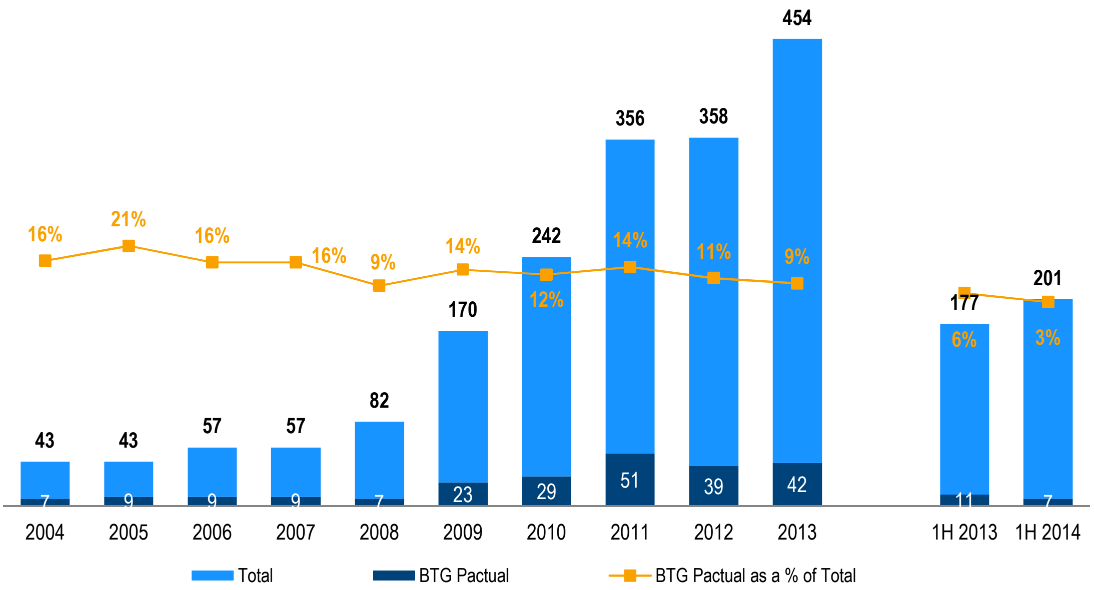
We engage in the underwriting and origination of debt securities and varying debt instruments for Brazilian and Latin American corporations and governmental entities, including convertible debt securities. In servicing our clients, we employ a focused approach to debt underwriting, emphasizing high value-added areas.

From January 1, 2010 through June 30, 2014, we served as lead manager or bookrunner in transactions that have raised approximately R$29.5 billion of local debt proceeds for our clients.

Following the strengthening of our investment banking platforms in Chile and Colombia since 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 continue to facilitate a leading position in the region.

The graphs below set forth our strong position in the Brazilian debt capital market for the periods indicated:

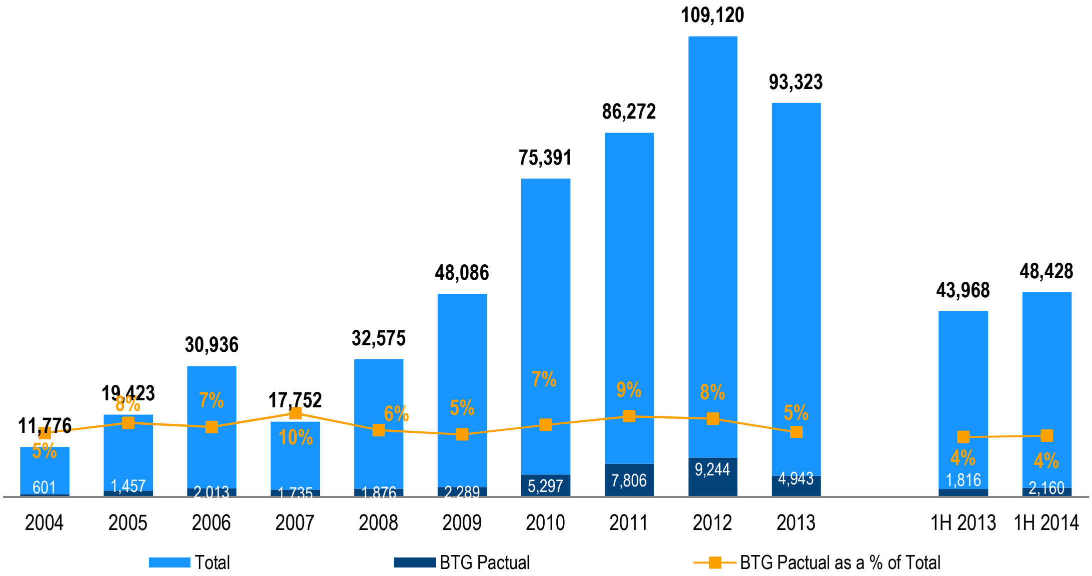
Number of Transactions (Brazil)[(1)]



Source: ANBIMA

(1) Includes local fixed income origination transactions only.

Volume (Brazil) (R$ millions)[(1)(2)]



Source: ANBIMA

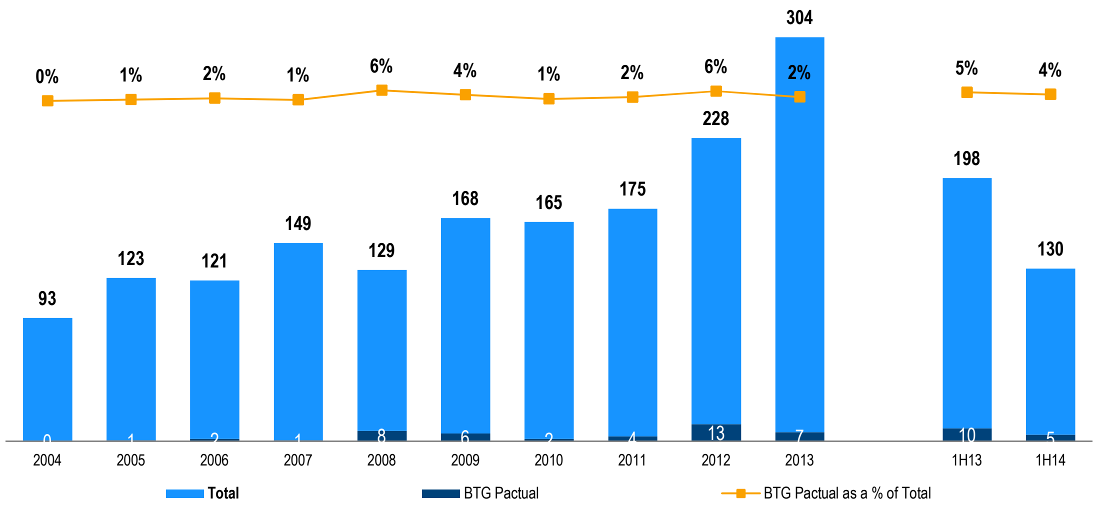
(1) Includes local fixed income origination transactions only.

(2) With respect to syndicated transactions, represents the total aggregate transaction value allocated to the underwriter syndicate participating in debt offerings and not only the BTG Pactual Group's portion of the total allocation.

Following our Latin American initiatives in Chile, Colombia, Peru and Mexico, we have increased our presence in Latin American debt capital markets. According to Dealogic, we achieved a 2% market share in Latin America in 2013, representing a significant milestone for BTG Pactual in the region. Since debt capital market transactions are mainly led by local banks with strong balance sheet capabilities in their local markets, we believe that our commitment to further expand our operations in Latin America, including for example, by obtaining banking licenses in Chile and Colombia, and commencing operations in Mexico will further strength our position in the region.

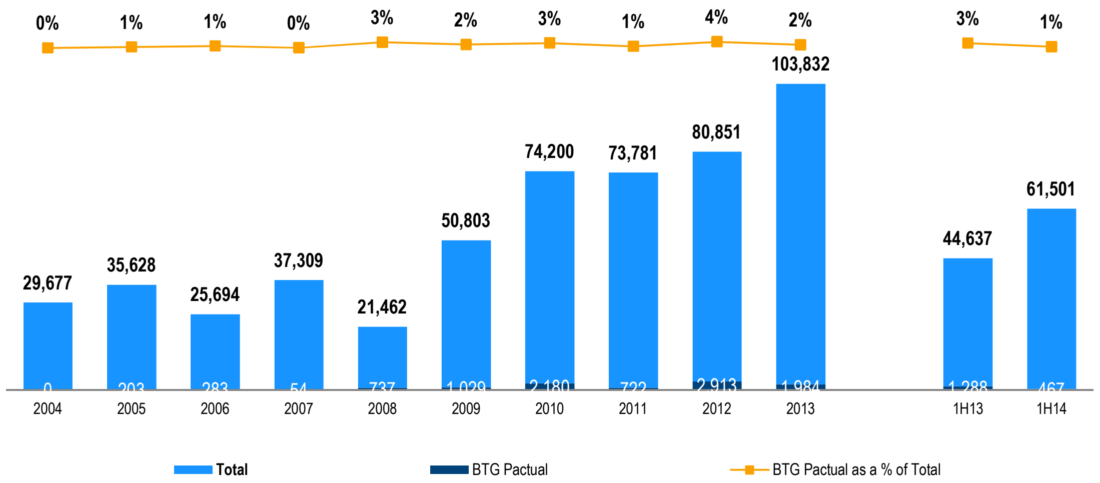
The following graphs sets forth our position in debt capital markets in Latin America (excluding Brazil) for the periods indicated:

Number of Transactions (Latin America ex-Brazil)



Source: Dealogic

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 and 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 290 M&A transactions in Brazil from January 1, 2008 through June 30, 2014.

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 six months ended June 30,	
Brazil	**2011**	**2012**	**2013**	**2013**	**2014**
Number of Banco BTG Pactual transactions	56	72	50	18	17
Total number of transactions in the Brazilian market	815	901	622	303	224
Banco BTG Pactual transaction volume, in R$ million	40,975	33,089	72,280	15,137	19,586
Total transaction volume in the market, in R$ million(1)	134,887	136,093	159,672	42,371	62,361
% of Total(2)	**30.4%**	**24.3%**	**45.3%**	**35.7%**	**31.4%**

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. Additional cross-selling opportunities may also arise from the continued development of our private equity and merchant banking businesses given that the companies in which we have invested may seek to access the capital markets and hire our investment banking unit as an advisor. 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 six months ended June 30,	
Latin America (including Brazil)	**2011**	**2012**	**2013**	**2013**	**2014**
Number of Banco BTG Pactual transactions	63	88	56	3	5
Total number of transactions in the Latin American market	2,042	1,929	1,484	437	344
Banco BTG Pactual transaction volume, in R$ million	25,140	20,821	34,567	137	7,700
Total transaction volume in the market, in R$ million(1)	158,068	148,018	128,125	28,532	38,656
% of Total(2)	**15.9%**	**14.1%**	**27.0%**	**0.5%**	**19.9%**

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

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.

We are currently in the process of applying for banking licenses in both Chile and Colombia and for a corporate credit operations license in Mexico. We believe that establishing banks in these markets will allow us to substantially increase our corporate lending activities as we will be able to fund our operations locally and serve our corporate clients more directly.

In addition, if the BSI acquisition is consummated, we will seek to leverage its existing credit businesses, which are currently focused on Lombard Loans and mortgages for clients primarily located in Europe, Asia, Latin America and the Middle East. By leveraging BSI's network of contacts and widespread client base, we believe we will be able to further strengthen our corporate lending franchise and further diversify our portfolio of clients, products and geographic regions.

As of December 31, 2013 and for the six months ended June 30, 2014, our corporate lending credit portfolio amounted to a total of R$35.6 billion and R$40.9 billion, respectively, which generated R$764.9 million and R$388.1 million, respectively, representing 13.7% and 11.3%, respectively, of our total revenues.

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.

Sales and Trading

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 year ended December 31, 2013 and for the six months ended June 30, 2014, our revenues from our sales and trading unit were R$1,729.7 million and R$1,591.8 million, respectively, representing 30.9% and 46.3%, respectively, of our total revenues.

FICC (Fixed Income, Currency and Commodities) Sales and Trading

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. These products and services include market-making for fixed income instruments, brokerage and clearing services, as well as derivatives, interest rates, foreign exchange and commodities 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, 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 Brazilian 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 BM&FBOVESPA, and we also trade on most of the major exchanges in 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 BM&FBOVESPA, 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. We were one of the largest equity brokerage houses in Brazil in terms of total volume traded in 2013, according to Data Trader, and 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 Best Sales and Trading Services team in Brazil by *Institutional Investor* from 2012 to 2014; and Best Sales and Trading Services team in Latin America by *Institutional Investor* in 2013 and 2014, sustaining their leadership positions in their respective markets.

Commodities

We recently launched a diversified global commodities business that operates 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. Our activities focus on bulk commodities that can be hedged in liquid derivative markets, with revenues derived from participation in physical trading flows. We conduct extensive fundamental research to manage and mitigate the risks inherent to such trading flows.

We believe that we will be able to draw upon our existing relationships in the raw materials sector to build market share in the trading flows of the world's principal commodities markets and that our extensive market knowledge will enable us to identify strategic opportunities and optimize our physical and proprietary trading capabilities. We seek to exploit arbitrage opportunities that arise in the fragmented and often volatile global commodities markets and to leverage our long-standing relationships with clients to partner with commodity producers to support the physical flows of the business.

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 to 2014 and in Latin America from 2012 to 2014.

Our research team provides equity research coverage on approximately 250 companies in Latin America, 20 different business sectors and seven 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

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 BTGI) 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.

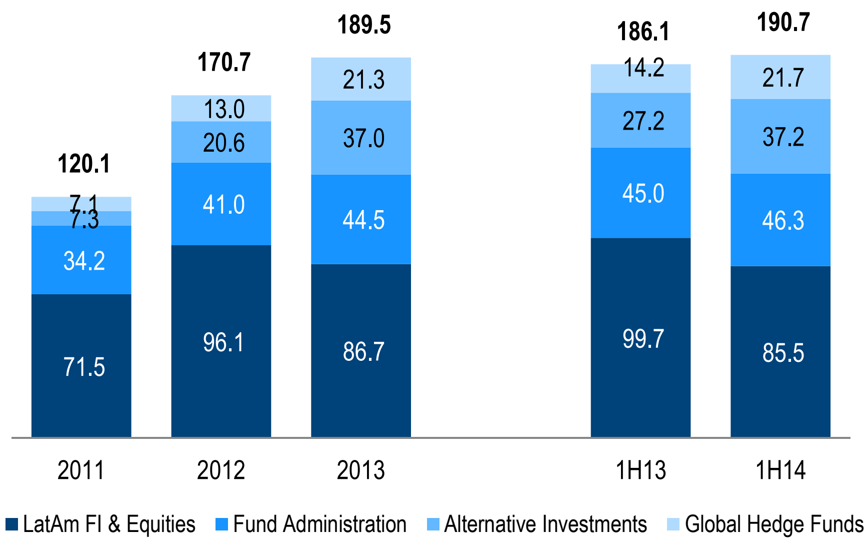
As of June 30, 2014, we had R$130.2 billion in AUM and R$190.7 billion in AUA, making us the largest asset manager in Brazil excluding retail banks, according to ANBIMA. In addition, according to ANBIMA, as of June 30, 2014, we are the fifth largest financial institution in Brazil in terms of AUM, competing 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 in Chile and Colombia 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. By further expanding our operations in Mexico, 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 each of the specified dates:

AUM by Asset Class (in R$ billions)



In addition, if the BSI acquisition is consummated, we believe that we will benefit from its broad client base, mainly in developed markets in Europe as well as emerging economies in Asia, Latin America and the Middle East and we will seek to offer our portfolio of asset management products focused on emerging markets to BSI's clients. 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—Pending Acquisition of BSI"

For the year ended December 31, 2013 and for the six months ended June 30, 2014, revenues from our asset management business unit were R$1,172.2 million and R$618.6 million, respectively, representing 21.0% and 18.0%, respectively, of our total revenues.

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 six months ended June 30,			
	2011	% of total	2012	% of total	2013	% of total	2013	% of total	2014	% of total
	(in R$ billions, except percentages)									
HNWI	21.8	18.1%	27.5	16.1%	32.7	17.2%	28.4	15.3%	23.9	12.0%
Institutional	20.5	17.0%	22.6	13.2%	26.0	13.7%	23.9	12.9%	26.2	13.5%
Financial intermediaries (third party distribution)	15.9	13.2%	18.7	11.0%	15.0	7.9%	19.3	10.4%	11.6	6.6%
Corporations	27.7	23.0%	30.3	17.8%	22.4	11.8%	29.6	15.9%	35.7	17.6%
Fund Services	18.5	15.4%	26.8	15.7%	32.8	17.3%	31.6	17.0%	33.3	18.3%
Other	15.9	13.2%	44.7	26.2%	60.5	32.0%	53.2	28.6%	60.0	32.0%
Total	**120.1**	**100%**	**170.7**	**100%**	**189.4**	**100%**	**186.1**	**100%**	**190.7**	**100%**

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 the largest asset manager in Brazil excluding retail banks, according to ANBIMA, with R$130.2 billion in AUM as of June 30, 2014.

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 June 30, 2014, we had R$85.5 billion under management invested in fixed income and equity funds.

Global Hedge Funds. As of June 30, 2014, we had R$21.7 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 June 30, 2014, we had R$37.2 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.

The following table sets forth the portfolio companies of the private equity business managed by our asset management unit, some of which the BTG Pactual Group invests in through our principal investments unit (see "—Principal Investments.") and certain details of the main investments:

Name:	Company Name:	Description:
Bravante	Bravante Participações S.A.	A leading company in Brazil specialized in providing marine support services, offshore logistics, construction and repair services and environmental protection solutions serving the oil and gas exploration industry. It was previously known as Brasbunker.
CCRR	Auto Adesivos Paraná S.A.	Industry leader in adhesives, labels and specialty paper markets in Latin America. CCRR is a result of the merger between Colacril, the largest adhesives plant in Latin America, and RR Etiquetas, responsible for the implementation of the barcode system in Brazil.
Estre Ambiental	Estre Ambiental S.A.	One of the leaders in Brazilian waste collection, treatment and disposal sectors. Estre occupies a prominent position in managing landfills and developing diagnostic activities and integrated environmental solutions for waste management.
BR Pharma	Brasil Pharma S.A.	Brasil Pharma is one of the largest pharmaceutical retail companies in Brazil (in terms of number of stores), with more than 1,200 points of sale throughout Brazil. Brazil Pharma's business model relies on the operation of drugstores it owns as well as a network of franchisees.
Leader	União de Lojas Leader S.A.	Leader is a Brazilian retailer headquartered in the state of Rio de Janeiro with a focus in the clothing and apparel segment for consumers primarily from the high growth B and C economic classes in Brazil. Leader had gross retail sales of R$1.6 billion in 2013.

Name:	Company Name:	Description:
BodyTech	A! BodyTech Participações S.A.	BodyTech is a leading Brazilian fitness chain operating in both the high-end and low-end markets in Brazil, with 59 proprietary units in operation and 10 franchises.
UOL	Universo Online S.A.	UOL is Brazil's most popular web portal with 50 million unique visitors per month. It is also Brazil's leader in data center area and online alternative payments (through PagSeguro, the Brazilian equivalent of Paypal).
Brasil Brokers	Brasil Brokers Participações S.A	A leading real estate brokerage and consulting firm in Brazil with over 15,000 brokers at 968 locations in 11 Brazilian States and the Federal District (DF).
Deep Sea Group	Deep Sea Group Supply Holding B.V.	Maritime transport and logistics services for the oil and gas sector, focused on the operation of off-shore supply vessels in Brazil, the North Sea, South East Asia and West Africa.
ADS	ADS – Advanced Disposal Service	Through its investment in Star Atlantic Holdings II, L.P., BTGI acquired an indirect stake in ADS, the largest privately-owned solid waste services company in the U.S
Contrail	Contrail – Operadora de Transporte Multimodal de Conteineres Ltda.	Contrail is a logistics railway company established by Estação da Luz Participações, or EDLP, to capture the container flow to and from the Santos Port.
LAP	Latin America Power Holding B.V.	LAP is a company focused on the development of renewable energy projects (small and medium hydro plants and wind farms) in Chile, Peru and Panama.
ATLL	ATLL Concessionaria de La Generalitat de Catalunya S.A	ATLL is responsible for managing the 50-year concession granted to Aigues Ter Llobregat, the company that manages the upstream water supply for the city of Barcelona in Spain. The concession started in November 2012 and has a duration of 50 years.
Túneis	Túnel de Barcelona i Cadí	Túnel de Barcelona i Cadí is responsible for the operation and maintenance of Vallvidrera (11.5km) and Cadi (28.7km) tunnels in the region of Catalonia in Spain for a period of 25 years, based on a concession that commenced in December 2012.
Estapar	Allpark Empreendimentos, Participações e Serviços S.A.	Brazil's largest parking company, with a presence in 15 Brazilian states. Including franchisee parking lots, Estapar's brand is present in over 900 parking lots, including lots in off-street segments, on-street (blue zone electronic) segments, real estate and public and private concessions.
DvBr	Derivados do Brasil S.A.	One of the largest operators of gas stations in southeastern Brazil created following the merger of the networks of Via Brasil and Aster.
Mitsubishi	MMC Automotores do Brasil S.A.	Manufacturer and importer of Mitsubishi vehicles in Brazil, selling approximately 58,900 vehicles in 2013.
Suzuki	SVB Automotores do Brasil S.A.	Importer of Suzuki vehicles in Brazil, selling approximately 7,000 vehicles in 2013.
Intesa	Integração Transmissora de Energia S/A	695 kilometers of strategically important transmission lines in Brazil's electric power grid located in the States of Goiás and Tocantins. The project was granted a concession of 30 years following a public auction held in 2005 and became operational in April 2008.

Name:	Company Name:	Description:
Gera Amazonas	Geradora de Energia do Amazonas S/A	A thermal power plant with an installed capacity of 85.4MW located in the north of Brazil (in operation since 2006) strategic in ensuring electrical supply in the northern region of Brazil and operating with a 20-year power purchase agreement with Amazonas Energia (local distribution company) granted through public auction.
Tevisa	Termelétrica Viana S/A	164MW of installed capacity in the State of Espírito Santo (in operation since January 2010) with a load factor of 96.8%. Fueled by heavy fuel oil supplied by Petrobras and BR Distribuidora, the project is operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.
Gera Norte	Geradora de Energia do Norte S/A	Thermal power plants located in the State of Maranhão, with installed capacity of 331.74MW (in operation since January 2010). Operating with a 15-year power purchase agreement with 36 distribution companies awarded through the A-3 energy auction in 2007.
PCH Braço	Pequena Central Hidrelétrica Rio do Braço S.A.	Small hydroelectric power plant with installed capacity of 11.52MW located in the State of Rio de Janeiro (in operation since January 2011) with an occupancy rate of 69.6%.
Linhares Geração	Linhares Geração S/A	Gas power plant with 204MW of installed capacity located in the State of Espírito Santo (in operation since December 2010). Operating with a 15-year power purchase agreement with 30 distribution companies awarded through the A-3 energy auction in 2008.
Ersa	CPFL Renováveis (current)	CPFL Renováveis explores opportunities in renewable energy, with a portfolio totaling 4,438MW comprised of small (up to 30MW) and medium (up to 200MW) sized plants, including 34 small hydropower plants, 8 wind farms and 4 biomass power plants in operation, 1 small hydropower plant, 25 wind farms and 4 biomass power plants in construction and 5 small hydropower plants and 11 wind farms in development.
Santé	Santé Alimentação e Serviços S.A.	Company in food industry specializing in the outsourcing of industrial kitchens.
Gratícia	Gratícia Produtos Alimentícios S.A.	Fleet outsourcing company focused on the private sector in the northeast region of Brazil and also operates car rental and fleet management businesses.
Beat	ACS Omicron Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 50m² apartments. The total potential value of the project if all units are sold *(valor geral de venda*), or VGV, is approximately R$66.8 million. Beat is already constructed with 100% of the units sold.
MaxHaus	Maxcasa XIX Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 70m² apartments. The VGV for the project is approximately R$124.6 million. MaxHaus is currently in its final phase of construction with 66% of the units already sold.
UpTown	Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m² to larger warehouse spaces. The VGV for the project is approximately R$450.8 million. Uptown is currently in its final phase of construction with 98.5% of units already sold.

We believe we have established a positive track record of private equity activities with a focus on the energy and power and real estate sectors.

As of June 30, 2014, our private equity activities included 119 professionals focusing on several key industries including consumer products, energy, healthcare, power, real estate, retail, technology and transportation. 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, on June 30, 2014, BTG Pactual Serviços Financeiros was the seventh largest fund administrator in Brazil with R$136.8 billion in AUA.

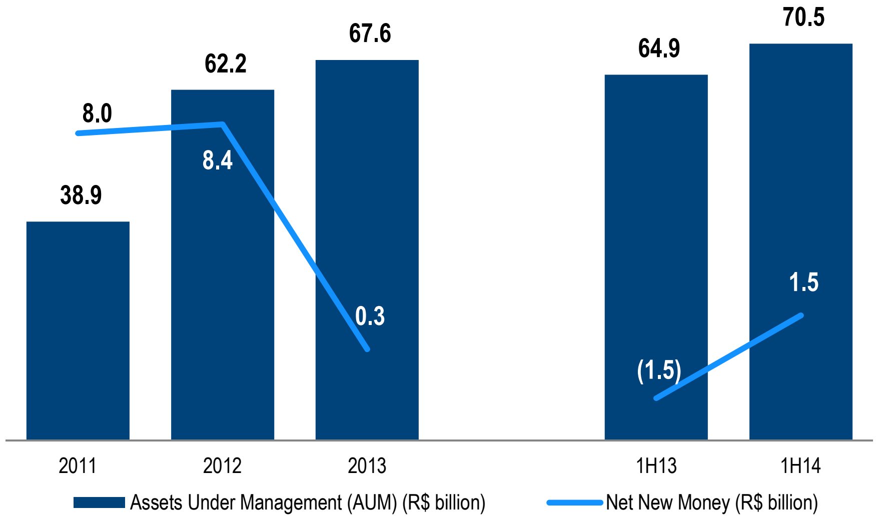
Wealth Management

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 and Colombia. 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 June 30, 2014, our wealth management unit managed approximately R$70.5 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.

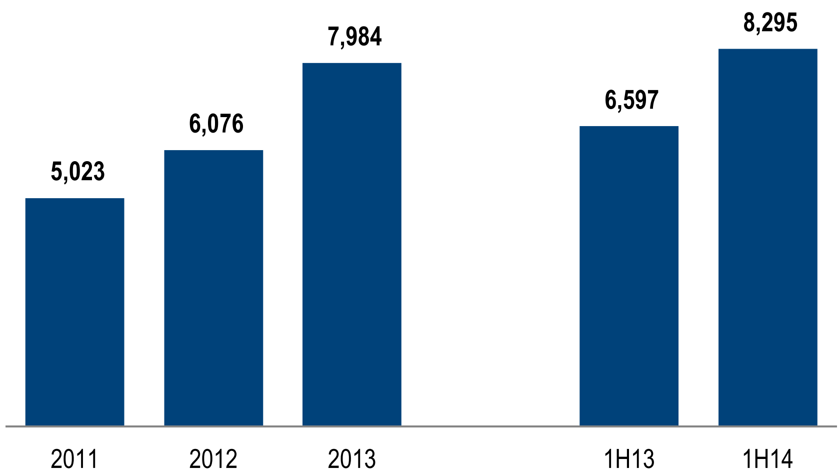
For the year ended December 31, 2013 and for the six months ended June 30, 2014, revenues from our wealth management business unit were R$385.3 million and R$183.8 million, respectively, representing 6.9% and 5.4%, respectively, of our total revenues.

The following graph sets forth an overview of our wealth management portfolio and net inflows/outflows as of each of the dates indicated below:



On June 30, 2014, we had 8,295 wealth management clients, representing 3,245 economic groups for whom we managed an average of R$16.1 million each. 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:



In addition, if the BSI acquisition is consummated, we believe that we will realize growth in our wealth management platform. We will seek to replicate our wealth management business model in BSI's main markets, leveraging its AUM and client base to offer a wide array of products and services in markets where we currently have a limited presence.

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.

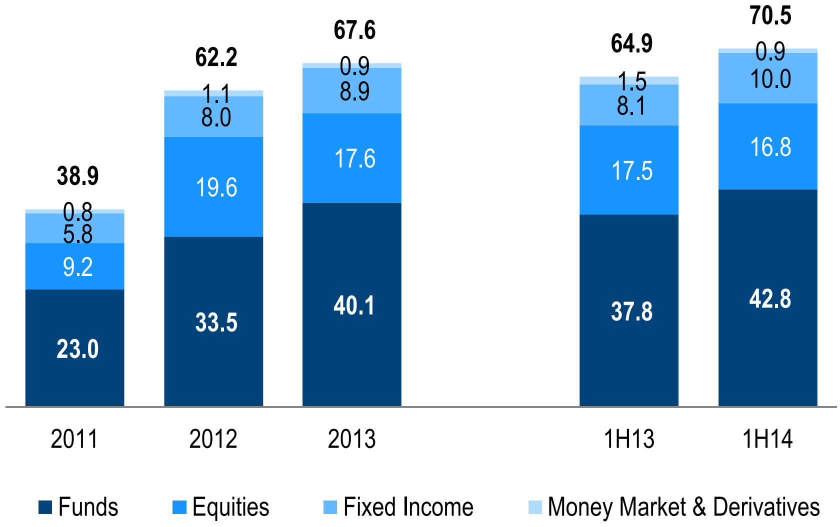
We provide a number of asset-based, transaction-based and other services to clients. Asset-based services include custodial services, deposit accounts, loans and fiduciary services, and transaction-based services include trading and brokerage and investment fund services. Wealth management also provides 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:



Banco Pan

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. The acquisition triggered a requirement that we commence a tender offer to purchase additional shares of Banco Pan held by its minority shareholders. This tender offer was completed on September 16, 2011, resulting in an acquisition of an insignificant amount of additional non-voting shares of Banco Pan. As a result, we maintained our 37.64% stake in Banco Pan's total outstanding equity. In connection with this acquisition, we and CaixaPar, who owns a 36.56% interest in Banco Pan's total capital stock, 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. We believe the agreement will strengthen our partnership with CaixaPar.

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 conglomerates.

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 is currently executing important investments in technology and processes in order to improve operational and competitive conditions of the bank.

Banco Pan generated consolidated net income of R$67.0 million in 2011 and consolidated net losses of R$495.9 million and R$157.7 million in 2012 and 2013, respectively. However, there can be no assurance that it will not generate net losses during 2014 or thereafter. 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. Banco Pan recorded substantial adjustments to accumulated losses in 2012. Accordingly, we recorded losses of R$27.2 million, R$160.3 million and R$51.3 million in connection with the Banco Pan equity pick-up for 2011, 2012 and 2013, respectively. The management of Banco Pan is taking several initiatives intended to improve Banco Pan's profitability and avoid any further accumulated loss adjustments.

In April 2011, we acquired senior quotas of a FIDC, representing 80% of the fund's capital. The FIDC is composed exclusively of credits originated by Banco Pan in the total amount of approximately R$3.5 billion. Such credits were previously acquired from Banco Pan indirectly by Fundo Garantidor de Crédito, or FGC, who established the FIDC and retained ownership of subordinated quotas representing 20% of FIDC's capital. In December, 2011, we acquired the subordinated quotas of the FIDC, as a result increasing our ownership in the FIDC to 100%.

On January 18, 2012, Banco Pan's shareholders approved a capital increase in an amount of up to R$1.8 billion, with an issue price of R$6.05 per share. We and CaixaPar committed to exercise preemptive rights for an aggregate amount of R$1.335 billion, with our share amounting to R$677.0 million. However, we agreed that, upon the request of TPG-Axon, we would transfer part of our preemptive rights with respect to a total of R$182 million of our R$677 million commitment. TPG-Axon elected to exercise such rights and, on April 17, 2012, subscribed for preferred shares representing, after the capital increase, 12.0% of Banco Pan's preferred shares and 5.55% of its total capital stock, thus reducing our contribution to R$495.4 million. Following such exercise, we maintained our 51.0% equity interest in Banco Pan's common shares, and we and CaixaPar continue to co-control Banco Pan pursuant to the terms of a shareholders agreement which establishes the conditions for our shared control.

On January 31, 2012, we and Banco Pan entered into definitive agreements to purchase 100% of the shares of BFRE. The total purchase price (subject to adjustment) was approximately R$1.21 billion (without including the

R$335 million purchase price of certain assets by us described below), of which R$940 million was paid by Banco Pan and R$270 million was paid by us. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The first such company, which we acquired, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In addition, we paid approximately R$335 million (subject to adjustment) to purchase certain real estate and equity investment funds held by BFRE. The remainder of the businesses conducted by BFRE will remain in the second company, which was purchased by Banco Pan.

For the year ended December 31, 2013 and the six months ended June 30, 2014, we recorded a loss from our Banco Pan business unit of R$123.5 million and R$50.8, respectively.

On June 13, 2014, Banco Pan approved a R$3.0 billion capital increase through the issuance of: (i) up to R$1.5 billion of 443,786,982 new, nominative and non-par shares, of which up to 242,566,348 are common shares and up to 201,220,634 are preferred shares, at the issuance price of R$ 3.38 per common or preferred share, for private subscription by Banco Pan's shareholders; and (ii) up to R$1.5 billion of redeemable preferred shares with a term of five years, which will receive annual, fixed, cumulative priority dividends of 104% of the CDI over the issue price and which will not be traded on the BM&FBOVESPA.

As of the date of this Offering Memorandum, we and Caixapar are joint holders of all voting shares and 80.7% of Banco Pan's total capital stock after the exercise of their preemptive rights in relation to the increase in common and preferred shares and the partial subscription of the unsubscribed shares by other shareholders as a result of the capital increase described in (i) of the immediately preceding paragraph. The total capital contribution was R$1,331.6 million, of which Caixapar and Banco BTG Pactual contributed R$597.4 million and R$651.1 million, respectively. Caixapar and Banco BTG Pactual each currently hold 40.35% of Banco Pan's total capital stock (49.0% and 51.0% of the common shares and 28.6% and 25.9% of the preferred shares, respectively).

On August 15, 2014, Banco Pan's shareholders approved the issuance of the redeemable preferred shares described above and we expect such issuance to be concluded in the second half of 2014. CaixaPar and Banco BTG Pactual have guaranteed, in the aggregate, 100% of the subscription of the redeemable preferred shares.

In addition, on August 21, 2014, Banco Pan's independent committee, constituted by its board of directors, approved the sale of its entire equity interest in Pan Seguros and its entire equity interest in Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to Banco BTG Pactual for an aggregate amount of R$580.0 million, subject to adjustments prior to closing of the transaction. As part of the transaction and upon the satisfaction of certain conditions, CaixaPar may acquire a jointly controlling interest in an entity composed of both Banco BTG Pactual's currently existing insurance business and the insurance business acquired from Banco Pan. The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals. We believe that the actions described above will enhance the capital structure of Banco Pan and support its growth plans. However, it is possible that the initiatives to return Banco Pan to profitability may not meet the expected results and that new capital for Banco Pan will be required. See "Risk Factors—Risk Factors Relating to Our Business and Industry—Our inability to successfully implement our strategy relating to, or to realize the intended benefits from, our recent acquisition of a co-controlling interest in Banco Pan or Banco Pan's acquisition of BFRE could have a material adverse effect on us."

Since the appointment of the current 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. Banco Pan operates in more than 7,000 resellers and dealers which generate and submit daily proposals for analysis and the granting of credit.

The credit granting process is fully integrated. Between May and June 2011, new systems of credits analysis and granting were deployed and are continuously reviewed, seeking to improve the granting models' adhesion to Banco Pan's target customer segments. In August 2011, Banco Pan hired a team dedicated to the operation of its new car business line, which we believe improved its competitive position and which is a segment that we expect to be among Banco Pan's principal drivers of growth in the future.

Payroll Deduction Loans

In this market segment, Banco Pan's business is focused on loans to pensions in Brazil's social security system, or 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.

The strategy for this segment is to continually increase efficiency, productivity and origination through the existing agreements discussed above, while originating an increasing proportion of loans to INSS pensioners in Banco Pan's own branches.

Corporate Loans

Banco Pan is expanding this business with existing and new corporate clients, leveraging its broad business platform and close relationship with its controlling shareholders. Banco Pan focuses its corporate loan business on customers with annual revenues between R$100 million and R$500 million, and seeks to focus on portfolio diversification. The main products offered are: (i) discounted trade bills; (ii) bank guarantees; and (iii) advances on exchange and export contracts, among others.

Real Estate

The acquisition of BFRE added to Banco Pan a consolidated platform to originate mortgage loans with attractive margins, which we expect will contribute to the expansion of its credit portfolio in a market with substantial growth potential, as well as the expansion of its distribution network, which includes 99 additional branches. 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

Since 2011, 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 Maxi Bônus rewards program and the loan recovery processes. Banco Pan also implemented a series of other measures to reduce expenses and increase operating margins, such as renegotiations with co-branded card partners, the implementation of more comprehensive and structured lending models and rationalization of the investments to expand its base.

Principal Investments

Our principal investments includes 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, Hong Kong, Santiago, Lima, Bogota and Mexico City. 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 take on a variety of risks and devote substantial resources to benefiting from this exposure. We leverage our analysis of information in order to take advantage of perceived disparities in the value of assets in trading markets and of macroeconomic, company and industry-specific trends.

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, 2013, our revenues from our principal investments business unit were R$870.9 million, representing 14.8% of our total revenues. For the six months ended June 30, 2014, our principal investments unit had losses of R$94.3 million.

Our Real Estate Investments

Our real estate investments consist of investments held in the following portfolio companies:

Company Name	Description	Investment Vehicle	Ownership Stake
BR Properties S.A.	One of the most important market participants in the Brazilian real estate properties segment, with a focus on the development, acquisition, leasing and sale of commercial and industrial/logistics real estate properties in Brazil.	Banco BTG Pactual BTG Investments	25.77%
BTG Pactual Corporate Office Fund	It is Brazil's largest publicly-listed real estate investment fund (FII) and its shares have been traded on the BM&FBOVESPA since its December 2010 IPO. The fund was created in June 2007 for the primary purpose of actively managing a portfolio of investments in high-quality commercial real estate properties located in Brazil and in securities related to real estate. The fund's portfolio may include completed or nearly completed commercial real estate located in Brazil's leading commercial centers.	Banco BTG Pactual	8.96%
BW Properties S.A.	A real estate development company focused on commercial development and long-term real estate investments. It was formed following our joint investment with WTorre Properties S.A., and is currently developing two real estate projects in rapidly growing regions of São Paulo.	Banco BTG Pactual	67.86%
ACS Omicron Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 50m² apartments at an average price of R$485,000. The total potential value of the project if all units are sold *(valor geral de venda*), or VGV, is approximately R$66.8 million. Beat is already constructed with 100% of the units sold.	Banco BTG Pactual	44.74%
Maxcasa XIX Empreendimentos Imobiliários S.A	Residential real estate project in São Paulo selling 70m² apartments at an average price of R$660,000. The VGV for the project is approximately R$124.6 million. MaxHaus is currently in its final phase of construction with 66% of the units already sold.	Banco BTG Pactual	50.00%
Warehouse 1 Empreendimentos Imobiliários S.A.	A commercial real estate project in Rio de Janeiro selling spaces for stores, storage and other commercial purposes ranging in size from 25m² to larger warehouse spaces. The VGV for the project is approximately R$450.8 million. Uptown is currently in its final phase of construction with 98.5% of units already sold.	Banco BTG Pactual	35.00%

Our Merchant Banking Investments

While the merchant banking activities for the BTG Pactual Group are typically conducted through BTGI, we are also engaged in certain merchant banking activities, consisting primarily of minority investments in certain of the portfolio companies of the private equity funds managed by our asset management unit. (see "—Asset Management—Management of Funds."

As of June 30, 2014 our merchant banking consisted of investments in the following companies:

Company Name	**Description**	**Investment Vehicle**	**Direct or indirect ownership stake**
Petrobras Oil & Gas B.V	Joint venture established with Petrobras International Braspetro B.V. for oil and gas exploration and production in Africa, with operations located in Angola, Benin, Gabon, Namibia, Nigeria and Tanzania.	BTG Pactual Holding S.A.R.L and other vehicles.	32.82%
SETE Participações S.A.	Company created to procure, own and charter drilling rigs that will be used by Petrobras in the exploration of the deepwater Pre-Salt layer oil discoveries. Based on the receivables from the existing contracts, it is considered one of the largest drilling companies in the world.	FIQ FIP Sondas/FIQ FIP Oil & Gas	14.4%
Globenet .	Globenet is a submarine fiber optic cable company formerly owned by Oi S.A.l, which provides international connectivity to wholesale data and content, providing service to customers throughout the Americas via a 23,500km dual-ring submarine system.	FIP Infra	17.4%
Integração Transmissora de Energia S.A	695 kilometers of strategically important transmission lines in Brazil's electric power grid located in the States of Goiás and Tocantins. The project was granted a concession of 30 years following a public auction held in 2005 and became operational in April 2008.	FIP Brasil Energia	2.35%
Geradora de Energia do Amazonas S.A	A thermal power plant with an installed capacity of 85.4MW located in the north of Brazil (in operation since 2006), which the BTG Pactual Group believes is strategically important in ensuring electrical supply in the northern region of Brazil and operating with a 20-year power purchase agreement with Amazonas Energia (local distribution company) granted through public auction.	FIP Brasil Energia	2.31%
Termelétrica Viana S.A	164MW of installed capacity in the State of Espírito Santo (in operation since January 2010) with a load factor of 96.8%. Fueled by heavy fuel oil supplied by Petrobras and BR Distribuidora, Tevisa operates with a power purchase agreement of 15 years with 36 distribution companies awarded through the A-3 energy auction in 2007.	FIP Brasil Energia	4.61%

Company Name	Description	Investment Vehicle	Direct or indirect ownership stake
Geradora de Energia do Norte S.A	Thermal power plants located in the State of Maranhão, with installed capacity of 331.74MW (in operation since January 2010). Operating with power purchase agreement of 15 years with 36 distribution companies awarded through the A-3 energy auction in 2007.	FIP Brasil Energia	1.15%
Pequena Central Hidrelétrica Rio do Braço S.A.	Small hydroelectric power plan with installed capacity of 11.52MW located in the State of Rio de Janeiro (in operation since February 2011) with an occupancy rate of 69.6%.	FIP Brasil Energia	4.61%
Linhares Geração S.A	Gas power plant with 204MW of installed capacity located in the State of Espírito Santo (in operation since December 2010). PPAs of 15 years with 30 distribution companies awarded through the A-3 energy auction in 2008.	FIP Brasil Energia	3.61%
CPFL Renováveis (current)	CPFL Renováveis explores opportunities in renewable energy, with a portfolio totaling 4,438MW comprised of small (up to 30MW) and medium (up to 200MW) sized plants, including 34 small hydropower plants, four wind farms and three biomass power plants in operation, one small hydropower plant, 25 wind farms and four biomass power plants in construction and five small hydropower plants and 11 wind farms in development.	FIP Brasil Energia	0.35%
Santé Alimentação e Serviços S.A.	Company in food industry specializing in the outsourcing of industrial kitchens.	Nordeste Empreendedor FMIEE	3.65%
Gratícia Produtos Alimentícios S.A.	Fleet outsourcing company focused on the private sector in the northeast region of Brazil and also operates car rental and fleet management businesses.	Nordeste Empreendedor FMIEE	2.73%

Celfin

On November 13, 2012, we consummated a transaction in which we purchased all of the outstanding shares of Celfin, a leading financial services and brokerage firm in Chile that also operates in Peru and Colombia. We believe our transaction with Celfin represents a milestone in our effort to replicate our history of success in Brazil throughout Latin America, in particular in the Andean region, and uniquely positions us as a leader throughout the region. Celfin's historical business lines included asset management, wealth management, investment banking and sales and trading, all of which are being fully integrated into our global platforms and other businesses which we believe are complementary to our existing business lines. We expect to further expand its operations to include many of the additional products and services we currently offer in Brazil.

Celfin was founded in 1988 by three partners, Jorge Errázuriz, Juan Andrés Camus and Mario Lobo, as a research and asset management company. Shortly thereafter, Celfin was appointed as sub-advisor and local administrator for the Chile Fund Inc., the largest vehicle for foreign currency investments in Chile, which is listed on the NYSE.

Celfin soon expanded its operations to include investment banking, partially as a result of its relationship with Salomon Brothers Inc., and in 1990, Celfin participated in the ADR offering of Compañía de

Telecomunicaciones de Chile, which was the first ADR issuance by a Chilean company. This transaction led to Celfin's participation in numerous other equity offerings and listings by Chilean issuers.

In 1997, Celfin acquired a brokerage house and, shortly thereafter, became the leading brokerage house in Chile, according to the Santiago Stock Exchange (*Bolsa de Comercio de Santiago*), with a market share ranging from 11.5% and 20.7% from 2009 to 2012.

Over the following ten years, Celfin continued to grow, eventually expanding its business to include additional investment banking, asset management and wealth management operations. In 2007, Celfin initiated its expansion throughout the Andean region and opened an office in Lima, Peru. Celfin is one of the leading brokerage houses in Peru, with an average market share of approximately 8.2% for 2012, according to the principal securities regulator in Peru (*Superintendencia de Mercado de Valores*). In 2010, Celfin continued its regional expansion by opening an office in Medellin, Colombia, and obtained a brokerage license in Colombia in October 2011.

Prior to the consummation of our purchase of Celfin and as of December 31, 2011, Celfin had six partners and two controlling shareholders, Juan Andrés Camus and Jorge Errázuriz, five of whom, including the controlling shareholders, have remained with us and continue to manage our Chilean operations.

Bolsa y Renta

On December 20, 2012, we consummated a transaction in which we purchased all of the outstanding shares of Bolsa y Renta, one of Colombia's largest equity brokerage firms in terms of transaction volume. We believe that our acquisition of Bolsa y Renta is an important step in our efforts to achieve substantial additional geographic diversification. Bolsa y Renta's historical business lines included asset management, wealth management, investment banking and sales and trading, all of which are being fully integrated into our global platforms. We expect to further expand its operations to include many of the additional products and services we currently offer in Brazil.

Bolsa y Renta, Comisionista de Bolsa, was founded by Luis Carlos Vargas Molina in Medellín, Colombia in 1953 to trade Colombian stocks and bonds. Subsequently, it operated under different names until 1992, when it adopted its current name, Bolsa y Renta S.A. Since its establishment, the firm has provided high quality products and services to the Colombian market and has sought to develop highly qualified talent through the implementation of a results oriented philosophy that stresses high ethical principles.

Bolsa y Renta is known for its involvement in the development of the Colombian stock market. Notably, Bolsa y Renta was a founding member of the "Bolsa de Valores de Medellín" in 1961 and also participated in the establishment of the "Bolsa de Valores de Colombia" in 2001.

In 2006, a new group of senior executives acquired a percentage of Bolsa y Renta, with the goal of implementing an innovative business plan based upon cutting-edge market strategies that both supported the firm's traditional activities in the Colombian stocks and bonds market and also aimed at providing new products such as funds, alternative investments and private portfolio management.

In 2008, Bolsa y Renta expanded its operation to Bogotá. Shortly thereafter, the firm began operations in the Colombian foreign exchange market and also began to trade in the derivatives market.

In 2010, Bolsa y Renta led ConConcreto S.A.'s initial public offering in Colombia as well as Banco Davivienda S.A.'s offering. In 2011, the firm led Grupo Nutresa's offering and expanded its business to include investment banking operations.

Prior to the consummation of our purchase of Bolsa y Renta, it had 26 partners, and as of December 31, 2012, Bolsa y Renta had 265 employees and 3 offices in Colombia (located in Medellín, Bogotá and Ibagué).

BSI

On July 14, 2014, we entered into a definitive share purchase agreement providing for our acquisition, from a subsidiary of Generali of 100% of the share capital of BSI, a leading Swiss financial institution focused primarily on private banking activities with a strong presence in Europe, the Middle East, Asia and Latin America, and geographic and client coverage complementary to our existing client portfolio.

For additional information regarding the acquisition of BSI, including details describing the BSI share purchase agreement and BTG Pactual Participations subscription agreement, 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—Pending Acquisition of BSI"

Overview

BSI is one of the largest private banks in Switzerland in terms of WUM, with CHF89.4 billion (R$236.4 billion) in WUM and assets of CHF24.9 billion (R$65.8 billion) as of December 31, 2013, and is the oldest and largest bank in the Swiss canton of Ticino (Switzerland's third largest financial center). Since 1998, BSI has been fully owned by Italy-based Generali, which is a significant player in the insurance and financial products market.

BSI's principal business is wealth management for private and institutional clients, which include services such as managing private portfolios, placement of fiduciary deposits, financial planning, insurance, pension, trust and execution and custodian services and products. BSI is also engaged in trading in securities (including equities, bonds and derivatives), metals and currencies, for its own account, and for its clients and third parties. In addition, BSI manages its own funds through structured products, conventional funds and hedge funds as well as third party investment funds. BSI also provides credit to its wealth management clients, particularly Lombard Loans, mortgages, letters of credit and commercial loans.

BSI was founded in 1873 and has grown through a series of overseas expansions and mergers and acquisitions, primarily providing private banking services (mainly wealth management and corporate lending) to private and institutional customers through an extensive network of 20 locations, including banks, branches and representative offices in 13 countries worldwide. BSI's most significant acquisitions occurred in 2006 and 2008 when it acquired Banca Unione di Credito and Banca del Gottardo, respectively, increasing its retail activities, especially in mortgage loans.

BSI is headquartered in Lugano, Switzerland and operates in Switzerland through a network of seven branches in Bellinzona, Chiasso, Geneva, Locarno, Lausanne, St. Moritz and Zurich and an agency in Crans-Montana. In addition to Switzerland, BSI operates in traditional markets in Europe and high growth markets in Asia, Latin America and the Middle East, with banks in Luxembourg, Milan, Monaco, Paris, Nassau, Panama and Singapore, foreign branches in Bahrain, Hong Kong and Nassau, representative offices in Montevideo, Istanbul and Panama, trust companies in La Valletta, Milan, Malta and Nassau, and other affiliated companies in various locations. BSI's expansion into high growth markets commenced in the 1970s and has intensified in the last decade. As of December 31, 2013, BSI had approximately 2,000 employees worldwide.

The map below illustrates BSI’s presence in Switzerland and abroad as of December 31, 2013:

BSI’s Financial Highlights in 2013 and 2012

BSI’s revenues and gross consolidated profit decreased from CHF865.0 million (R$1,802.5 million) and CHF71.0 million (R$148.0 million), respectively, in the year ended December 31, 2012 to CHF863.1 million (R$2,013.0 million) and a net loss of CHF722.0 million (R$1,683.9 million), respectively, in the year ended December 31, 2013. While revenues were consistent, BSI’s profitability was negatively impacted in 2013 by the amortization of goodwill expenses related to the acquisition of Banca del Gottardo in 2008 of CHF750.7 million (R$1,751.0 million). In recent years, BSI’s financial condition and results of operations were positively affected by stable revenues derived from client commissions and the contribution of high growth markets, especially the Middle East, Latin America and Asia, where BSI has expanded its activities and has benefited from substantial growth of their HNWI and UHNWI’s.

BSI’s WUM increased 3.6% from CHF86.3 billion (R$193.3 billion) as of December 31, 2012 to CHF89.4 billion (R$236.4 billion) as of December 31, 2013, while net new money, or NNM, decreased from CHF7.5 billion (R$17.5 billion) as of December 31, 2012 to CHF2.2 billion (R$4.5 billion) as of December 31, 2013. BSI’s strong deposit base also increased from CHF19.9 billion (R$44.6 billion) as of December 31, 2012 to CHF21.6 billion (R$57.2 billion) as of December 31, 2013.

BSI’s shareholders’ equity decreased from CHF2.5 billion (R$5.5 billion) as of December 31, 2012 to CHF1.7 billion (R$4.5 billion) as of December 31, 2013, due to the amortization of the Banca del Gottardo goodwill during the course of 2013. In addition, as of December 31, 2013, BSI’s total capital ratio grew to 18.2% compared to 17.0% as of December 31, 2012.

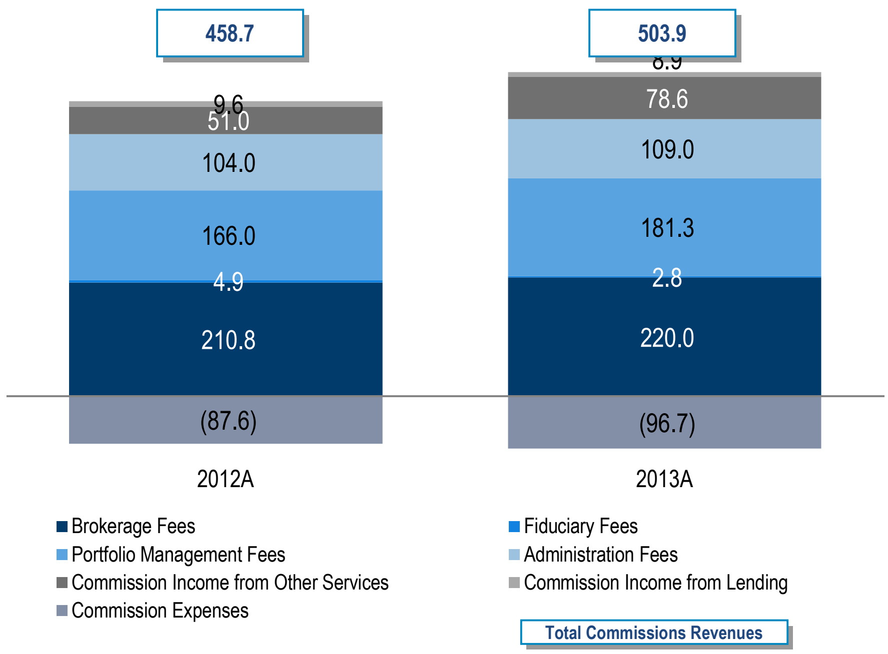
The following table shows key performance data for BSI for the periods indicated:

	As of and for the year ended December 31,			
	2013		2012	
	(R$)	(CHF)	(R$)	(CHF)
Total Revenue (millions)	2,013.0	863.1	1,802.5	865.0
Consolidated Gross Profit (millions)	(1,683.9)	(722.0)	148.0	71.0
WUM (millions)	236,444	89,376	193,305	86,262
Net New Money (NNM) (millions)	4,545	2,181	17,537	7,519
Deposits (millions)	57,206	21,624	44,601	19,903
Shareholders' Equity (millions)	4,552.6	1,720.9	5,548.7	2,476.1
Total Capital Ratio..	18.2%	18.2%	17.0%	17.0%

BSI's platform is mainly commission-based, comprising 58.4% of its total revenues in 2013. In the year ended December 31, 2013, BSI earned CHF504.1 million (R$1,175.7 million) from commission and service fee activities compared to CHF458.7 million (R$955.8 million) earned in the year ended December 31, 2012, representing an increase of 9.9%.

For a detailed discussion of how our acquisition of BSI will affect our business operations, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Banco BTG Pactual's Business Following the Acquisition of BSI."

The graphic below shows the evolution of BSI's commission revenues and expenses (in CHF millions) for the periods indicated:

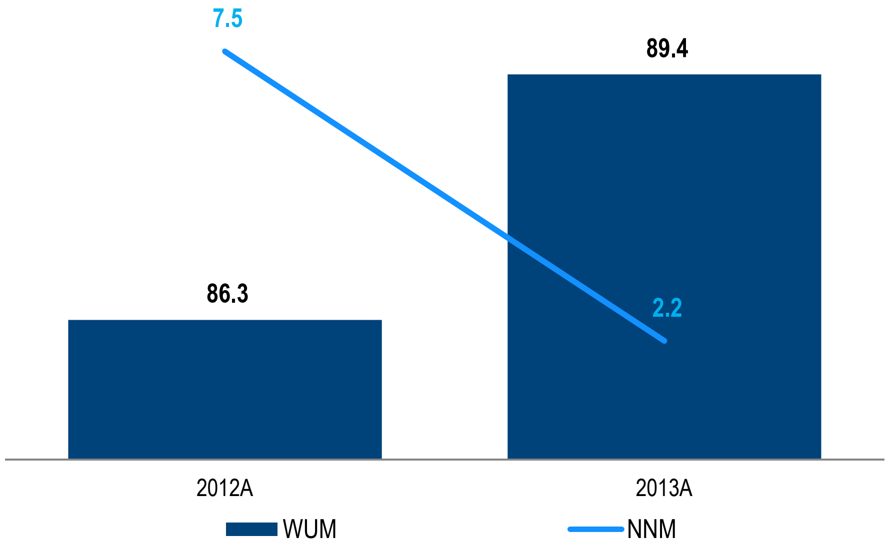


For additional information on BSI's financial condition and results of operations, see BSI's financial statements as of and for the years ended December 31, 2013 and 2012 included elsewhere in this Offering Memorandum.

BSI's Business Activities

BSI's business is mainly focused on private banking activities and we expect that once the BSI transaction is completed, BSI's results will primarily contribute to our wealth management unit and, to a lesser extent, to our asset management, corporate lending and sales and trading units.

The graphic below shows the evolution of BSI's WUM and NNM in CHF billions as of December 31, 2013 for the years indicated:



BSI provides wealth management services to its clients pursuant to three different types of mandates: (i) advisory, (ii) discretionary and (iii) investment funds, as described below.

Advisory Mandates

BSI offers its clients advisory mandates through which it provides investment advice pursuant to which the client makes the final investment decisions. There is no fixed term for advisory mandates and BSI charges custody and brokerage fees on each individual transaction executed. The substantial majority of BSI's WUM (comprising custodized securities, fiduciary placements, deposits, client loans, funds, mutual funds under management, third party custodized assets managed by the BSI, third party funds administered by BSI and structured notes which are structured and managed by BSI) are in non-discretionary advisory portfolios. The WUM in non-discretionary advisory portfolios are analyzed and monitored by BSI's client relationship officers, who provide tailor-made investment advice to clients, with the client making the ultimate investment decisions.

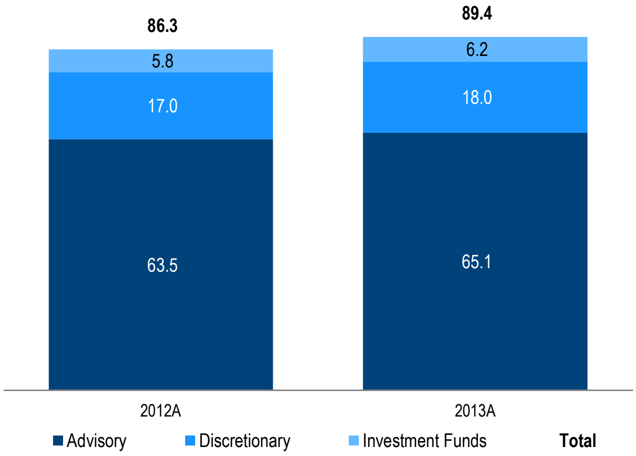
Discretionary Mandates

Discretionary mandates involve BSI making the final investment decision according to pre-defined and pre-agreed investment limits and portfolio allocations with each client. BSI charges an all-inclusive fee for discretionary mandates regardless of the number of transactions executed. The all-inclusive fee is made up of a fixed percentage of the WUM in the discretionary portfolio. Certain portfolios may also have performance-linked fee structures. Discretionary accounts are typically managed by BSI's centralized portfolio management service department.

Investment Funds Mandates

BSI offers a number of its own funds including conventional mutual funds, hedge funds and funds of hedge funds. Some of these funds focus on particular types of investments, such as bonds, cash or stocks, or specific industries, such as energy or healthcare. Most of BSI's funds utilize a multi-manager approach which leverages on the collective expertise of its fund managers. A portion of the client fees paid to an investment fund is paid to BSI by way of a pre-defined retrocession model. BSI recently introduced new pricing initiatives to eliminate retrocessions in order to keep current revenues consistent. Investment funds and structured products represent approximately 7.0% of BSI's total client WUM base.

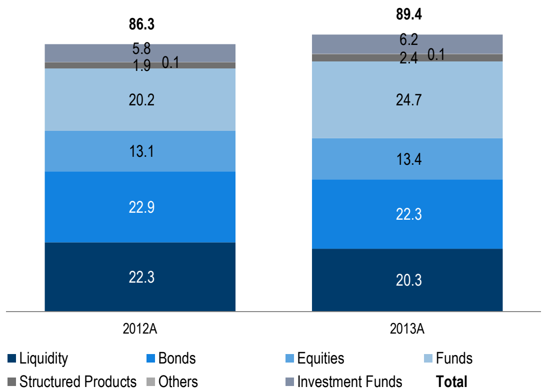
The graphic below illustrates the breakdown of BSI's total WUM by mandate type as of the dates indicated:



Asset Class Concentration

The majority of BSI's WUM is concentrated in relatively conservative fixed income products (such as bonds and liquidity) which made up 47.7% of BSI's total WUM as of December 31, 2013. This is a result of a high level of risk aversion among many of BSI's clients due to prevailing market conditions following the global financial crisis and the low interest rate environment. Equities represented approximately 15.0%, funds (including third-party funds) 27.7% and investment funds and structured products less than 10% of BSI's total WUM as of December 31, 2013. We believe that if markets continue to recover from the financial crisis, there will be opportunity for BSI to develop a more sophisticated product base and consequently attract new clients, increase its levels of fees and expand its own portfolio of asset management products, thus increasing its commission based revenues.

The graphic below shows the evolution and breakdown of BSI's WUM by asset class (in CHF millions) as of the dates indicated:



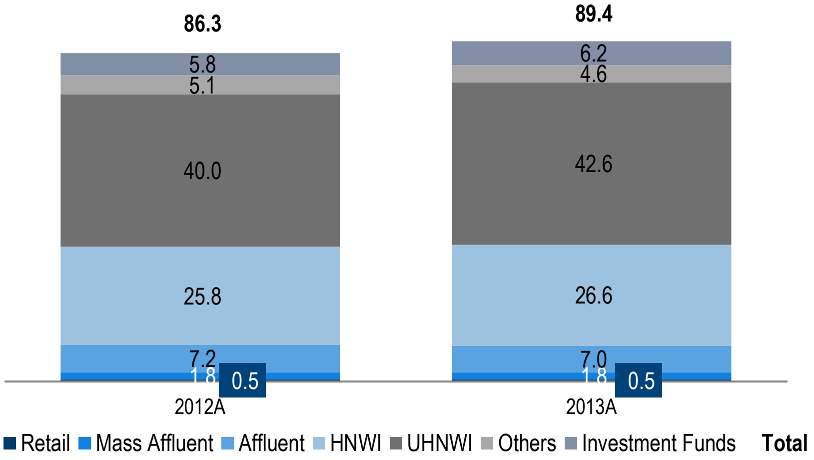
Clients

BSI's client base consists of individuals, families and institutions of varying levels of wealth categorized broadly into five different bands as follows: (i) retail clients are defined by BSI as clients with investable assets of less than CHF100,000, (ii) mass affluent clients are defined by BSI as clients with investable assets of between CHF100,000 to CHF300,000, (iii) affluent clients are defined by BSI as clients with investable assets of between CHF300,000 to CHF1,000,000, (iv) high net worth individuals, or HNWI are defined by BSI as clients with investable assets of between CHF1,000,000 to CHS 10,000,000, and (v) ultra high net worth individuals, or UHNWI are defined by BSI as clients with investable assets of more than CHF10,000,000.

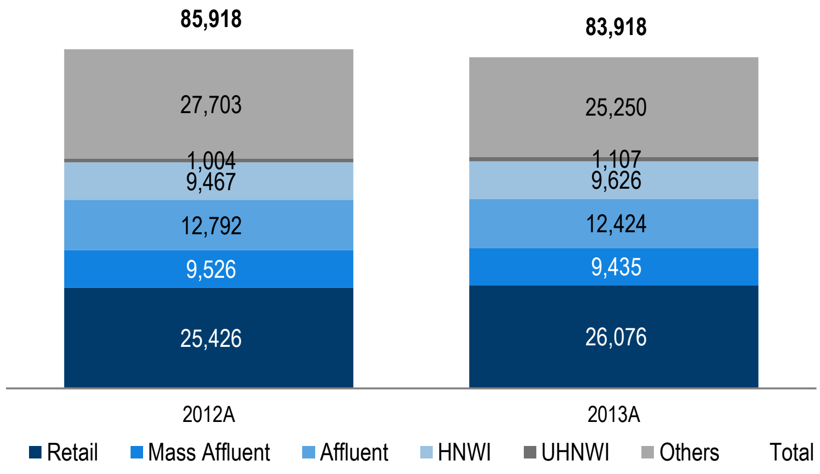
As of December 31, 2013, (i) retail clients represented 0.6% of BSI's WUM and 31.1% of BSI's total accounts, (ii) mass affluent clients represented 2.0% of BSI's WUM and 11.2% of its total accounts, (iii) affluent clients represented 7.8% of BSI's WUM and 14.8% of total accounts, (iv) HNWI represented 29.7% of BSI's WUM and 11.5% of total accounts, and (v) UHNWI represented 47.7% of BSI's WUM and 1.3% of its total accounts.

BSI's strategic focus has been to concentrate its growth on HNWI and UHNWI clients, which has resulted in the number of clients and the average WUM per client in these categories to increase over time. Growth in these categories has been focused on emerging markets in Asia, Latin America, Middle East and Central and Eastern Europe. BSI considers its mass affluent and affluent clients to be its most profitable client categories, which benefit from a structured investment advisory approach with a focus on standardization and the leveraging of multi-channel opportunities. As a strategic objective, BSI intends to reduce its retail client base which is largely made up of mortgage loans to customers from BSI's acquisition of Banca del Gottardo in 2008 and continue to focus on the growth of its HNWI and UHNWI clients.

The graphic below shows the breakdown of WUM by wealth band in CHF billions as of the dates indicated.



The graphic below shows the breakdown of number of accounts by wealth band as of the dates indicated.



Credit Operations

BSI also offers credit services to its clients, including (i) customized residential mortgages and other bespoke financing solutions for the purchase and renovation of real property, (ii) Lombard Loans, (iii) letters of credit and guarantees, and (iv) commercial finance for institutions, businesses and independent professionals.

As of December 31, 2013, BSI had a total credit portfolio of approximately CHF10.3 billion (R$27.3 billion), representing 11.5% of its total WUM.

BSI's credit portfolio is funded by its large deposit base. As of December 31, 2013, BSI's credit portfolio represented 47.7% of its total deposit base. BSI's credit portfolio is primarily made up of mortgages, commercial loans and Lombard Loans. A large part of BSI's mortgage portfolio was inherited from its acquisition of Banca del Gottardo in 2008, with a large concentration of mortgages extended to Swiss and Asian property investors. Pursuant to BSI's policy, mortgage loans are subject to a maximum loan to value ratio of 80% of each property and the current portfolio has an average loan to value ratio of approximately 50%. BSI's commercial loan portfolio is secured primarily by industrial and commercial properties. BSI's Lombard Loans portfolio has also been growing as a direct consequence of the increase in business in Asia, Latin America and Middle East. It is BSI's general policy for Lombard Loans to be secured by a minimum of three liquid securities, but exceptions to the policy are relatively common in this category.

Other Activities

In addition to its core activities, BSI also provides underwriting, market making and advisory services (mergers and acquisitions, capital markets and art), trade finance consulting, economic research and brokerage services.

Competition of BSI

All aspects of BSI's business are highly competitive and competition is expected to intensify as a result of the current financial and regulatory landscape and external pressures on the Swiss banking industry. BSI's ability to compete depends on many factors, including its reputation, the quality of its services and advice, intellectual capital, product innovation, execution ability, pricing, sales efforts and the talent of its employees. Significant and increasing competition may adversely affect BSI's future prospects and results of operations.

BSI is subject to competition in the private banking markets, which is based on a number of factors, including investment performance, personal relationships, products, pricing, distribution systems, customer service, brand recognition and perceived financial strength. BSI competes with the private banking divisions of a number of large international financial institutions as well as with established local and regional competitors, including Swiss private banks and private banks based in the local markets in which BSI operates. In addition, BSI faces competition from a number of wealth managers, including commercial banks, commercial credit lenders, brokerage firms, broker-dealers, insurance companies and other financial institutions in Europe, Asia, the Middle East and the Americas.

The type and degree of competition faced by BSI depends on the location in which it operates. In Switzerland, BSI faces competition primarily from a number of well-established Swiss global and private banks with long-standing clients. In growing markets, such as in Asia, BSI faces intense competition from large international banks, including several Swiss global banks that are seeking to increase their presence in a growing region.

Many of BSI's competitors are part of larger financial services groups and attract business through numerous avenues, including retail bank offices, commercial credit lending, investment banking contacts, corporate lending and broker-dealers. A number of BSI's competitors have a stronger brand and are able to offer more comprehensive lines of products and services than those of BSI.

In addition, many of BSI's competitors are systemically important financial institutions that are more likely than BSI to benefit from government support. As a result, these competitors may be perceived by clients to provide greater security and stability than BSI, which may adversely affect BSI's ability to attract or retain client relationships and assets under management.

According to a survey of Swiss Banks in 2013 conducted by the Consulting Partnership, BSI ranked 10th in terms of assets under management among all financial institutions. BSI's main competitors are UBS, Credit Suisse, Safra Sarasin, Vontobel, Julis Bär, UBP, EFG, Lombard Odier, Pictet, Mirabaud, Banque Syz, Notenstein, LGT Bank.

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.;

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.;

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.; and

Banco Pan. 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.

Risk Management

In the ordinary course of our business, we are exposed to various risks inherent to banking activities. The way we manage these risks directly affect our activities and operations and, consequently, our results of operations and financial condition. Some of the most significant risks to which we are exposed to include market risk, liquidity risk, credit and counterparty risk, tax risk, operational risk and legal and regulatory risk.

Our management of these risks involves different levels of our management team and encompasses a series of policies and strategies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. In addition, a number of our committees are responsible for monitoring risk exposures and for general oversight of our risk management process. These committees (including their subcommittees), meet regularly and consist of senior members of both our business units and areas that are independent of our business units.

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.

We are currently designing and developing what we consider to be a next generation platform to support the growth of our business for the next decade. The strategic projects that have been executed include the implementation of the leader Enterprise Resource Planning (ERP) system, the use of virtualization to optimize the use of the servers and the redesign of our international system platform to better support our international expansion.

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 2014 and among the Best Research teams in Latin America from 2012 to 2014 as well as Best Sales and Trading Services team in Brazil by *Institutional Investor* from 2012 to 2014; Best Sales and Trading Services team in Latin America by *Institutional Investor* in 2013 and 2014; Most Innovative Investment Bank in Latin America by *The Banker* in 2013; Best Investment Bank in Brazil and Chile by *World Finance* in 2013; Best Private Banking Service in Brazil by *The Banker*; being named among the top three Brazilian providers of Best Overall Private Banking Services from 2011 to 2014 by *Euromoney*; Best High Income Fund

Manager and Best Equity Funds Manager in Brazil in 2013 and Best Fund Manager in Brazil in 2012 and 2011 by *Exame* magazine – one of Brazil's leading financial magazines; Best Fund Manager in the Flexible Mixed Allocation categories in 2013 and 2012 and Best Fund Manager in the Largest Fixed Income in 2012 by Standard & Poor's and *Valor Econômico* – Brazil's leading financial newspaper in 2012; Best Global Macro Hedge Fund (for our GEMM fund) in 2012 and 2010 by *Euro Hedge Awards*; Best Fixed Income Fund Manager in 2011 by Standard & Poor's and *Valor Econômico*; Best Active Multi-Market, Best Active Fixed Income, Best Conservative Fixed Income and Best Wholesale Fund Manager in 2011 by FGV (Fundação Getúlio Vargas) and *Exame* magazine; Best Multi-Market (Interest Rate and Currency) and Conservative Fixed Income Fund Manager in 2010 by FGV (Fundação Getúlio Vargas) and *Exame* Magazine; Best Multi-Market Fund Manager in 2010, Best Fund Manager in Brazil in the equities category from 2007 to 2009, Top Fixed Income fund manager for 2007 and 2008 and Best Multi-Asset Funds for 2010 by Standard & Poor's and *Valor Econômico*, among others. 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 June 30, 2014, our personnel consisted of 3,054 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 June 30,
Location	**2011**	**2012**	**2013**	**2014**
Brazil				
Rio de Janeiro	541	623	546	554
São Paulo	466	667	829	946
Belo Horizonte	5	5	7	7
Porto Alegre	5	6	11	12
Recife.	7	7	8	7
Brasilia	–	4	4	5
Curitiba	–	–	4	9
Salvador	–	–	4	5
Cuiabá	–	–	2	5
Pirapora	–	–	7	9
Turmalina	–	–	4	5
Sorriso	–	–	1	3
Ribeirão Preto	–	–	4	4
Varginha	–	–	–	1
Santos	–	–	–	5
New York(1)	89	110	129	144
Stamford	–	–	52	75
London(1)	76	91	152	224
Hong Kong(1)	9	12	12	13
Chile	–	507	408	403
Peru	–	36	29	30
Colombia	–	23	282	276
Mexico	–	–	17	19
Other locations	2	6	72	157
Outsourced	56	98	131	136
Total	**1,256**	**2,195**	**2,715**	**3,054**

(1) Pursuant to the corporate restructuring of the BTG Pactual Group in September 2011, employees of BTGI's subsidiaries responsible for conducting our international activities in London, New York and Hong Kong were transferred to us.

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 2013 and in the six months ended June 30, 2014, we had payroll expenses of R$602.8 million and R$339.6 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, Geneva, Hong Kong, Santiago, Lima, Medellin, Cali, Barranquilla, Bogota, Buenos Aires, Singapore, and Johannesburg. We own a portion of our offices in Santiago, Chile and otherwise lease all of our offices. In December 2012, we moved our São Paulo operations to a substantially larger office and may seek additional leases in the future as a result of our growth prospects.

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 only maintain insurance policies for our independent directors 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 two insurance policies that we maintain varies according to the covered location. Such award may be up to R$71.0 million.

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 Industria*l), and before intellectual property agencies in several other countries, including the United States, Hong Kong, Singapore, Chile, Argentina, Mexico, India and Turkey.

In addition, we have registered several other brands we use in Brazil and elsewhere such as "Latin Stockwatch," "Brazil Equities Handbook," "Latin American Daily Economic Comment" 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 and sale agreements. We are party to material agreements relating to (i) the acquisition of Banco Pan (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 Banco Pan Co-Controlling Interest and BFRE"), (ii) the acquisition of Celfin (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 Celfin and incorporation of Banco BTG Pactual Chile"), (iii) the creation of One Properties (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—Establishment of One Properties and Merger into BR Properties"), (iv) the acquisition of Bolsa y Renta (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 Bolsa y Renta"), (v) 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"), (vi) the investment in Petrobras (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 Equity Interest in Petrobras Oil & Gas B.V.") and (vii) the acquisition of BSI (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—Pending Acquisition of BSI"). 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".

Legal Matters

We are party to various judicial and administrative proceedings, including tax, labor and civil proceedings, arising in the ordinary course of our business. As of June 30, 2014, our provisions for legal proceedings were R$854.6 million and judicial deposits were R$864.2 million, as detailed below. We believe that our provisions for judicial and administrative proceedings are sufficient to meet our probable losses.

We are 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 June 30, 2014, we were party to approximately 290 legal proceedings involving the payment of certain taxes and contributions, representing contingencies in the total amount of approximately R$4,393.7 billion, for which provisions in the amount of R$827.9 million and judicial deposits in the amount of R$825.5 million have been made. One of the most material of these proceedings is comprised of disputes related to the payment of Social Security Contribution tax (*Contribuição para o Financiamento da Seguridade Social*), or COFINS dating back to the period from February 1999 onwards. Such proceedings involve an aggregate amount of approximately R$766.7 million, which was fully deposited. In 1998, new tax legislation was enacted which required Brazilian companies to pay COFINS on revenues resulted 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 from operational activities. We challenged the assessment of COFINS from 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 the legislation. In December 2008, we obtained partially favorable decisions in the Federal Regional Court of Brazil, and in July 2010, we appealed such decisions before both the Brazilian Superior Court of Justice and to the Brazilian Supreme Court. We are currently awaiting resolution of these appeals, 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.

In addition, we were also party, as of June 30, 2014, to several additional tax proceedings, representing contingencies in the total amount of R$1,171.7 million, for which no provisions were made. These proceedings include: (i) proceedings in the amount of R$1,032.4 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 judicial proceeding in the amount of R$121.8 million involving the Municipality of São Paulo's assessment that certain services rendered in Rio de Janeiro were effectively rendered in São Paulo and (iii) proceedings in the amount of R$17.5 million related to the demutualization and IPO of the Bovespa and BM&F, challenging the taxation of PIS, COFINS, IRPJ and CSLL on revenues arising from Banco BTG Pactual's sale of these companies' shares. We have been advised by our external legal counsel that we may lose these proceedings.

In addition to the legal proceedings described above, in October 2012, we received a tax assessment which totaled R$2,224.4 million as of June 30, 2014, 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. 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.

We have filed an appeal of this tax assessment. In February 2013, a preliminary administrative decision was issued, providing for a partial reduction of the tax assessment. Based on our analysis of applicable case law, including recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. As a result, we do 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 for such losses. Accordingly, in no event do we expect to incur any material losses in connection with this matter.

Fiscal Refinancing Program (REFIS)

In December 2013, we applied to participate in the Brazilian government's Fiscal Refinancing Program (*Programa de Recuperaçao Fiscal*), or REFIS, established by Law no. 12,865. REFIS allows settlement of tax debt in installments or in one single installment as well as reduced penalties and interest. The application to the REFIS has resulted in an after tax loss of R$32.3 million for us during the year ended December 31, 2013, a portion of which resulted from proceedings arising from the demutualization and IPO of the Bovespa and BM&F in which the taxation of PIS, COFINS, IRPJ and CSLL on revenue arising from the challenge involving our share in these companies.

Labor Proceedings

As of June 30, 2014, we were party to approximately 237 labor proceedings, representing contingencies in the total amount of R$41.4 million, for which provisions in the amount of R$9.6 million and judicial deposits in the amount of R$6.5 million have been made. Most of the labor proceedings relate to claims of non-payment of overtime alleged by employees and the recognition of employment relationship by employees from outsourced service providers.

Civil and Other Proceedings

As of June 30, 2014, we were a defendant in approximately 214 civil and other proceedings (including certain non-regulatory proceedings with governmental and other supervisory entities), representing estimated contingencies in the total amount of R$665.0 million, for which provisions in the amount of R$17.0 million and judicial deposits in the amount of approximately R$32.1 million have been made. On April 13, 2012, in connection with an ongoing civil, non-criminal investigation in Italy related to certain trades in the securities of an Italian market issuer made by our controlling shareholder and chief executive officer, André Santos Esteves, in his personal capacity in 2007, Mr. Esteves was informed that an administrative finding was reached. The finding determined that Mr. Esteves misused privileged information (on a secondary basis, as provided under applicable Italian law) in connection with the trades in the securities of Cremonini S.p.A., which was then in negotiations with JBS S.A. regarding a partnership transaction. As a result, Mr. Esteves was fined €350,000 and suspended for a period of six months from serving as a director or executive officer of a company regulated by the Italian Companies and Stock Exchange Commission (*Commissione Nazionale per le Societá e La Borsa*). In addition, his apparent profit from such trades was blocked. Mr. Esteves filed an administrative appeal against such decision. In October 2013, without admitting any wrongdoing, Mr. Esteves withdrew the appeal and agreed to pay the €350,000 fine (from his personal resources). Mr. Esteves informed us that, while he continues to believe the allegations are entirely without merit, he withdrew the appeal to avoid any further commitment of his time or additional personal expenditures related to the appeal process.

Banco Pan is currently involved in a dispute with certain persons with respect to the amounts due on bank certificates of deposit, or CDBs, it issued to such persons between 2005 and 2008. The CDBs bore interest at rates significantly higher, and had longer maturity dates, than similar securities issued by other financial institutions during that period. Banco Pan has commenced legal proceedings to challenge the enforceability of its obligation to pay the contractual interest rate due on such CDBs. In December 2013, Banco Pan entered into an agreement with certain investors in connection with 13 CDBs, representing R$500.4 million. Banco Pan continues to challenge the enforceability of its obligation to pay the contractual interest rate due on the remaining portion of such outstanding CDBs, representing R$426.2 million as of June 30, 2014. In addition, we are also involved with other proceedings involving Banco Pan which, if determined unfavorably, would result in us being indirectly liable for certain obligations of previous affiliates of Banco Pan in a total amount of R$800.0 million. We have been advised by our external legal counsel that our chances of success are likely and, accordingly, have not recorded any provisions in relation to such proceedings. We believe that if Banco Pan is successful in the legal proceedings described above, it will be positively affected. Conversely, we believe that if such legal proceedings are decided adversely to Banco Pan, our financial condition and results of operations would not be materially and adversely affected.

Under the Brazilian constitution, any Brazilian has standing to institute an action for the purpose of "protecting the public interest" by seeking to annul an act pertaining to an entity in which the State participates. In April 2011, a Brazilian citizen filed a lawsuit (*ação popular*) against us and Banco Pan seeking an order to render invalid our 2011 acquisition of a co-controlling stake in Banco Pan and order Banco Pan's liquidation. We have been advised by our external legal counsel that our chances of loss are remote and, accordingly, have not recorded any provisions.

We are a party, as of June 30, 2014, to a class action lawsuit filed in São Paulo by the local Public Prosecution Service claiming that we and other banks are required to provide certain information about our clients to the Public Prosecution Services and the Federal Police, absent judicial authorization. We believe that the Public Prosecution Service's requests violate banking confidentiality laws. This lawsuit was dismissed, but the plaintiff has filed an appeal, which is currently pending. We have been advised by our external legal counsel that our chances of success are possible and, accordingly, have not recorded any provisions.

As of June 30, 2014, we were also a party as a potential creditor to approximately 29 civil proceedings totaling approximately R$199.9 million.

Regulatory Proceedings

We are exposed to significant regulatory action and supervision, mainly from the Central Bank and the CVM. As a consequence, we could face claims against us and investigations related to our business, including with regard to our investment recommendations and trading activities.

In 2008, the Central Bank notified us that it had commenced an administrative proceeding against us and our principal shareholder. The administrative proceeding arises from certain day trade transactions carried out during October 2002 to February 2004 to benefit a foreign investor to our detriment. The potential fine is up to 5.0% of the value of the transactions, which would total approximately US$189.0 million. In July 2008, we filed an administrative defense, and, on May 14, 2012, we filed a petition to be acquitted of all allegations. In May 2013, the Central Bank imposed a fine of US$12,500. We waived our right to appeal and the proceeding has been settled.

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. The following information does not reflect any changes to our management that may result from the pending acquisition of BSI.

André Santos Esteves is our controlling shareholder. Mr. Esteves is the chief executive officer and chairman of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Esteves joined Banco BTG Pactual in 1989, became a partner in 1993 and was appointed a managing partner in 2002. Mr. Esteves served as the chairman and chief executive officer of Banco BTG Pactual from 2006 to 2008. Mr. Esteves was appointed global head of the fixed income group at UBS in August 2007 and global head of the FICC group at UBS in October 2007. Mr. Esteves was a director of FEBRABAN from 2003 to 2007 and a member of the board of the Brazilian Mercantile & Futures Exchange, or BM&F, from 2002 to 2006. Mr. Esteves received his bachelor's degree in mathematics from the Federal University of Rio de Janeiro.

Marcelo Kalim is the chief financial officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Kalim is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Kalim joined Banco BTG Pactual in 1996 (and became a partner in 1998). Mr. Kalim served as chief investment officer of Banco BTG Pactual from 2006 to 2008, where he was responsible for investment decisions in the funds managed by Banco BTG Pactual. Mr. Kalim began his career at Banco BTG Pactual as a fixed-income trader and served as head fund manager and co-head of BTG Pactual Asset Management. Mr. Kalim received his bachelor's degree in economics from the University of São Paulo and his MBA from the Massachusetts Institute of Technology Sloan School of Management.

Roberto Balls Sallouti is the chief operating officer of Banco BTG Pactual and BTG Pactual Participations. In addition, Mr. Sallouti is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Mr. Sallouti joined Banco BTG Pactual in 1994 and became a partner in 1998. He also served as a managing director of Banco BTG Pactual from 2006 to 2008 and was the joint head of the emerging markets fixed income group and joint head of the Latin America FICC group at UBS AG. During his career at Banco BTG Pactual, Mr. Sallouti served as head of the international and emerging markets fixed income division from 2003 to 2006, and as joint head of Brazil local fixed income markets from 1999 to 2003. Mr. Sallouti received his bachelor's degree in economics, with concentrations in finance and marketing, from The Wharton School at the University of Pennsylvania.

Pérsio Arida is co-head of the asset management business unit of Banco BTG Pactual. In addition, Mr. Arida is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. Prior to joining the BTG Pactual Group in 2008, Mr. Arida served in the Brazilian government and worked in the private sector and in academia. While working for the Brazilian government, Mr. Arida served as president of the Central Bank in 1995 and president of the BNDES, the Brazilian development bank, from 1993 to 1994. Mr. Arida was also secretary of the ministry of planning in 1985 and deputy president of the Central Bank in 1986. In the private sector, Mr. Arida worked as a consultant to financial institutions from 1979 to 1984. From 1987 to 1993, Mr. Arida served as director of Brasil Warrant and as a board member of the Unibanco Group. Mr. Arida was a director of Opportunity Asset Management from 1996 to early 1999, and a board member of Itaú Bank from 2001 to early 2009. In academia, Mr. Arida was a professor of economics at the Catholic University of Rio de Janeiro and at the University of São Paulo. In addition, Mr. Arida was a researcher at the Institute for Advanced Study at Princeton University, a fellow at the Woodrow Wilson Center in Washington, D.C. and a senior research fellow at the Oxford Centre for Brazilian Studies at Oxford University. Mr. Arida has received numerous awards and has published several papers and edited books. Mr. Arida received his PhD in economics from the Massachusetts Institute of Technology and his bachelor's degree in economics from the University of São Paulo.

John Huw Gwili Jenkins is a member of the board of directors of Banco BTG Pactual and BTG Pactual Participations. 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 BTGI 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.

Jonathan David Bisgaier serves as the general counsel and an executive officer of Banco BTG Pactual. Prior to joining BTG Pactual in December 2008, Mr. Bisgaier was a partner at Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in M&A, corporate finance and private equity transactions involving Latin American and multinational clients transacting business in Latin America. From 1997 to 2003, Mr. Bisgaier was an investment banker at Violy, Byorum & Partners, an investment bank focused on Latin America. Mr. Bisgaier also worked at Skadden from 1988 to 1996. Mr. Bisgaier was selected for inclusion in *Chambers Global: The World's Leading Lawyers for Business 2008* and *Chambers America: The World's Leading Lawyers for Business 2008*. Mr. Bisgaier received his JD from the New York University School of Law and his bachelor's degree from New York University College of Business and Public Administration.

Eduardo Henrique de Mello Motta Loyo serves as the chief economist and executive officer of Banco BTG Pactual. Mr. Loyo joined Banco BTG Pactual in 2007, where he served as managing director and chief economist for Latin America. 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*), or 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.

James Marcos de Oliveira is the co-head of the asset management unit of the BTG Pactual Group. Mr. Oliveira joined Banco BTG Pactual in 1992 and became a partner in 1998. Mr. Oliveira was managing director from 2006 to 2008, where he was the joint head of the emerging markets division of the fixed income group and joint head of FICC Latin America. Mr. Oliveira was the head of the Brazil local markets division of the fixed income group from 2003 to 2006 and joint head of the Brazil local markets division of the fixed income group from 1998 to 2003. Mr. Oliveira holds a bachelor's degree in business administration from *Fundação Getulio Vargas* (FGV-SP) São Paulo Business School.

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, or 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 the BTG Pactual Group, an executive officer of Banco BTG Pactual and the investor relations officer of Banco BTG Pactual and BTG Pactual Participations. 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.

José Octavio Mendes Vita serves as the co-head of the investment banking unit of Banco BTG Pactual. Mr. Vita joined Banco BTG Pactual in 1989 and became a partner in 1993. Mr. Vita headed the sugar and ethanol, food and beverages, agribusiness, mining, steel and pulp and paper sectors within the corporate finance division of Banco BTG Pactual, participating in M&A and capital markets transactions. Previously, Mr. Vita worked for Bankers Trust Co. of Brazil as a corporate finance analyst and also worked for Morgan Guaranty Trust Company of New York as a treasury assistant. Mr. Vita received his bachelor's degree at FGV-SP in 1981 and his MBA from The Wharton School of the University of Pennsylvania.

Carlos Daniel Rizzo da Fonseca is head of the merchant banking activities of the BTG Pactual Group. Prior to joining the BTG Pactual Group, Mr. Rizzo da Fonseca was a partner at Banco Fator from 1997 to 2005 within the M&A division. From 2006 to 2008, he served as head of M&A for the investment banking division at UBS Pactual. Earlier in his career, Mr. Rizzo da Fonseca worked at PricewaterhouseCoopers. Mr. Rizzo da Fonseca received his bachelor's degree in business from *Pontifícia Universidade Católica* of São Paulo (PUC-SP).

José Zitelmann serves as head of equities proprietary trading of the BTG Pactual Group. Mr. Zitelmann joined the BTG Pactual Group in 1998 in the corporate finance division, and a year later, moved to our asset management business unit. Mr. Zitelmann served as head of equities proprietary trading for Latin America and on the executive committee at UBS Pactual. Mr. Zitelmann received his degree in business management from the FGV-SP São Paulo Business School (*Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas – EASP/FGV*).

Antoine Estier serves as co-head of global asset management of the BTG Pactual Group. Mr. Estier joined the BTG Pactual Group in 2008 as a partner and is currently based in London. Prior to that, Mr. Estier spent 15 years at UBS, where his last position was joint head of the emerging markets fixed income division. During the Asian crisis, he was head of the Asian fixed income desk and was based in Singapore for seven years. Earlier in his career he worked as a foreign exchange and interest rates trader in Geneva. Mr. Estier received his bachelor's degree in economics from the University of Geneva.

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, the Consortium Shareholders Agreement (see "—Consortium Shareholders Agreement") 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 a director 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 investor relations director.

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 51% of our total capital stock and preferred shares representing approximately 49% of our total capital stock. As of the date of this Offering Memorandum, our board of directors is composed of ten members, four 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)**
André Santos Esteves	Chairman of the Board	April 28, 2014
Pérsio Arida	Director	April 28, 2014
Marcelo Kalim	Director	April 28, 2014
Roberto Balls Sallouti	Director	April 28, 2014
Cláudio Eugênio Stiller Galeazzi	Director	April 28, 2014
John Huw Gwili Jenkins	Director	April 28, 2014
John Joseph Oros	Director	April 28, 2014
Juan Carlos García Canizares	Director	April 28, 2014
Kenneth Stuart Courtis	Director	April 28, 2014

(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.

André Santos Esteves is the chairman of our board of directors. For a summary of Mr. Esteves' business experience and other biographical information, see "—Senior Management Team" above.

Pérsio Arida is a member of our board of directors. For a summary of Mr. Arida's business experience and other biographical information, see "—Senior Management Team" above.

Marcelo Kalim is a member of our board of directors. For a summary of Mr. Kalim's 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 the board of directors of Banco BTG Pactual and is currently the CEO of BRF S.A. Mr. Galeazzi has held positions in the management of several companies, including managing director of the Brazilian and Argentine subsidiaries of Drew Chemical Corp., president of Cesbra and John Sommers (a joint venture between British Petroleum and Brascan) and vice-president of British Petroleum Mineração in Brazil. He also worked in several corporate restructurings, including Artex, Mocoa, Vila Romana, Cecrisa, Lojas Americanas and CDB – Grupo Pão de Açucar. Mr. Galeazzi received his degree in accounting.

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.

John Joseph Oros is a member of our board of directors. Mr. Oros is a managing director of J.C. Flowers & Co. LLC, a private equity firm based in New York, which he joined in 2000. From 1980 to 2000, Mr. Oros was an investment banker in the financial institutions group of Goldman, Sachs & Co., where he became a general partner in 1986. Between 1978 and 1980, Mr. Oros worked for Merrill Lynch as manager of the finance and mortgage division. Mr. Oros also serves as a director and executive officer of various entities, including OneWest Bank, Saddle River Valley Bank and Flowers National Bank. Mr. Oros was appointed and served as Committee Chairman of the Federal Savings and Loan Advisory Council. Mr. Oros received his bachelor's degree in business management from the University of Wisconsin Business School.

Juan Carlos García Canizares is a member of our board of directors. He is currently an officer at Quadrant Capital Advisors, where he is the head of the strategic investment group, responsible for capital allocation in the energy, infrastructure, financial markets and consumer goods areas worldwide. Previously, he was the vice-strategy and planning officer at the brewery Bavaria S.A., where he participated in international capital market transactions. He began his career in 1992 as a founding partner of Estrategias Corporativas S.A., an M&A and strategic consulting firm focused on Latin America, where he executed mergers, acquisitions and corporate restructuring in the region. Mr. Canizares has been a member of the Boards of Directors of other companies and non-governmental institutions in the U.S. and Latin America, and is currently a board member in Colombia (Bavaria, Valorem and Banco CorpBanca), Peru (Backus & Johnston) and in the U.S. (Genesis Foundation). Mr. Canizares completed an MBA program in business administration devised in a partnership between New York University, the London School of Economics and the Hautes Études Commerciales de Paris. He earned a bachelor's degree in industrial engineering from the Javeriana University, in Colombia.

Kenneth Stuart Courtis is a founding partner of Themes Investment Management and Themes Investment Partners, an Asian-focused private equity investment fund, CEO of Starfort Holdings and managing partner of Next Capital Advisors. He was managing director of Goldman Sachs, vice chairman of Goldman Sachs Asia from 1999 to 2009 and managing director of Deutsche Bank and chief economist and investment strategist at Deutsche Bank Asia between 1987 and 1999. Mr. Courtis received an undergraduate degree from the Glendon College of Toronto and an M.A. in international relations from Sussex University and an MBA from INSEAD, as well as earning a Doctorate with honors and high distinction from the Paris Institute of Political Studies (*l'Institut d'etudes politiques*). He sits and/or has sat on the boards and advisory councils of a number of leading international firms, including Emerson Electric Co., Daimler AG, CapitaLand Limited, Noble Group Limited and China National Offshore Oil Corporation, as well on the board of private equity funds of General Enterprise Management Services.

Board of Executive Officers

Under our by-laws, our board of executive officers must be composed of two to sixteen members, one of whom is 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.

Historically, our executive officers were elected by our board of directors for one-year terms, with re-election permitted. On April 28, 2014, our shareholders approved an increase to the term of office of our executive officers to three years, which is subject to confirmation by the Central Bank pursuant to the procedures established under Brazilian law. 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)
André Santos Esteves	Chief Executive Officer	April 28, 2014
Antonio Carlos Canto Porto Filho	Senior Vice President	April 28, 2014
Eduardo Henrique de Mello Motta Loyo	Executive Officer	April 28, 2014
Guilherme da Costa Paes	Executive Officer	April 28, 2014
Jonathan David Bisgaier	Executive Officer	April 28, 2014
João Marcello Dantas Leite	Executive Officer and Investor Relations Officer	April 28, 2014
Marcelo Kalim	Senior Vice President	April 28, 2014
Oswaldo de Assis Filho	Executive Officer	April 28, 2014
Renato Monteiro dos Santos	Senior Vice President	April 28, 2014
Roberto Balls Sallouti	Senior Vice President	April 28, 2014
Rogério Pessoa Cavalcanti de Albuquerque	Executive Officer	April 28, 2014
André Fernandes Lopes Dias	Executive Officer	April 28, 2014
Iuri Rapoport(2)	Executive Officer	April 28, 2014
Marcus André Sales Sardinha (2)	Executive Officer	April 28, 2014

(1) Refers to date of most recent election.

(2) Iuri Rapoport and Marcus André Sales Sardinha have not yet officially assumed their positions as members of our board of executive officers as such assumption is subject to Central Bank confirmation pursuant to the procedures established under Brazilian law.

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.

André Santos Esteves is our chief executive officer. For a summary of Mr. Esteves' business experience and other biographical information, see "—Senior Management Team" above.

Antonio Carlos Canto Porto Filho is an executive officer of Banco BTG Pactual. For a summary of Mr. Filho's business experience and other biographical information, see "—Senior Management Team" above.

Eduardo Henrique de Mello Motta Loyo is an executive officer of Banco BTG Pactual. For a summary of Mr. Loyo'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.

Jonathan David Bisgaier is an executive officer of Banco BTG Pactual. For a summary of Mr. Bisgaier's 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.

Marcelo Kalim is an executive officer of Banco BTG Pactual. For a summary of Mr. Kalim's 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.

Roberto Balls Sallouti is an executive officer of Banco BTG Pactual. For a summary of Mr. Sallouti's 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.

Marcus André Sales Sardinha is an executive officer of Banco BTG Pactual. He joined the BTG Pactual Group in 1998 in the technology area and joined the area of structured products in 2006, becoming partner in 2009. In January 2013, he became responsible for the equity division of Banco BTG Pactual, both in Brazil and abroad. Mr. Sardinha received his bachelor's degree in electrical engineering from Federal University of Rio de Janeiro.

Management of our Luxembourg Branch

Our Luxembourg Branch does not have a separate management board and is managed by both our Board of Directors and Board of Executive Officers. The Luxembourg Branch has two responsible authorized representatives for day to day operations, who are approved by the CSSF.

Compensation

General

In 2013, we paid an aggregate of R$175.0 million to the 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

On November 25, 2010, the CMN issued Resolution No. 3,921, which established new rules relating to the compensation of directors and officers of financial institutions and other institutions authorized to operate by the Central Bank. The compensation of directors and officers may be fixed or variable, and should be in any case compatible with the financial institution's risk management policies. Variable compensation may be based on specific criteria set forth in Resolution No. 3,921. At least 50.0% of variable compensation must be paid in stock or stock-based instruments and at least 40.0% of variable compensation must be deferred for future payment by at least three years. These new rules took effect on January 1, 2012. Such committee must follow the requirements set out in Resolution No. 3,921.

In April 2012, we approved a new version of our by-laws at our general shareholders' meeting. Under our April 2012 by-laws, and pursuant to the requirements of Resolution No. 3,921, we created a compensation committee specifically responsible for the compensation of key executives. The committee consists of three to six members elected by our board of directors, all of whom are members of our board of directors, except for one who must be a manager.

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.

In addition, the compensation committee evaluates the impact of CMN Resolution No. 3,921 and proposes measures in order to ensure our compliance with such rules.

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. We do not currently have a fiscal council and have, therefore, not elected any fiscal council members. When formed, the fiscal council will be non-permanent pursuant to our by-laws and composed of a minimum of three and a maximum of five members and their respective alternates, according to Brazilian Corporations Law.

The primary responsibilities of a fiscal council are monitoring management activities, reviewing the company's financial statements and reporting its findings to the shareholders. Under Brazilian Corporations Law, we would be required to pay fiscal council members, as compensation, a minimum of 10.0% of the average annual amount paid to our executive officers.

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 reference shareholders' equity or managing third parties' wealth in amounts equal to or greater than R$1,000,000,000, among other entities, to create a corporate body designated as an audit committee. Our audit committee is composed of three members elected by our board of directors, two of whom are independent directors. The audit committee is responsible for setting the annual remuneration of directors of our directors. 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 take certain measures and to perform specific functions in order to ensure compliance of the relevant financial institution with the applicable accounting regulations.

Consortium Shareholders Agreement

We and certain other parties have entered into a shareholders agreement with the members of the Consortium, referred to herein as the Consortium Shareholders Agreement. The Consortium Shareholders Agreement provides the members of the Consortium with certain rights with respect to the designation of a nominee to serve on our board of directors.

The Consortium Shareholders Agreement provides that our board of directors shall consist of between five and eleven directors, as determined by BTG Pactual Holding. In addition, the Consortium Shareholders Agreement requires that so long as the members of the Consortium continue to hold, in the aggregate, directly or indirectly, securities of BTGI and Banco BTG Pactual that represent at least 5.0% of the total outstanding securities of BTGI and Banco BTG Pactual, referred to herein as the Requisite Ownership Percentage, our board of directors shall nominate one individual designated by the representative of the members of the Consortium such that the members of the Consortium will have one designee on our board. Except for any directors nominated by our unit holders, all other members of such board of directors (including any vacancies) will be nominated by BTG Pactual Holding. Subject to certain limited exceptions set forth in the Consortium Shareholders Agreement, for so long as the representative of the members of the Consortium has the right to nominate a director pursuant to the foregoing, the representative of the members of the Consortium shall have the exclusive right to remove the director designated by such representative and to nominate an individual to fill the vacancy created by such removal.

In addition, the parties to the Consortium Shareholders Agreement agreed, for so long as the members of the Consortium hold, in the aggregate, the Requisite Ownership Percentage, to (x) refrain from requesting the adoption of the cumulative voting procedure (*voto múltiplo*) or the election by separate ballot procedure (*eleição em separado*) set forth in Brazilian Corporations Law, and (y) in case such voting procedures are used in any election of our directors, cast their votes in a manner consistent with the Consortium Shareholders Agreement.

Subject to restrictions that may be imposed under applicable law, for so long as the members of the Consortium in the aggregate continue to hold the Requisite Ownership Percentage, the representative of the members of the Consortium has the right to designate one non-voting observer to attend meetings of our board of directors.

In connection with our initial public offering, we (along with BTG Pactual Participations, BTG Pactual Holding and BTG GP) entered into a letter agreement with the affiliates of China Investment Corporation that purchased our equity in December 2010. Under the terms of the letter agreement, so long as such affiliates continue to hold at least fifty percent of our equity that was originally purchased by such affiliates in 2010, we agreed, subject to certain conditions, to nominate one individual identified by such affiliates (who is reasonably acceptable to us) for election to our board of directors at our annual shareholders meeting in 2012 and 2013, and BTG Pactual Holding agreed to vote its shares in favor of the election of such individual to such board of directors. Pursuant to such agreement, John Joseph Oros, Juan Carlos García Canizares and Kenneth Stuart Courtis were each elected to the board of directors of each of Banco BTG Pactual and BTG Pactual Participations.

For additional information regarding other shareholders' agreements affecting our management and control, see "Our Partnership—Shareholders Agreements."

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, BTGI 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. These transactions were effected at the book value of such interests at the time of the relevant transaction.

The purchase and sale of Partnership Equity occurs in a number of circumstances. First, from time to time, and no less frequently than annually, we conduct a review of the performance of Partners and employees in our organization and 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. These reallocations are referred to herein as Reallocation Transfers. Similarly, from time to time, individuals may be admitted 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. In addition, in the past the partnership has, in each case, exercised its right to purchase at book value all of the Partnership Equity held by any Partner when the full time employment of such Partner with the BTG Pactual Group was terminated, regardless of the reason for such termination.

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 BTGI 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 BTGI to the extent they did not have the resources available to effect such purchases.

Partnership Model Post Initial Public Offering

Our partnership model remained unchanged as a result of our initial public offering as well the December 2010 transaction in which the members of the Consortium and the Participating Partners invested a total of US$1.8 billion (R$3.0 billion) in the BTG Pactual Group. 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 BTGI providing financing to Partners that purchase Partnership Equity) being borne by our Partners (through future dilution), rather than being shared with unit holders. We believe that the continuation of our partnership model following our initial public offering distinguishes the BTG Pactual Group significantly from other investment banking and asset management firms that have consummated initial public offerings both in Brazil and the international markets, because the typical model implemented in these other cases allowed virtually all of the equity held in the former partnership to vest and become saleable in the market at prevailing market prices (rather than book value) within a relatively short time following the completion of such initial public offering.

Continuation of Purchase/Sale Right

We will continue our practice of having 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) at the book value of such interests (unless the market price at such time is less than book value, in which case the sale will be effected at such lower price), despite the fact that following our initial public offering the value of such interests implied by the trading price of the units in the market may be substantially in excess of such book value. This arrangement will allow 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. These purchase and sale transactions will be effected at the book value of such interests at the time of the transaction in question (unless the market price of the units at such time is less than book value, in which case the transaction will be effected at such lower price). 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. BTGI 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 represents, directly or indirectly, approximately 71.9% of the issued and outstanding economic interest in us (consisting of approximately 81.7% of our common shares and approximately 61.6% of our preferred shares). 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 the members of the Consortium or the 9,000,000 common shares and 18,000,000 Series A preferred shares of us acquired by BTG Pactual Holding in our initial public offering. 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 (as defined below) of the transferring Partner;
- pursuant to Reallocation Transfers as described above;
- 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 our controlling shareholder may determine to modify such provisions at some future date. In the event we determine to modify such provisions, we anticipate that a reasonable time in advance of making such change effective, we will notify the market that the rules regarding the restrictions on Partnership Equity described herein will change.

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 BTG 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:

- *Non-Competition:* Such member of the Senior Management Team may not, directly or indirectly, (i) own any equity or debt interests with negative control in any company that engages in the lines of business that are competitive with the business conducted by the BTG Pactual Group in the geographic areas in which the BTG Pactual Group operates as of the relevant time (a "competitive enterprise"), other than certain acquisitions of capital stock of publicly traded competitive enterprises or (ii) perform services for a competitive enterprise, to the extent such service is similar or substantially related to any activity such member of the Senior Management Team performed (or had direct or indirect managerial or supervisory responsibility) when with the BTG Pactual Group or which calls for similar specialized knowledge or skill as those used by such member of the Senior Management Team in his activities with the BTG Pactual Group during the one-year period prior to his departure from the BTG Pactual Group;

- *Non-Solicitation of Employees*: Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) hire, or assist in the hiring of, any employee of the BTG Pactual Group or (ii) encourage any employee of the BTG Pactual Group to terminate his or her employment with the BTG Pactual Group, including by soliciting any such employee, subject to certain customary exceptions; and

- *Non-Solicitation of Clients*: Such member of the Senior Management Team may not, directly or indirectly (including on behalf of or for the benefit of any competitive enterprise) (i) solicit any business from any active or potential clients of the BTG Pactual Group with which such member of the Senior Management Team had contact or with respect to which the member had confidential information, in each case, prior to such member of the Senior Management Team's departure from the BTG Pactual Group or (ii) request, recommend or encourage any client of the BTG Pactual Group to reduce or terminate any business that such client engages with the BTG Pactual Group.

Shareholders Agreements

Partner Brazil Shareholders Agreement

The Partners, BTG Pactual Holding and we are parties to a shareholders agreement, or the Partner Brazil Shareholders Agreement, which governs the relationship among the Partners with respect to their ownership of the shares of BTG Pactual Holding, and the manner in which the Partners exercise control of BTG Pactual Holding and, indirectly, us. 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 on the same terms as the members of the Consortium in December 2010 or otherwise in respect of any of our shares purchased by Partners in the market following our initial public offering.

Control of Banco BTG Pactual

Except as set forth below, the Partner Brazil Shareholders Agreement provides that prior to the time André Santos Esteves ceases to be engaged on a full time basis as our executive officer, referred to herein as a Termination Event, Mr. Esteves will generally control our management and direct the actions of us and our subsidiaries (including investment vehicles in which we own a majority of the economic interests) (such entities being collectively referred to herein as the "Banco entities"), to the extent applicable though his ownership of a majority of the voting interests of BTG Pactual Holding, which directly owns a majority of our common shares. Following a Termination Event and provided that requisite approvals are obtained from the Central Bank, control of the management of the Banco entities will be exercised by the Top Seven Partners that collectively hold a majority of the voting interests of BTG Pactual Holding. A Termination Event will also occur if Mr. Esteves transfers any of his voting interests in BTG Pactual Holding without the prior consent of three of the Top Seven Partners.

Board of Directors

BTG Pactual Holding is managed by a board of directors, which, prior to a Termination Event, will consist of three members, two of which are elected and removed by Mr. Esteves and one of which is elected and removed by a majority of the Top Seven Partners. Following a Termination Event, the board of directors of BTG Pactual Holding will consist of seven members, with each Top Seven Partner being entitled to elect and remove one such member.

The Partner Brazil Shareholders Agreement provides that the members of our board of directors, other than any director appointed by the members of the Consortium or nominated by unit holders, will be appointed and removed by BTG Pactual Holding, as the holder of the majority of our outstanding common shares (any such director, referred to as a Partner director), and shall act at the direction of Mr. Esteves, prior to the occurrence of a Termination Event, or the majority of the Top Seven Partners, following a Termination Event.

Preliminary Meetings; Voting Agreement

Two days prior to any shareholders or board of directors meeting (or board of executive officers meeting, to the extent applicable) of any Banco entity, Mr. Esteves and the Top Seven Partners will hold a preliminary meeting to determine whether to approve, and the manner in which to direct, the actions being considered at such board of directors or shareholders meeting. Prior to a Termination Event, Mr. Esteves will control the determination of any such preliminary meeting, except that certain extraordinary actions to be taken by the Banco entities (and certain other activities that relate to the structure and governance of our partnership) also require the approval of three of the seven Top Seven Partners. If any Top Seven Partner is absent from such preliminary meeting, Mr. Esteves is entitled to approve the matter on behalf of the absent Top Seven Partner. Following a Termination Event, the Top Seven Partners holding a majority of the voting interests of BTG Pactual Holding will control the determination of all preliminary meetings.

The Partner Brazil Shareholders Agreement provides that if a matter is not approved at a preliminary meeting in accordance with the foregoing, neither the Banco entity nor any Partner directors or officers of such Banco entity may take any action with respect to such non-approved matter, and the Partners, BTG Pactual Holding and the Partner directors are obligated to vote against the approval of any such non-approved matter at any shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. If, on the other hand, the matter that was the object of such preliminary meeting was approved, the Partners, BTG Pactual Holding and the Partner directors, as applicable, are required to act to ensure that the matter is approved at the relevant shareholders meeting or board of directors meeting (or board of officers meeting, to the extent applicable) of the relevant Banco entity, as applicable. All of the Partners and BTG Pactual Holding have granted a power of attorney to Mr. Esteves (prior to a Termination Event) or the Top Seven Partners (following a Termination Event) to ensure that all of the equity securities of BTG Pactual Holding held by such Partners and all of our equity securities held by BTG Pactual Holding are voted in accordance with the decisions reached at any such preliminary meeting.

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 the date of this Offering Memorandum, our outstanding capital stock was R$6,406.9 million, fully subscribed and paid-in, represented by 2,714,902,212 shares, all nominative, in book-entry form and without par value, consisting of 1,390,671,404 common shares, 508,380,404 Series A preferred shares and 815,850,404 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.

The following table sets forth information relating to the ownership of our shares by (i) each beneficial owner of 5.0% or more of our preferred shares or our common shares, (ii) the holders of units that are part of the free float (excluding BTG Pactual Holding) as a group, (iii) the Participating Partners as a group, and (iv) other directors and executive officers of Banco BTG Pactual as a group. 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
André Santos Esteves[(1)].......	1,176,653,226	80,344,049	815,850,404	84.6	67.7
Members of the Consortium[(2)]	65,775,408	131,550,816	–	4.7	7.3
Participating Partners as a group (other than André Santos Esteves) [(3)]...........	10,002,042	20,004,085	–	*	*
Former Celfin Partners[(4)].....	18,881,662	37,763,244	–	*	*
Former Bolsa y Renta Partners[(5)]........................	2,214,223	4,428,446	–	*	*
Free float (excluding BTG Pactual Holding; Partners (directly/indirectly); and members of Consortium)	127,059,080	254,118,159	–	9.1	19.2
Total[(6)]...	**1,390,671,404**	**508,380,404**	**815,850,404**	**100.0**	**100.0**

* Represents less than 5%

(1) Our common shares, Series A preferred shares and Series B preferred shares reported in the table above as beneficially owned by Mr. Esteves as of the date of this Offering Memorandum include (i) 9,660,558 common shares and 19,321,115 Series A preferred shares held directly by Mr. Esteves (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members) and pro-forma shares in his capacity as a Participating Partner, (ii) 5,995,700 common shares and 11,991,400 Series A preferred shares, which represent all of the common shares and Series A preferred shares held directly by BTG Alpha and which may be deemed to be beneficially owned by Mr. Esteves, (iii) 189,744 common shares and 379,489 Series A preferred shares, which represent all of the common shares and Series A preferred shares held directly by an entity that is mostly owned by Partners (PCPFIM) and which may be deemed to be beneficially owned by Mr. Esteves and (iv) 1,150,805,182 common shares, 28,647,960 Series A preferred shares and 815,850,404 Series B preferred shares, which represent all of the common shares, Series A preferred shares and Series B preferred shares held directly by BTG Pactual Holding and which may be deemed to be beneficially owned by Mr. Esteves by virtue of Mr. Esteves' (including through his family members or through trusts or other entities established for his benefit or the benefit of his family members) ability to exercise control over BTG Pactual Holding as a result of his ownership of a majority of the outstanding voting common shares of BTG Pactual Holding. Mr. Esteves disclaims beneficial ownership of our common shares, Series A preferred shares and Series B preferred shares which may be deemed to be beneficially owned by Mr. Esteves indirectly, through BTG Pactual Holding, except to the extent of his pecuniary interest in BTG Pactual Holding. Mr. Esteves' pecuniary interest in BTG Pactual Holding is approximately 28.70%.

(2) As of the date of this Offering Memorandum, each member of the members of the Consortium owns the following equity interest in us: (i) Pacific Mezz Investco S.A.R.L. holds 17,620,467 common shares and 35,240,934 Series A preferred shares; (ii) Beryl County LLP holds 17,620,467 common shares and 35,240,934 Series A preferred shares; (iii) Ontario Teachers' Pension Plan Board (OTPP) holds 16,580,311 common shares and 33,160,622 Series A preferred shares; (iv) Hanover Investments (Luxembourg) S.A. holds 6,335,512 common shares and 12,671,024 Series A preferred shares; (v) Sierra Nevada Investments LLC holds 6,632,124 common shares and 13,264,248 Series A preferred shares; and (vi) Rendefeld, S.A. holds 986,527 common shares and 1,973,054 Series A preferred shares. The ownership table set forth above aggregates, for informational purposes only, the equity interests in us held by each of the members of the Consortium. However, such presentation should not be viewed as an indication that the members of the Consortium are a group or share beneficial ownership of

the aggregate equity interests reported in such table. Each member of the Consortium disclaims beneficial ownership of any equity interests in us owned by any other member of the Consortium, and each member of the Consortium's beneficial ownership of equity interests in us is limited to the number of such interests held by such member of the Consortium as expressly set forth in this footnote 2.

(3) Our common shares and Series A preferred shares reported in the table above as beneficially owned by the Participating Partners (other than Mr. Esteves) as a group as of the date of this Offering Memorandum represent the number of such shares held directly by such Participating Partners, as a group, (including through their family members or through trusts or other entities established for their benefit or the benefit of their family members), in their capacity as Participating Partners and does not include any of our equity interests that are held by BTG Pactual Holding and may be deemed to be beneficially owned by such Participating Partners indirectly by virtue of their pecuniary interest in BTG Pactual Holding.

(4) The former partners of Celfin as a group collectively directly hold approximately 1.4% of our common shares and 2.9% of our preferred shares outstanding as of the date of this Offering Memorandum.

(5) The former partners of Bolsa y Renta as a group collectively directly hold approximately 0.2% of our common shares and 0.3% of our preferred shares outstanding as of the date of this Offering Memorandum.

(6) The data set forth in the table above does not reflect the effect of our pending acquisition of BSI, which has not yet been consummated and remains subject to all required regulatory approvals, including the potential issuance of our shares to Generali, NV with a value of CHF300 million (based on trading price over a period prior to closing of the pending acquisition of BSI). 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—Pending Acquisition of BSI."

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 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 BTGI, or BTG Loanco, 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 us and 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 June 30, 2014, 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$819.5 million. Because of the steps we have taken to ensure that our partnership model will not change following our initial public offering, we expect to continue to make additional Banco BTG Pactual Partner Loans. See "Our Partnership—Continuation of Purchase/Sale Right."

The Banco BTG Pactual Partner Loans are denominated in *reais*. The outstanding principal of the Banco BTG Pactual Partner Loans will be adjusted from time to time based on the prevailing CDI Rate. The outstanding principal of the Banco BTG Pactual Partner Loans is adjusted by the prevailing CDI Rate on each date that a voluntary or mandatory prepayment is made (or is required to be made).

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 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 BTGI 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 and/or 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 Banco BTG Pactual or BTG Pactual Holding. In the case of an event of default, BTG Loanco 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 Banco BTG Pactual and BTG Pactual Holding owned by such Banco BTG Pactual Debtor to BTG Loanco 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 BTGI, 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, BTGI transferred BTG 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 BTG Alpha by BTGI, virtually all of BTGI's merchant banking investments and investments in multi-asset funds are managed by BTG Pactual Gestora de Investimentos Alternativos 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 BTGI invests, and performance fees, when returns of these funds and vehicles exceed specified benchmarks or other performance targets. We receive these fees from BTGI and other investors investing in the same funds or vehicles in accordance with their respective interests in the funds. With respect to exclusive funds created for BTGI, 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 year ended December 31, 2013 and the six months ended June 30, 2014, we recorded an aggregate revenue of R$81.0 million and R$175.6 million, respectively, in asset management fees from BTGI, and R$10.7 million and R$5.2 million, respectively, in asset management fees from the Merchant Banking Partnership.

Investments by BTGI in Banco BTG Pactual

In the ordinary course of its business, BTGI 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, BTGI has entered into several financial derivative contracts with us. As of June 30, 2014, our net position with respect to all such activities resulted in an asset of R$578.5 million.

Sale of ARF II to BTGI

In December 2013, we sold our interests in ARF II to an independent third party for a total consideration equal to the net asset value of such interests. On the same date, the third party entered into a separate binding agreement to sell such interests in ARF II to BTGI. Please see the section entitled "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 BTG Pactual Absolute Return Fund II, L.P.")

Our Sales of BR Properties to BTGI

On November 21, 2013, we sold 21.4% of our 24.5% equity interest in BR Properties to BTGI for a total amount of R$1,261.4 million. The sale price for the transaction was based on the opening trading price of BR Properties shares that day. Please see the section entitled "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 – Establishment of One Properties and Merger into BR Properties.")

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.

Consortium Shareholders Agreement

Please see the section entitled "Management—Consortium Shareholders Agreement" for a description of this agreement.

Purchase of the Notes by the Merchant Banking Partnership and Certain Partners

The Merchant Banking Partnership, which is owned by the Partners, were allocated US$575.0 million in the bookbuilding process of this offering. Other vehicles owned by some of the Partners were also allocated approximately US$375.0 million in the same bookbuilding process. The Merchant Banking Partnership will finance a portion of its purchase of the Notes with loans to be extended by BTGI that will be secured by the Notes.

INDUSTRY OVERVIEW

Most of our operations are conducted in Brazil. Accordingly, we are significantly affected by the general economic environment in Brazil. In addition, we derive substantial revenues from non-Brazilian securities and, therefore, are also subject to global economic conditions, and in particular, fluctuations in worldwide financial markets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Macroeconomic Environment." The following section does not cover information relating to BSI or the Swiss banking industry. See "Business—BSI" for more information relating to BSI.

The table below sets forth selected key industry indicators for the periods indicated:

	Key Industry Indicators					
	For the year ended December 31,					CAGR
	2009	2010	2011	2012	2013	2009-2013
	(Volume in US$ billions, unless otherwise indicated)					
General economic activity						
Worldwide gross domestic product[1]	58,884.5	64,548.3	71,448.8	72,905.3	74,899.9	6.2%
Brazil gross domestic product[2]	1,624.9	2,142.9	2,474.5	2,248.8	2,239.3	8.3%
Advisory activities/financing						
Worldwide equity issued[3]	907.8	896.2	629.6	661.8	833.8	(2.1)%
Worldwide debt issued[3]	3,698.3	3,085.1	3,081.8	3,903.9	3,969.1	1.8%
Worldwide mergers and acquisitions[4]	2,009.8	2,395.6	2,578.7	2,579.5	2,403.5	4.6%
Worldwide AUM (US$ trillion)[5]	72.5	78.7	79.8	87.2	94.1	6.7%
World equity markets						
NYSE Euronext (U.S.) equity market capitalization[6]	11,837.8	13,394.1	11,795.6	14,085.9	17,949.9	11.0%
Brazilian market capitalization[6]	1,337.2	1,545.6	1,228.9	1,227.4	1,020.5	(6.5)%
IBOVESPA Index (in points)[7]	68,588.4	69,304.8	56,754.1	60,952.1	51,507.2	(6.9)%
Dow Jones Industrial Average (in points)[7]	10,428.1	11,577.5	12,217.6	12,720.5	16,576.7	12.3%
S&P 500 (in points)[7]	1,115.1	1,257.6	1,257.6	1315.4	1,848.4	13.5%
BM&FBOVESPA average daily volume[8]	2.7	3.7	3.9	3.7	3.4	6.3%
Brazilian economic data						
CDI rate[9]	9.8%	9.7%	11.6%	8.4%	8.02%	(5.0)%
SELIC rate[10]	8.8%	10.8%	11.0%	7.25%	10%	3.2%
Inflation (IPCA)[11]	4.3%	5.9%	6.5%	5.8%	5.91%	8.2%

Sources:

(1) *World Bank.*

(2) *IBGE.*

(3) *Dealogic Analytics.*

(4) *Thomson Financial.*

(5) *International Financial Services London.*

(6) *World Federation of Exchanges.*

(7) *Bloomberg.*

(8) *BM&FBOVESPA.*

(9) The Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI, is the average daily interbank deposit rate in Brazil (at the end of each month and annually), as reported by OTC Clearing House (*Balcão Organizado de Ativos e Derivativos*), or CETIP.

(10) The benchmark interest rate payable to holders of some securities issued by the Brazilian government and traded on the SELIC, as reported by the Central Bank.

(11) *IBGE.*

Investment Banking

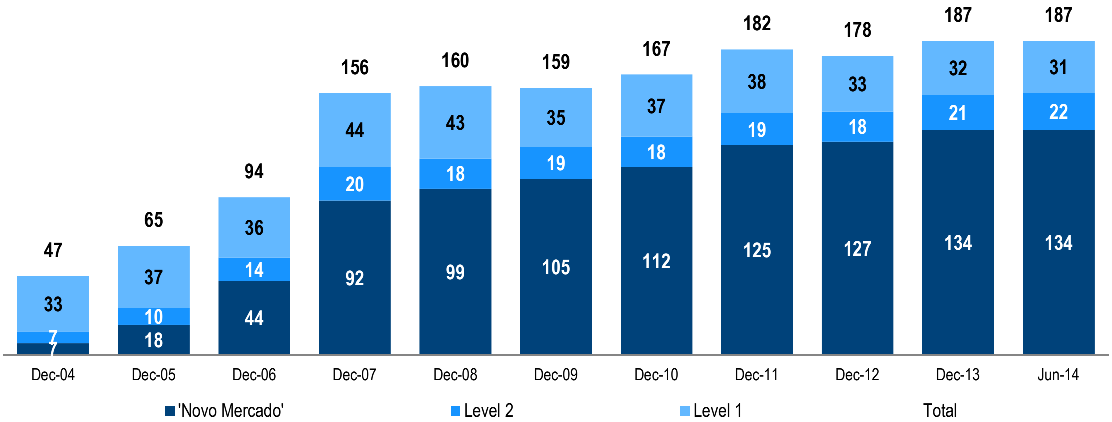
The investment banking industry in Brazil is intensely competitive and comprised of Brazilian and international banks, financial institutions and advisory boutiques. These entities provide a wide range of services, including underwriting and placement services in capital raising transactions through public and private equity markets, M&A and advisory services, as well as other financial and structured products and services for corporations, financial institutions, investment funds, governments and individuals.

The capital markets segment for larger transactions is dominated by the top five financial institutions—mainly large banks. However, recently local wholesale banks have increased their position in this market. The M&A and advisory market is slightly less concentrated, primarily because this market also comprises smaller M&A investment boutiques and includes significant variation with respect to transaction size.

Equity Capital Markets

Over the last several years, equity capital markets in Brazil have shown heightened activity due to favorable market conditions. The attractiveness of BM&FBOVESPA is reflected by the number of companies that have become publicly traded on the "Novo Mercado" and at corporate governance "Level 1" and "Level 2" in recent years. As of June 30, 2014 there were 187 companies listed on BM&FBOVESPA at corporate governance "Novo Mercado" "Level 1" and "Level 2," an increase of 297.9% compared to 47 companies that were listed in December 2004.

The graph below shows the number and listing segment of companies publicly traded on BM&FBOVESPA as of the dates indicated:



Source: BM&FBOVESPA

The fees payable to financial institutions underwriting equity capital market transactions are typically a percentage of the transaction's value, generally paid only when the transaction settles. The fee is typically comprised of a base fee and an incentive fee, which are determined upon the completion of the transaction at the discretion of the company and/or shareholders.

The underwriters in equity offerings are typically investment banks, large commercial or retail banks with investment banking divisions and other advisory boutiques firms.

The table below shows the ranking of the most active banks in the Brazilian equity capital markets from 2004 until June 30, 2014:

Bank	**Ranking: number of offerings**	**Ranking: volume**	**Volume (in R$ millions)**	**Number of offerings**
Banco BTG Pactual S.A.	1	2	55,099	140
Banco Itaú BBA S.A	2	1	58,208	126
Banco de Investimentos Credit Suisse (Brasil) S.A.	3	3	48,101	120
Banco Merrill Lynch de Investimentos S.A.	4	4	31,780	52
Banco Bradesco BBI S.A.	4	5	29,969	52
Banco Santander (Brasil) S.A.	6	6	24,889	49
Banco JP Morgan S.A.	7	9	14,902	35
Banco Morgan Stanley S.A.	8	8	22,631	31
Banco Citibank S.A.	9	7	23,467	26
Banco do Brasil Banco de Investimento S.A.	10	10	9,726	24

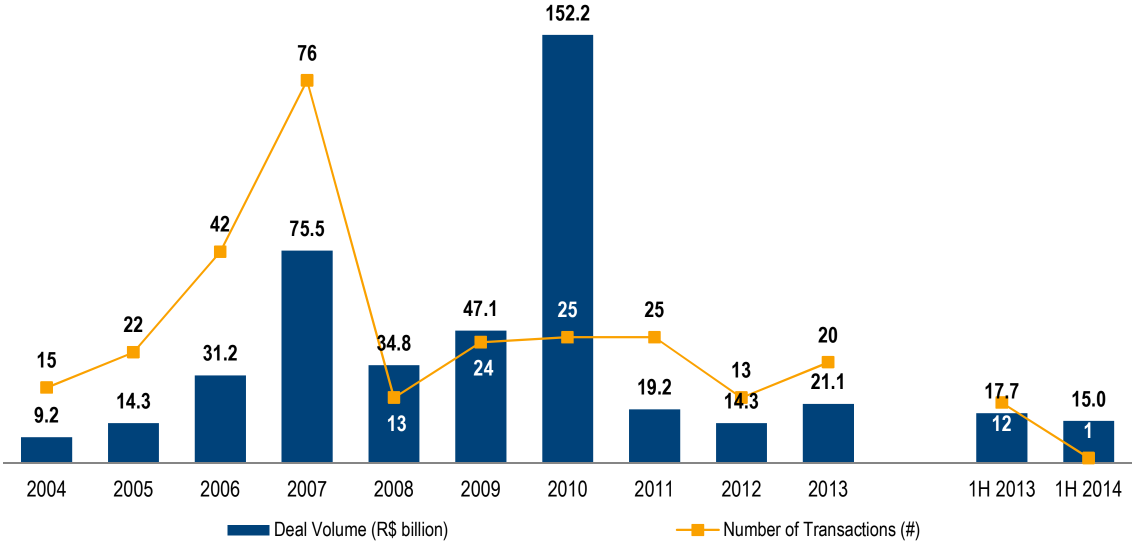
Source: ANBIMA

In 2008, despite worsening market conditions and the onset of the global economic and financial crisis, there were 13 equity offerings in Brazil, raising a total of R$34.8 billion in capital. In 2009, there were 24 equity offerings, raising R$47.1 billion in capital, and, in 2010, the number of equity offerings remained relatively stable, with a total of 25 equity offerings, raising R$152.2 billion. This considerable increase in capital raising in 2010 was mainly due to a Petrobras follow-on equity offering in the amount of R$120.2 billion.

During the first half of 2011, markets were generally receptive to equity offerings; however, during the second half of 2011, the unstable and uncertain global economic environment, which was reflected to some degree by concerns with fiscal imbalances in Europe, ultimately impacted the equity capital markets in Brazil. From July 2011 until the end of 2011, equity offerings in Brazil generally ceased, with only two follow-on offerings occurring in October 2011. As a result, there were a total of 25 equity offerings in Brazil in 2011, raising R$19.2 billion in capital.

During 2012, there were a total of 13 equity offerings in Brazil, raising R$14.3 billion, with activity being concentrated during the second and fourth quarters of the year. Activity has been increasing since year end 2012 and equity capital markets demonstrated a positive trend during the first half of 2013. As a result, during 2013, there were a total of 20 equity offerings in Brazil, raising R$21.1 billion. During the six months ended June 30, 2014, only one equity offering was realized in Brazil for a total volume R$15.0 billion. According to the CVM, for the entire period between 2008 and June 30, 2014, there was a total of R$303.6 billion raised in 121 equity offerings in Brazil, of which R$74.0 billion were IPOs and R$229.6 billion were follow-on offerings.

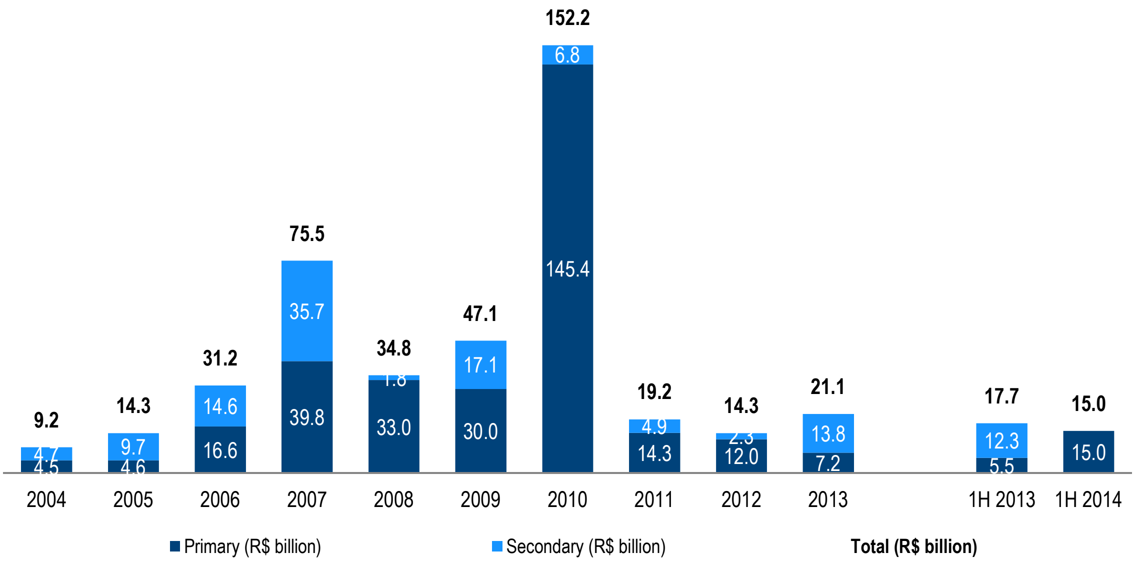
The graph below presents the number and volume (in R$ billions) of offerings for the periods indicated:



Source: CVM

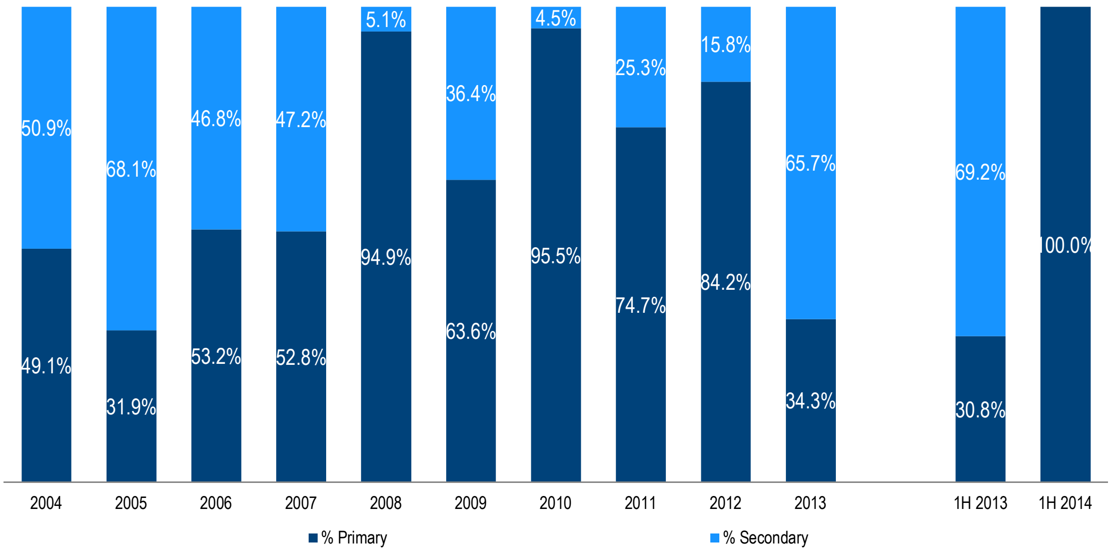
Companies access capital markets for several reasons, including strengthening their balance sheets, funding their growth strategies and optimizing their capital structure. To accomplish any of these objectives, a company often participates in a primary equity offering. Additionally, a shareholder or group of shareholders may request or require a company to sell equity stakes in the company for a variety of reasons, in which case the company would carry out a secondary offering. For example, many private equity funds use secondary offerings as an exit strategy to divest their initial investments in a company. Secondary offerings may positively impact the asset and wealth management industry to the extent to which selling shareholders become potential new clients.

The graph below shows the breakdown between primary and secondary offerings for the periods indicated:



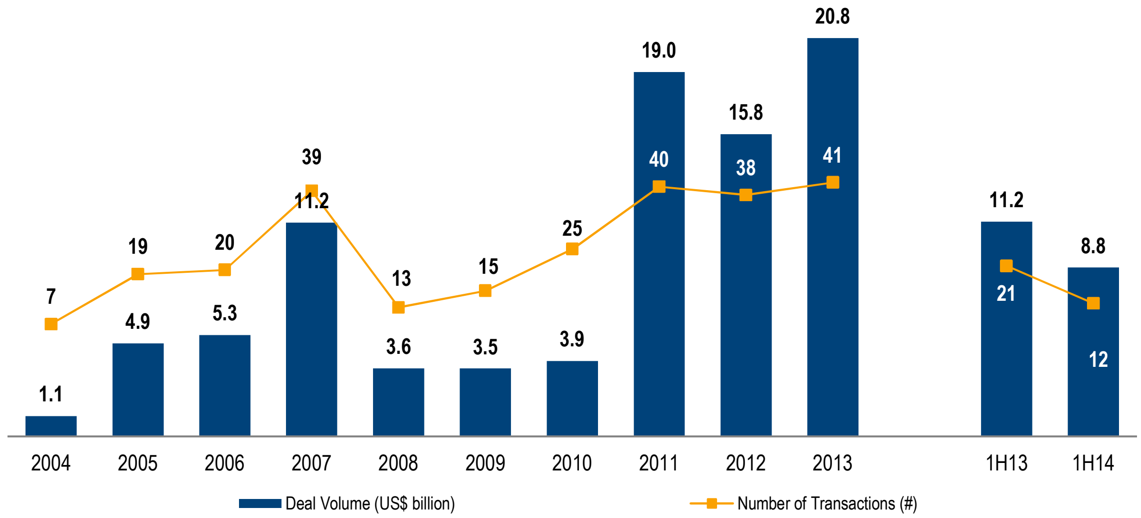
Source: CVM

In terms of volume (in R$ billions), primary offerings represented the majority of issuances in Brazil from 2004 to June 30, 2014 with few exceptions, such as 2013, which was largely impacted by BB Seguridade Participações S.A.'s R$11.5 billion secondary issuance. This breakdown shows that companies accessed the equity capital markets mostly to raise new capital.



In Latin American markets outside of Brazil, deal volumes have shown strong growth since 2011. This trend is primarily due to the growth of certain economies in the region which have attracted local and foreign investors to their equity capital markets transactions. For example, in 2013, according to Dealogic, there were 19 equity capital markets transactions in Mexico raising US$12.1 billion and 16 equity capital markets transactions in Chile raising US$6.1 billion. We believe that these markets will continue to grow in terms of volume and number of transactions due to their high potential for economic growth relative to other emerging market economies, attracting both local and foreign investors.

The graph below presents the number and volume (in US$ billions) of offerings from Latin American issuers (excluding Brazil) for the periods indicated:



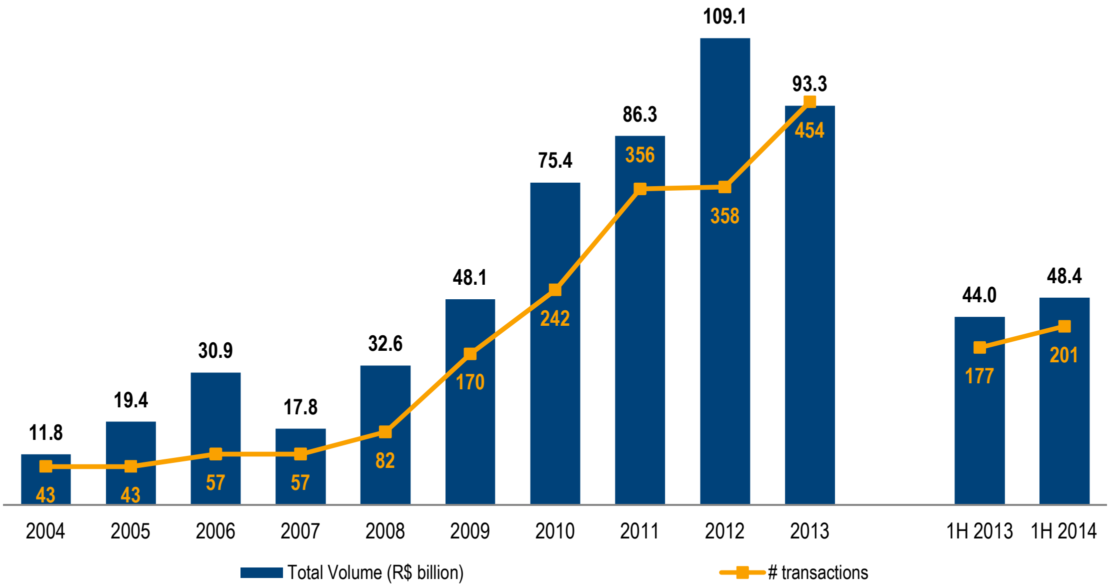
Source: Dealogic

Debt Capital Markets

Debt capital markets have also shown positive growth in the last several years. In order to reach an optimal capital structure and finance business activities, many companies also issue debt in public offerings.

In 2009, there were a total of 170 debt offerings in Brazil in an aggregate amount of R$48.1 billion according to ANBIMA, as compared to 454 debt offerings in an aggregate amount of R$93.3 billion in 2013, representing a CAGR of 27.8% in the aggregate amount of offerings for such period. For the six months ended June 30, 2014, there were a total of 201 debt offerings in an aggregate amount of R$48.4 billion. Between 2009 and June 30, 2014 there were a total of 1,781 debt offerings by Brazilian companies in Brazil in an aggregate amount of R$460.6 billion.

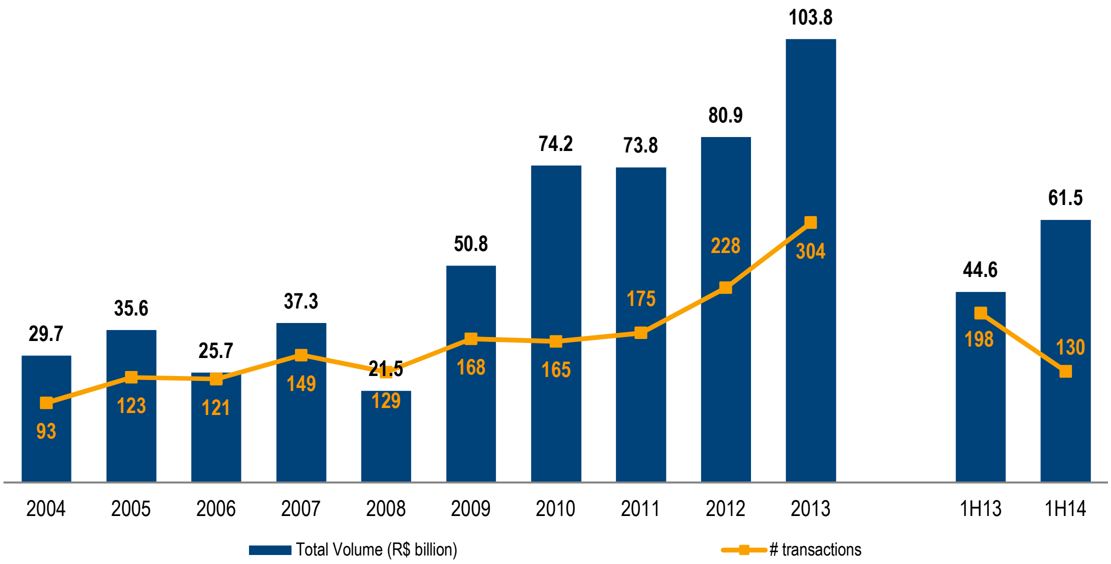
The graph below shows the number and volume (in R$ billions) of debt offerings in Brazil consummated by Brazilian companies for the periods indicated:



Source: ANBIMA

In Latin American markets outside of Brazil, both deal volume and number of transactions have grown consistently in recent years. As demonstrated in Brazil, economic growth and access to funding alternatives contributed to consistent growth in Latin American debt capital markets.

The graph below sets forth the number and volume (in US$ billions) of offerings made by Latin American Issuers (excluding Brazil) for the periods indicated:



Source: Dealogic

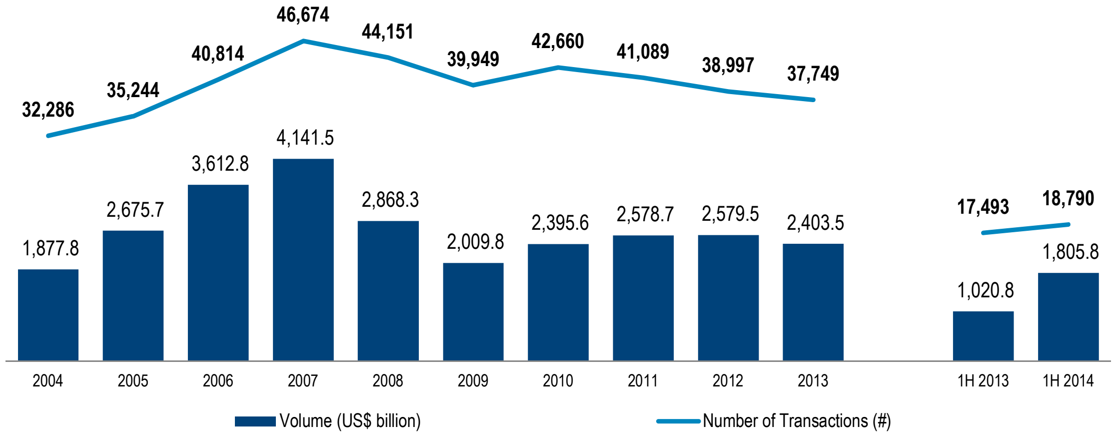
M&A and Advisory

The M&A and advisory segment consists of a broad range of services with respect to mergers and acquisitions, divestitures, restructurings, spin-offs and reorganizations. M&A and advisory services are typically rendered by investment banks, boutique advisory firms, financial advisory firms, law firms and other financial institutions.

M&A advisory services generally produce the majority of revenues within the advisory services segment. The volume of M&A transactions worldwide reached US$2,009.8 billion in 2009, US$2,395.6 billion in 2010, US$2,578.7 billion in 2011 and US$2,579.5 billion in 2012. In 2011, the effects of the European debt crisis continued to pose challenges for companies and their operations, which impacted their investments and M&A decisions. During 2012, the Greek debt crisis and Spanish banking crisis that started at the beginning of the year negatively impacted M&A activity. More recently, this volume decreased to US$2,403.5 billion in 2013. Continued challenges in Europe and the broader economic slowdown in the developed world still negatively affected M&A activity into 2013, resulting in a 6.8% drop in M&A announced transactions volume and a 3.2% drop in M&A announced number of transactions compared to 2012.

In 2014, as a result of the recovery of certain economies around the world, mainly in the United States, M&A activity has increased significantly. For the six months ended June 30, 2014, total M&A volume increased 76.9% compared to the same period of the previous year, led by larger deals and an increase in number of transactions.

The graph below shows the number and total deal volume (in US$ billions) of announced global M&A transactions for the periods indicated:



Source: Thomson Financial

Despite the recent global M&A environment, the Brazilian M&A market has generally remained strong. In 2013, total deal volume (in US$ billions) of announced M&A transactions in Brazil was US$74.2 billion, in a total of 622 transactions.

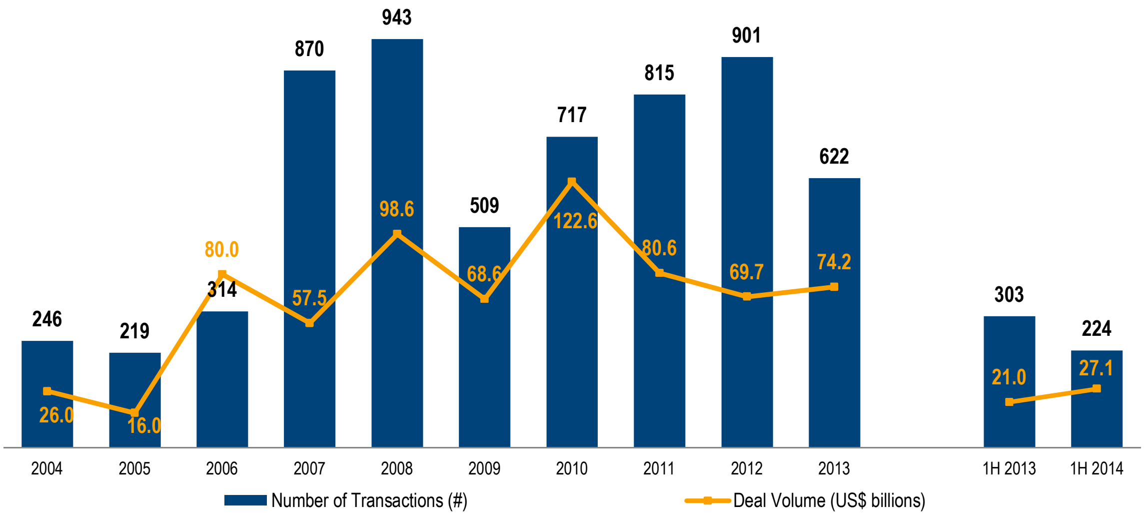
During 2009 and 2010, the Brazilian economy underwent a strong consolidation phase, where well capitalized companies had opportunities to pursue strategic acquisitions in order to leverage their businesses, gain market share and pursue complimentary business lines. In 2009, also due to the effects of the global economic and financial crisis, M&A activity in Brazil totaled US$68.6 billion. As economic conditions improved in 2010, with higher growth rates, increased domestic consumption levels and a favorable international environment, the Brazilian M&A market reached its five-year peak, with a total transaction volume of US$122.6 billion.

Buoyed by market confidence, M&A activity in Brazil remained strong during 2011. Due to the impact of the European debt crisis, however, activity slowed down reaching total transaction volume of US$80.6 billion in

2011. Although the European debt crisis deepened during the end of 2011 and the beginning of 2012, Brazilian M&A activity remained stable during 2012 due to confidence in the Brazilian macroeconomic environment.

In 2013, domestic M&A activity was also impacted by concerns regarding GDP growth and inflation prospects in Brazil, although it remained relatively stable in the period. More recently, those same concerns were also impacted by the decrease in economic activity during the 2014 World Cup as well as uncertainty from elections which will occur in October 2014.

The graph below shows the number and total deal volume (in US$ billions) of announced M&A transactions in Brazil for the periods indicated:



Source: Thomson Financial

Sales and Trading

Sales and trading is a large and diversified industry segment consisting of a variety of customer-driven market-making and trading activities. The primary products of sales and trading include market-making, brokerage and clearing services, and derivatives, interest rate, foreign exchange, equities, energy and commodities transactions for hedging and trading purposes. Sales and trading includes both FICC (fixed income, currency and commodities) and equity sales and trading activities.

In Brazil, equities, futures and certain other derivatives are primarily traded on BM&FBOVESPA, while fixed income, foreign exchange and credit-linked derivatives, as well as fixed income securities and government bonds, are primarily traded on the OTC market. In the international markets, we trade most of the derivatives and debt instruments on the OTC market, while equities in the form of American Depositary Receipts, or ADRs, are traded on the NYSE.

The liquidity of the instruments that we trade is critical in attracting and retaining customers. The liquidity of an instrument (i.e., the ease and speed with which it can be acquired or sold with the least impact on price) depends on many factors, including the number of participants and intermediaries trading in an instrument and the availability of reliable reference prices. Liquid markets are characterized by efficiency in the execution of trades and large trading volumes. Illiquid markets are characterized by having few participants, low levels of transparency in price discovery and low trading volumes. The volume of contracts traded on an exchange is widely recognized as a liquidity indicator, as is the volume of public securities traded in the interbank market.

Derivatives Trading

Exchange-traded derivatives markets trade standardized derivatives contracts on an organized trading floor and/or electronic trading system and facilitate price discovery in relation to supply and demand. OTC derivatives markets trade customized derivatives contracts and, unlike exchange-traded markets, facilitate direct trading between parties in a wide range of contracts with specific characteristics in terms of size, underlying assets, maturity and settlement criteria. The main contracts traded on the OTC market are forwards, swaps and options. The main derivatives instruments are futures, options and swaps linked to agricultural commodities (including physical delivery commodities such as metals and energy products), interest rates, equity indices, price indices, foreign currencies and other assets or securities.

These instruments, which are used in nearly every sector of the world economy, enable risk management and the ability to execute different investment strategies. Interaction between participants (those seeking to mitigate and manage risks and those assuming risks with the expectation of making a profit) contribute to the creation of active, liquid and competitive markets.

According to the Futures Industry Association, during 2013, the largest exchange in terms of number of futures and derivatives contracts traded was the CME Group, with approximately 3.2 billion contracts. According to this ranking, BM&FBOVESPA was the fifth largest derivatives exchange in the world with approximately 1.6 billion contracts.

The table below shows the top ten derivatives exchanges in the world in terms of the number of derivatives contracts traded according to data published by the Futures Industry Association for the periods indicated:

		Number of Contracts		
Rank	**Exchange**	**2012**	**2013**	**Change (%)**
1	CME Group (includes CBOT and Nymex)	2,890,036,506	3,161,476,638	9.4%
2	Intercontinental Exchange	2,425,271,946	2,807,970,132	15.8%
3	Eurex (includes ISE)	2,291,465,606	2,190,548,148	(4.4)%
4	National Stock Exchange of India	2,010,493,487	2,135,637,457	6.2%
5	BM&FBOVESPA	1,635,957,604	1,603,600,651	(2.0)%
6	CBOE Group (includes CFE and C2)	1,134,316,703	1,187,642,669	4.7%
7	NASDAQ OMX Group (includes U.S. and Nordic Markets)	1,115,529,138	1,142,955,206	2.5%
8	Moscow Exchange	1,061,835,904	1,134,477,258	6.8%
9	Korea Exchange	1,835,617,727	820,664,621	(55.3)%
10	Multi Commodity Exchange of India (includes MCX SX)	959,613,240	794,001,650	(17.3)%

Source: Futures Industry Association

The exchange-traded derivatives market has recently experienced strategic changes driven by the following factors:

- market participants have become increasingly demanding and have replaced passive investment strategies with active ones, putting pressure on the financial services segment to use sophisticated risk management techniques. In particular, financial institutions and international hedge funds have committed increasing amounts of capital to futures and options trading;

- deregulation and market liberalization in the financial services segments in the United States, Europe and Asia have expanded customer access to products and markets, lowering regulatory barriers to the introduction of innovative products and encouraging consolidation in the sector; and

- technological advances have contributed to the decentralization of exchanges and the introduction of alternative trading systems. By using electronic trading platforms, market participants worldwide can trade certain products virtually 24 hours a day and, in some cases, without the use of intermediaries.

According to BM&FBOVESPA, the average daily traded volume of futures and options contracts has grown from 1,521.0 thousand contracts in 2009 to 2,847.8 thousand contracts in 2013, which represents a CAGR of 17.0% for such period.

The tables below show the average daily traded volume of the securities listed below on BM&FBOVESPA for the periods indicated:

	For the year ended December 31,					CAGR
	2009	2010	2011	2012	2013	2009-2013
Interest rates in Brazilian *reais*	843.5	1,683.6	1,797.2	1,925.7	1,856.7	21.8%
Foreign exchange rates	447.1	54.6	495.5	493.9	494.1	2.5%
Stock indices	80.0	89.4	123.3	143.1	113.6	9.2%
Interest rates in U.S. dollars	78.3	89.7	145.2	149.8	155.9	18.8%
Commodities	10.2	12.9	13.2	11.2	9.2	(2.7)%
Web trading	52.6	75.6	114.4	165.7	208.2	41.0%
OTC contracts	9.3	12.9	11.7	9.2	10.1	2.1%
Total	**1,521.0**	**2,504.7**	**2,700.6**	**2,898.7**	**2,847.8**	**17.0%**

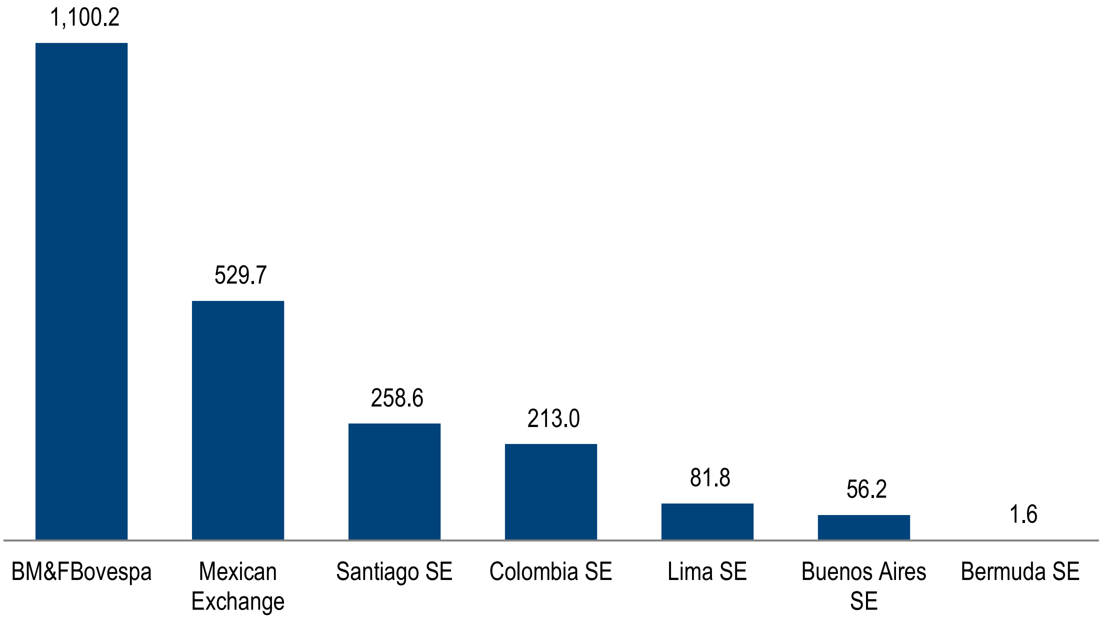
	For the six months ended June 30,		
	2013	2014	Variation (%)
	(R$ thousands, except percentages)		
Interest rates in Brazilian *reais*	2,339.6	1,468.3	(37.2)%
Foreign exchange rates	510.6	498.4	(2.4)%
Stock indices	123.6	106.3	(14.0)%
Interest rates in U.S. dollars	147.6	200.3	35.7%
Commodities	8.1	9.9	22.1%
Web trading	207.3	252.0	21.6%
OTC contracts	10.8	11.0	2.1%
Total	**3,347.6**	**2,546.2**	**(23.9)%**

Source: BM&FBOVESPA

Stock Exchanges

Stock exchanges are organized and centralized markets, which facilitate the trading and price formation of securities issued by companies, funds and other vehicles for the purpose of raising capital. For most stock exchanges, depositary, clearing and settlement services are rendered by independent organizations, although some stock exchanges, including BM&FBOVESPA, have adopted a vertical structure, integrating all of these activities into a single platform. BM&FBOVESPA is by far the largest stock exchange in Latin America in terms of total domestic market capitalization.

The graph below shows the market capitalization (in US$ billions) of the largest stock exchanges in Latin America as of June 30, 2014:



Source: World Federation of Exchanges

The table below sets forth information on the value traded in the securities markets for the periods indicated:

Total Financial Trading Value	2009	2010	2011	2012	2013	CAGR 2009-2013
	For the year ended December 31,					
	(R$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	**1,300.2**	**1,602.3**	**1,616.2**	**1,782.2**	**1,839.2**	**9.1%**
Cash market	1,216.2	1,489.8	1,518.0	1,687.9	1,759.4	9.7%
Forward market	23.7	36.4	29.4	25.4	22.7	(1.1)%
Options market	60.3	76.1	68.8	68.9	57.1	(1.3)%
Fixed income and others	0.4	0.4	0.3	1.5	0.4	(2.1)%
BM&FBOVESPA total	**1,300.6**	**1,602.7**	**1,616.4**	**1,783.7**	**1,839.6**	**9.1%**

Total Financial Trading Value	2013	2014	Variation (%)
	For the six months ended June 30,		
	(R$ thousands, except percentages)		
BM&FBOVESPA segment stocks and equity derivatives	**965,472**	**804,299**	**(16.7)%**
Cash market	922,828	773,667	(16.2)%
Forward market	11,047	9,633	(12.8)%
Options market	31,597	20,999	(33.5)%
Fixed income and others	188	154	(18.3)%
BM&FBOVESPA total	**965,660**	**804,453**	**(16.7)%**

Source: BM&FBOVESPA

The average daily traded value of the securities listed below increased over the past five years, as shown in the following charts:

Average Daily Traded Value	2009	2010	2011	2012	2013	CAGR 2009-2013
	For the year ended December 31,					
	(R$ millions, except percentages)					
BM&FBOVESPA segment stocks and equity derivatives	**5,285.2**	**6,486.9**	**6,490.6**	**7,244.8**	**7,416.3**	8.8%
Cash market	4,943.7	6,031.6	6,096.3	6,861.3	7,094.5	9.5%
Forward market	96.5	147.4	118.0	103.4	91.5	(1.3)%
Options market	245.0	307.9	276.3	280.1	230.3	(1.5)%
Fixed income and others	1.6	1.8	1.1	6.0	1.4	(2.3)%
BM&FBOVESPA total	**5,286.8**	**6,488.6**	**6,491.6**	**7,250.7**	**7,417.7**	**8.8%**

Average Daily Traded Value	2013	2014	Variation (%)
	For the six months ended June 30,		
	(R$ thousands, except percentages)		
BM&FBOVESPA segment stocks and equity derivatives	**7,913.7**	**6,592.6**	**(16.7)%**
Cash market	7,564.2	6,341.5	(16.2)%
Forward market	90.5	79.0	(12.8)%

Options market	259.0	172.1	(33.5)%
Fixed income and others	1.5	1.3	(18.3)%
BM&FBOVESPA total	**7,915.2**	**6,593.9**	**(16.7)%**

Source: BM&FBOVESPA

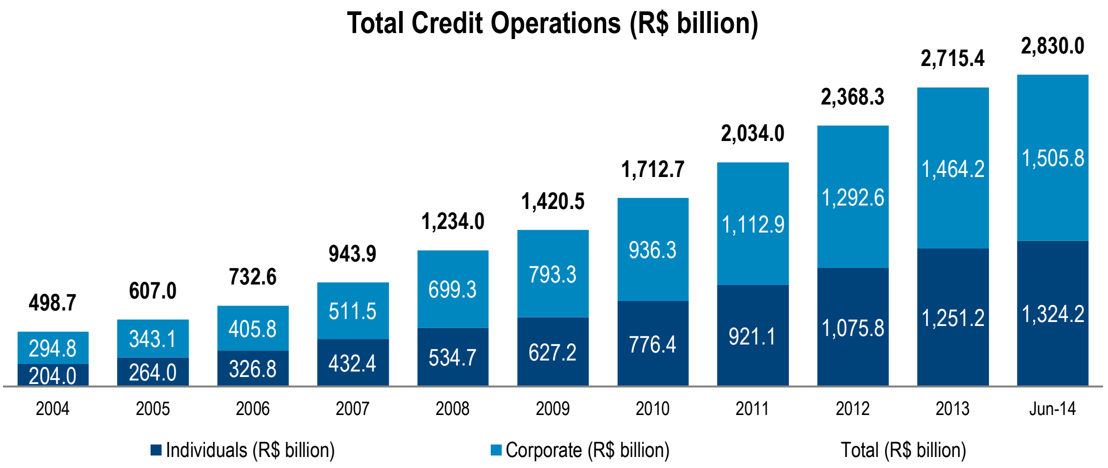
Brazilian Lending Operations

The Brazilian banking industry underwent important structural changes in the last two decades, from an environment of high inflation during the 1980s and the beginning of the 1990s, to an environment marked by low rates of inflation and greater macroeconomic and monetary stability beginning in 1994, when the *Real Plan* was introduced. Because of the macroeconomic stability resulting from the implementation of the *Real Plan*, there has been a steady growth in demand for credit in Brazil. In addition, Brazilian banks have recently diversified the types of financial products offered to their clients.

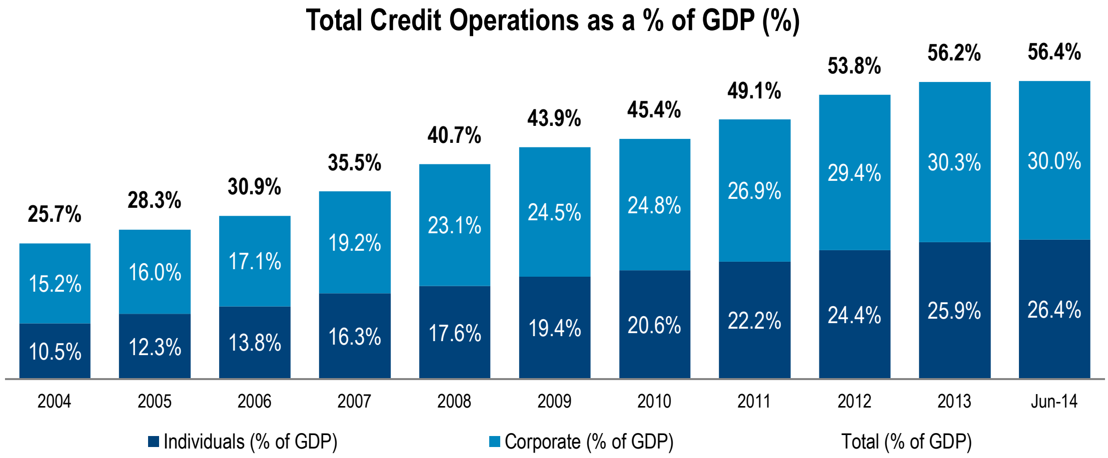
Access to banking services facilitates participation in the economy, fosters the formalization of transactions, spreads access to credit for consumption, investments, payment services, collection services and insurance and reduces loan-sharking. In order to broaden access to banking services, the Brazilian government has implemented measures to promote credit and reduce bank spreads, including the creation of clearer rules for payroll loans, new credit instruments such as bank credit bills (*cédulas de crédito bancário*) and incentives to offer credit to small companies, among others.

As of June 30, 2014, according to the Central Bank, total credit operations reached R$2,830.0 billion, of which R$1,505.8 billion were corporate loans and R$1,324.2 billion were loans to individuals. Between 2004 and 2013, corporate loans and loans to individuals had a CAGR of 19.5% and 22.3%, respectively. As of June 30, 2014, according to Central Bank preliminary data, total credit transactions comprised approximately 56.4% of Brazil's GDP, with loans to individuals representing 26.4% and corporate loans representing 30.0%.

The graphs below reflect the evolution of total credit operations in Brazil and total credit operations as a percentage of Brazil's GDP for the periods indicated:



Source: Central Bank

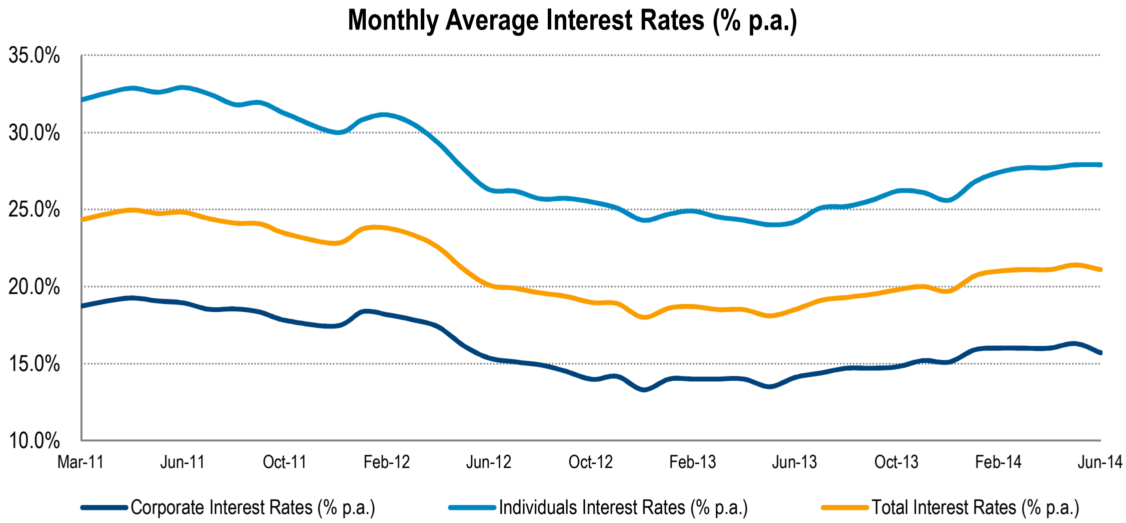


Source: Central Bank

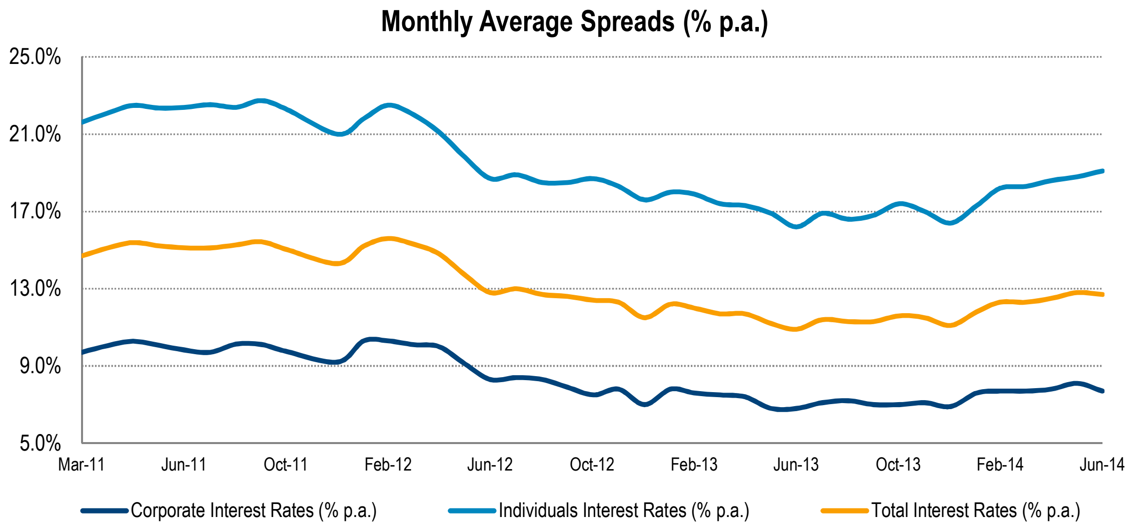
Since the 2008 global financial and economic crisis, there has been an increase in corporate loan spreads, while individual loan spreads have decreased significantly since the end of 2010 due to macroeconomic measures implemented in 2009 to strengthen economic growth. In 2011, the prospect of high inflation raised concerns about consumption and credit availability, which led the Brazilian government to impose certain barriers, limiting the credit extended to individuals (including, higher bank compulsory requirements on payroll loans and vehicle financing of longer terms, among others), which, in turn, impacted their spreads.

However, recent measures taken by state-owned banks in order to reduce spreads lowered interest rates and spreads as shown in the graphs below. The largest impact was on individual loans, which interest rates decreased 209 basis points from December 2011 to June 2014. During the same period, interest rates for corporate loans decreased 174 basis points. Due to inflation concerns and their impact on the SELIC rate, interest rates increased until June 2014, reaching levels similar to those of May 2012 for individual and corporate loans.

According to Central Bank data, corporate interest rates have remained relatively stable since March 2011, while individual interest rates have been more volatile during the period. As of June 30, 2014, annual corporate interest rates were approximately 15.7%, and annual individual interest rates were approximately 27.9%, resulting in an average rate of 21.1% for total credit outstanding. The graphs below illustrate the monthly average interest rates and the monthly average spreads of the total credit outstanding in the Brazilian financial system for the periods indicated:



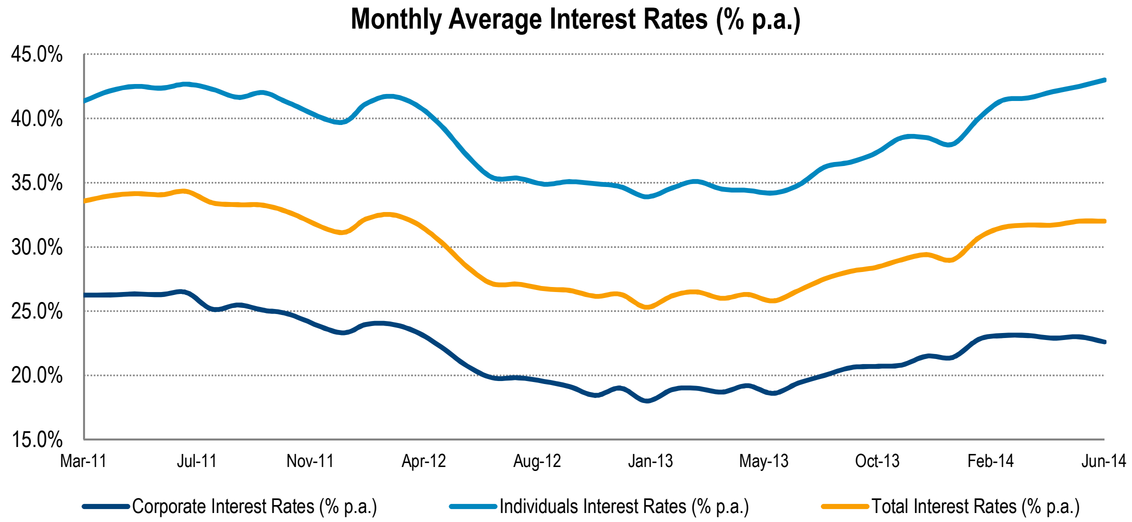
Source: Central Bank

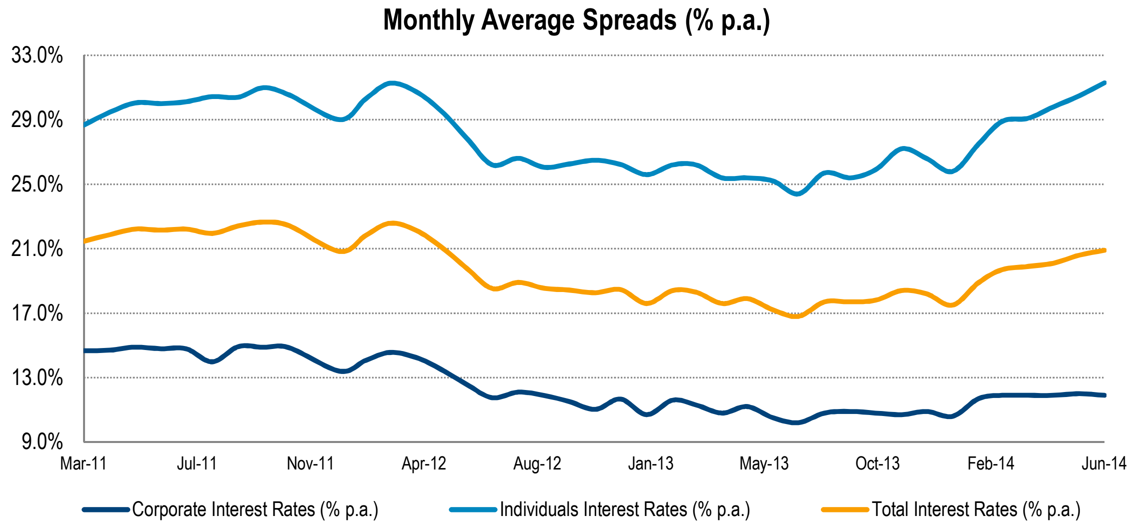


Source: Central Bank

When considering only non-earmarked lending in the financial system, interest rates and spreads are higher than the financial system average, since earmarked loans are granted usually at better terms. For example, as of June 30, 2014, average interest rates for individuals on non-earmarked loans reached 43.0%, compared to 27.9% for the financial system as a whole. On corporate loans, interest rates reached 22.6% on non-earmarked loans and 15.7% on the aggregate average. Non-earmarked lending has responded sharply to the SELIC rate increase due to recent inflation and economic activity concerns, reaching levels similar to those during the beginning of 2012.

The graphs below illustrate the monthly average interest rates and the monthly average spreads of the non-earmarked loans outstanding in the financial system for the periods indicated:



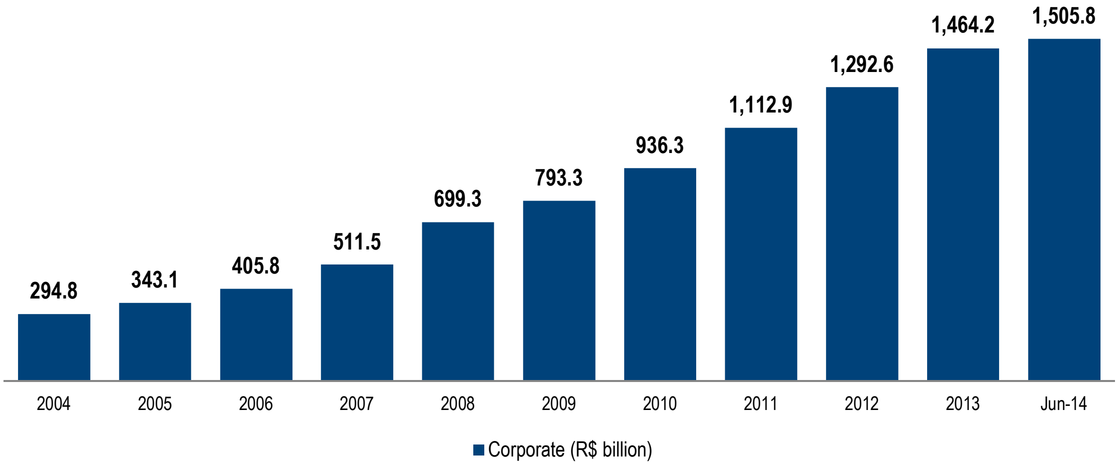


Source: Central Bank

Corporate Lending

Our corporate lending operations are carried out mainly in Brazil. The legacy of high inflation and the lack of availability of long-term credit for Brazilian companies have resulted in relatively low levels of corporate leverage. However, according to the Central Bank, the volume of corporate credit (including regulated funds) has increased significantly in recent years, from R$793.3 billion in December 2009 to R$1,464.2 billion in December 2013, representing a CAGR of 16.6% between such dates. In the six months ended June 30, 2014, corporate credit reached R$1,505.8 billion.

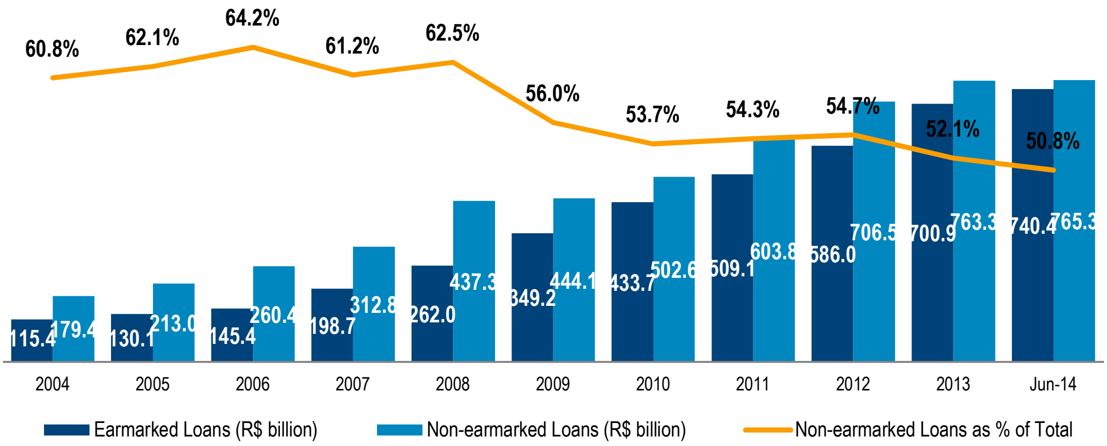
The graph below reflects the evolution of corporate loans in Brazil for the periods indicated:



Source: Central Bank

The Brazilian government and BNDES maintain a significant role with respect to the Brazilian financial system. As of June 30, 2014, the Brazilian financial system had a total of R$1,306.2 billion of earmarked lending, comprising 46.2% of total lending. Earmarked lending refers to BNDES lending and lending required by the Brazilian government to designated sectors of the economy, including agriculture and housing. Corporate loans comprise the majority of earmarked loans, representing 56.7% of total earmarked lending as of June 30, 2014. However, due to the strong growth of credit in Brazil led by profitable, scalable and healthy financial institutions, the percentage of earmarked lending relative to total lending has stabilized in recent years, mainly in individual loans.

The graph below reflects the evolution of corporate loans in Brazil divided between earmarked and non-earmarked sources for the periods indicated:



Source: Central Bank

There are many credit products available to corporations in Brazil. We believe the key credit products available to corporations are revolving credit lines, working capital loans, “compror” and “vendor” loans and note discounting, each of which is described below.

Revolving credit line. A revolving credit line is a short-term revolving line of credit available to companies, which provides immediate liquidity. In general, the interest rate is calculated daily based on the outstanding balance plus a tax on financial transactions, payable on the first business day of the month following the transaction.

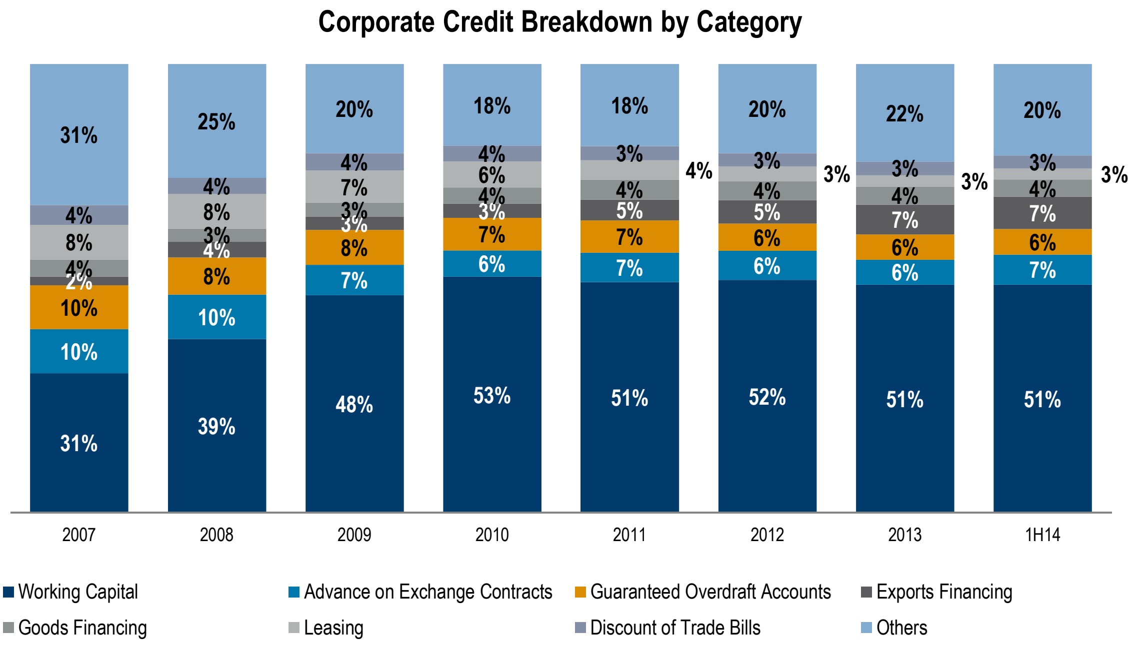
Working capital loan. Working capital loans consist of advances of funds to meet borrowers' working capital needs. In general, the repayment period is 180 days from the date of disbursement of the working capital loan.

Compror loan. The compror loan, or a payables financing loan, provides a borrower financing for the acquisition of a product or service. This loan allows a buyer to extend the repayment period of a purchase without involving the seller because the buyer is the obligor of the loan.

Vendor loan. A vendor loan, or a receivables financing loan, allows a company to sell its products on credit while receiving payment in cash. The main advantage of this type of financing is that the sale is not financed directly by the company selling the product and as a result, the calculation base for the collection of tax and sales commissions is smaller.

Note discounting. In a note discounting transaction, a financial institution will provide advances on amounts relating to certain instruments, including trade acceptance bills, promissory notes, credit card sale receipts or postdated checks aimed at anticipating the cash flow of the borrower. The borrower guarantees the non-payment of the notes.

The graph set forth below reflects the breakdown of credit products to corporations in Brazil for the periods indicated:



Source: Central Bank

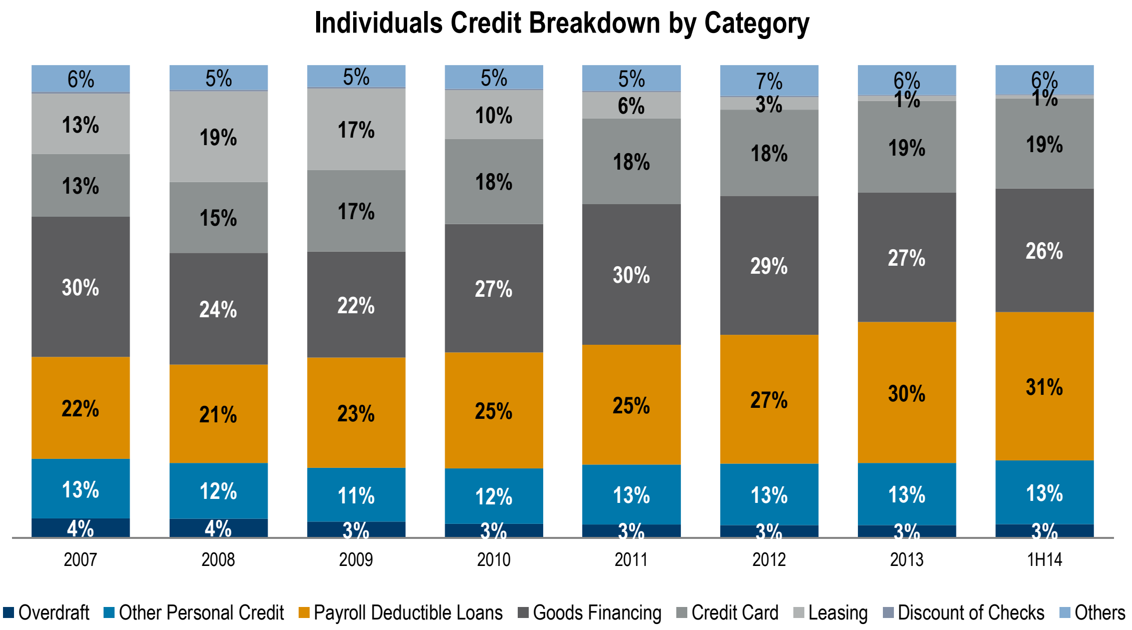
Lending to Individuals - Commercial Banking

In Brazil, financing for individuals has significantly grown in recent years, mainly due to greater economic stability, higher economic growth rates and improvements in income distribution and poverty levels.

According to the Central Bank, the balance of total consumer credit increased, on average, by a CAGR of 18.8% between December 31, 2009 and December 31, 2013, reaching R$1,324.2 billion as of June 30, 2014, or 46.8% of all credit in Brazil.

The Brazilian government and BNDES have played a significant role with respect to financing to individuals in Brazil, mainly through extending credit to small agribusiness producers and providing financing for housing. As of June 30, 2014, of the total credit extended to individuals, R$565.8 billion was composed of earmarked lending, or 42.7% of the total. However, as the Brazilian banking system continues to develop and financial institutions seek to diversify their portfolio of products, the share of earmarked lending is expected to decrease, which is consistent with recent trends.

The key credit products used by individuals are personal loans, vehicle financing, payroll deductible loans, credit card financing and overdraft facilities. The graph set forth below reflects the breakdown of credit extended to individuals in Brazil for the periods indicated:



Source: Central Bank

Personal Loans

Personal loans bear relatively high interest rates, which are intended to off-set relatively high rates of default. This type of loan is frequently used by consumers who have limited credit availability. Borrowers are not required to provide collateral and there are no specifications on the way in which the proceeds must be used. Major retail banks offer personal loans to their customer base through their network of branches, while the small- and medium-size banks, focused on a certain niche, operate through small offices in Brazil's major cities.

Vehicle Financing

The vehicle financing market is primarily dominated by large retail banks, which have gradually replaced the lending role formerly held by institutions affiliated with automakers. Interest rates for vehicle financing are extremely competitive. The smaller institutions that serve this market focus, in most cases, on the used vehicle segment. Default rates are relatively low and the loans are secured by the financed vehicle, which can be repossessed and sold if the borrower defaults.

Payroll Deductible Loans

Payroll deduction loans increased with the demand for alternative sources of credit. Historically, traditional credit facilities have been expensive for consumers for different reasons, including competition within the banking industry, the legal and institutional structure of the industry and the nature of underlying credit risks.

Payroll deduction loans have been the fastest growing form of consumer financing over the last few years. Payroll deduction loans are made available to a segment of the Brazilian population without access to a regular bank account or traditional banking distribution channels.

Credit Card Financing

Credit card lending is dominated by large retail banks that operate under their own banners in association with international banners like MasterCard and Visa. Interest rates on credit card financing are generally high, mainly due to high default rates for this type of credit.

Overdraft Facilities

Overdraft protection, or the guaranteed personal check, is usually offered by institutions that accept demand deposits. In general, these are the major retail banks, including large foreign conglomerates. We believe that consumers use this line of credit as a last resort, because interest rates are relatively higher than other forms of credit afforded to individuals.

Installment payment credit offered by retail store chains involves the financing of consumer goods, including durable goods such as building materials and home appliances, as well as non-durable goods such as apparel and groceries. The installment credit market is the most fragmented of all segments of consumer credit in Brazil. Major retail chains have traditionally financed their customers' purchases, but recently some agreements have been entered into between retail chains and banks that are interested in taking over those credit operations.

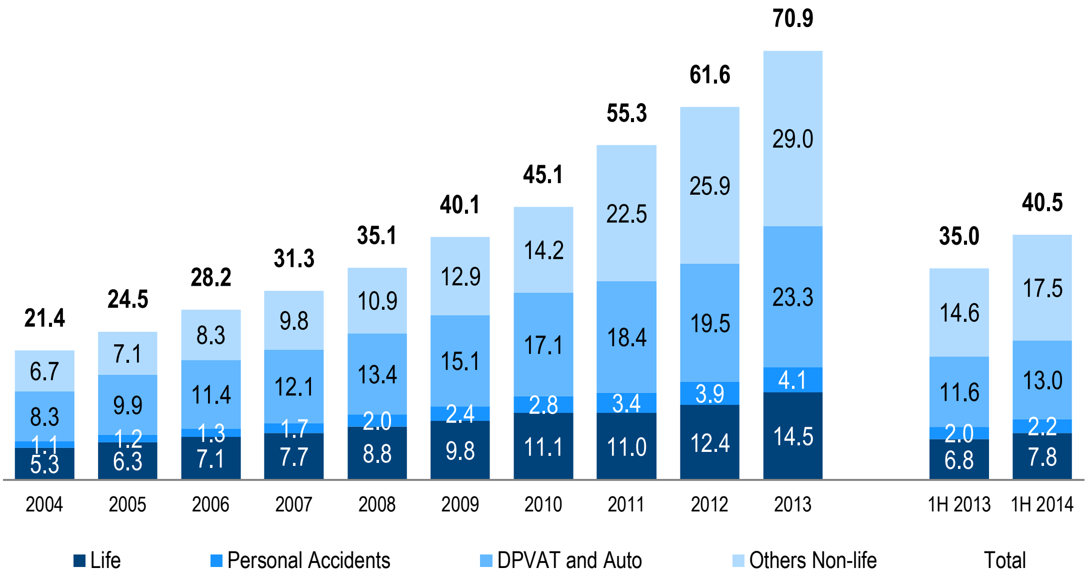
Insurance

Over the past several years, Latin America has experienced strong insurance premium growth, mostly due to better economic conditions, lower inflation, improvements in insurance supervision, greater product innovation and the use of multiple distribution channels, in particular the successful leveraging of bancassurance, referring to the selling of insurance through a bank's established distribution channels.

Despite strong growth, Latin America remains under-penetrated as measured by premiums as a percentage of GDP and premiums per capita, with insurance penetration rates for Brazil and Latin America and the Caribbean at 3.65% and 3.0% respectively, below the world average of 6.3%, according to Swiss Re World Insurance in its 2013 report.

The Brazilian insurance market has experienced substantial growth over recent years. During the five years ended December 31, 2013, net earned premiums in the Brazilian insurance industry have increased at an annual rate of 15.3% (excluding premiums from health and VGBL plans, a product popular in the Brazilian private pension product), according to the data from SUSEP. The graphs below show the evolution of net earned premiums in Brazil and the breakdown of net earned premiums, excluding health and VGBL premiums, for the period indicated:

Net Earned Insurance Premiums in Brazil[(1)(2)]

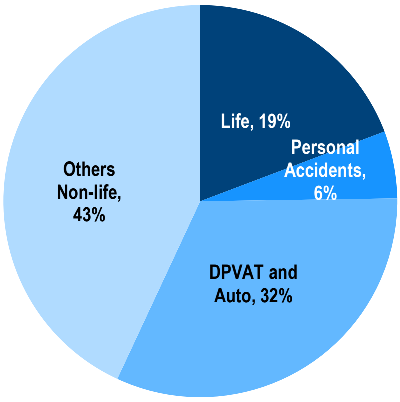


Source: SUSEP

(1) Excludes VGBL and healthcare.

(2) Information presented in R$ millions.

Breakdown of Net Earned Premiums (June 2014) [(1)]



Source: SUSEP

(1) Excludes VGBL and healthcare.

Although the main driver of growth in the Brazilian insurance industry is generally believed to be the stronger pace of domestic consumption, additional contributing factors include:

- increased macro stability;
- relevant reforms such as the introduction of the Real plan;
- increased purchasing power and volume of credit offered;
- increased employment in the formal sector;
- increased numbers of vehicles; and
- increased penetration of insurance products.

The Brazilian insurance sector consists of life and non-life products. The life segment includes coverage for property and individuals, and the non-life segment mainly includes auto, homeowner and property and casualty insurance, among others.

The Brazilian insurance market can be broadly divided into two groups: (i) independent insurers, such as SulAmérica and Grupo Icatu, and (ii) insurance companies that are associated with Brazil's largest banking institutions, such as Bradesco, Itaú Unibanco and Banco do Brasil. Bancassurance distribution channels are well developed in Brazil, especially within the pension products market.

The non-life market in Brazil is expected to continue its strong growth in coming years, as the country is hosting the 2016 Olympic Games, which is expected to lead to increased investments in infrastructure (e.g., ports, roads), providing an opportunity for insurers in the non-life segment to grow their businesses. As a result of rising demand, we believe that the industry's profit ratio is likely to improve in coming years.

The claims ratio for Brazil is comparatively lower than other countries as the country has relatively limited exposure to natural catastrophes, such as earthquakes and hurricanes, though landslides, floods and rainstorms pose an enduring challenge. Rising income levels have resulted in increased auto ownership, and lower interest rates have encouraged customers to borrow to purchase homes, leading to broad growth in key property & casualty (P&C) segments. The robust growth in the Brazilian insurance industry is attracting foreign players, which may increase competition in the local market.

We believe that consumer demand for personal insurance lines will remain strong in the near future due to changes in spending habits, increased economic activity and the continued expansion of credit supply.

Furthermore, we expect that a strong labor market will lead to a rise real wages will help boost the country to higher purchasing power levels resulting in sustained growth in the insurance industry.

Asset Management

Asset management generally involves the professional management of investments (e.g., equity, debt, derivatives and other securities) by third party managers on behalf of investors to meet their specific investment goals. Investors may be corporations, institutions, governments and individuals, who invest in various funds. Wealth management, as discussed below, is a more specialized and discretionary type of asset management provided to private investors, who are usually high net worth individuals.

Traditional asset management generally involves managing and trading portfolios of equity, fixed income and/or derivative securities. Asset management typically generates management fees as a percentage of the AUM and performance fees depending on the type of fund being managed. The investment objectives of a fund can vary between total return funds, capital appreciation, current income, and replicating the performance of a specific index, among other types.

Alternative asset management utilizes a wide range of investment strategies to achieve returns within certain predefined risk parameters and investment guidelines. In general, these investments tend to have a lower correlation with the general market than do traditional asset management strategies. Examples of these funds include private equity funds, real estate funds, venture capital funds, hedge funds and fund of funds, among other types.

The asset management industry has experienced significant growth both globally and in Brazil since 2000. However, following five consecutive years of growth during which AUM more than doubled, there was a worldwide decline of AUM in 2008, primarily as a result of weakened equity markets, poor investment performances, reduced inflows of new funds and increased investor redemptions. The strengthening of the U.S. dollar during 2008 also exacerbated this decline. Despite the losses incurred on some investments, the global fund management industry was much less affected by the global financial and economic crisis than the banking sector. Following recovery in the equity markets, global AUM increased in 2009, partially as a result of the depreciation of the U.S. dollar against a number of currencies in 2009.

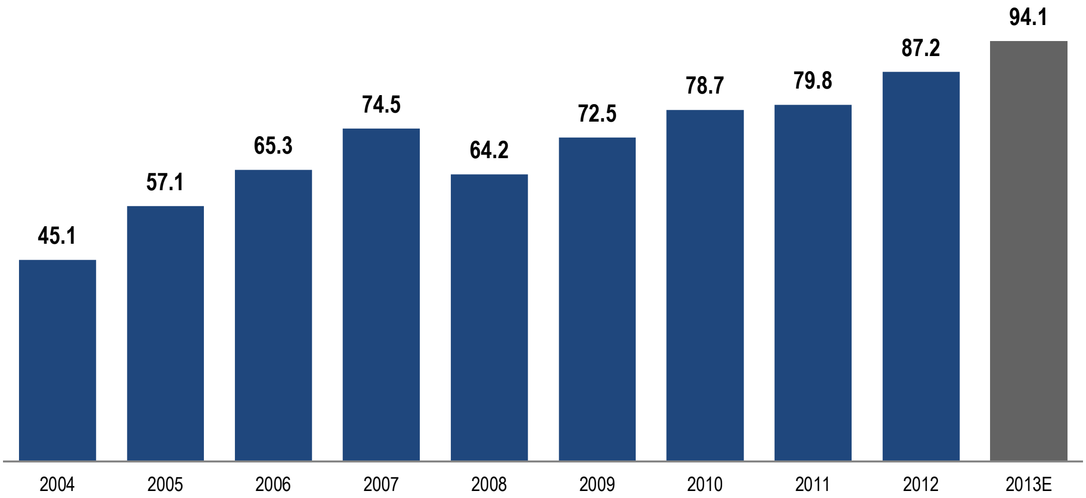
As equity markets continued to recover and with an inflow of new funds, global AUM continued to grow in 2010. According to the most recent report issued by the International Financial Services, London, there were approximately US$78.7 trillion of global AUM in 2010, which represents an increase of 8.6%, 22.6% and 5.6%, compared to 2009, 2008 and 2007, respectively. Of this total, pension assets accounted for approximately US$29.9 trillion, mutual funds accounted for US$24.7 trillion and insurance funds accounted for US$24.6 trillion. Together with alternative assets (e.g., sovereign wealth funds, hedge funds, private equity funds and exchange-traded funds) and funds of wealthy individuals, the assets of the global fund management industry totaled approximately US$117.0 trillion at the end of 2010, which represented an increase of 10% from 2009. The United States continued to be the largest source of AUM in 2010, accounting for nearly a half of traditional AUM, or US$36.0 trillion, while the United Kingdom was the second largest source of AUM and the largest in Europe with around 8% of the global total of AUM. Japan and France followed as the third and fourth largest source of AUM, with 7.5% and 6.0%, respectively of the global AUM.

Conventional AUM for the global fund management industry increased slightly in 2011 to a record US$79.8 trillion. The 1.2% increase in global conventional AUM in 2011 represented a slowdown from the strong rate of growth seen in the two previous years, and was largely due to the decline in equity markets in the latter part of the year and sovereign debt crisis in Europe. The recovery in equity markets since then has contributed to the increase in global conventional AUM in 2012. Emerging economies have seen stronger growth since the start of the economic slowdown, a trend which is likely to persist in the coming years. On the whole, the fund management industry has recovered relatively quickly from the sharp fall in global AUM at the outset of the credit crisis, with most of the recovery coming from market performance rather than new inflows. The longer term effects of the economic slowdown include more cautious investment strategies, more diversification across asset classes and geographical regions, and more independence in ownership terms from banks and insurance companies.

According to International Financial Services London, conventional funds of the global asset management industry were up by around 9% in 2012 to a record US$87.2 trillion. Pension assets account for nearly 40% of the total with the remainder split almost equally between mutual funds and insurance funds. International Financial Services London forecasts a 8% increase in conventional funds in 2013 to over US$94 trillion. Considering all global fund management industry, assets reached US$118 trillion, including also alternative funds and private wealth funds.

United States was by far the largest source of conventional funds under management in 2012 with nearly a half of the world total. It was followed by the United Kingdom with 8.3%, Japan with 7.5% and France with 2.8%. The Asia- Pacific region has shown the strongest growth in recent years. Many fund management firms have shown an increased interest in countries such as China and India as they offer huge potential for growth.

The graph below shows the evolution of global AUM for the periods indicated:



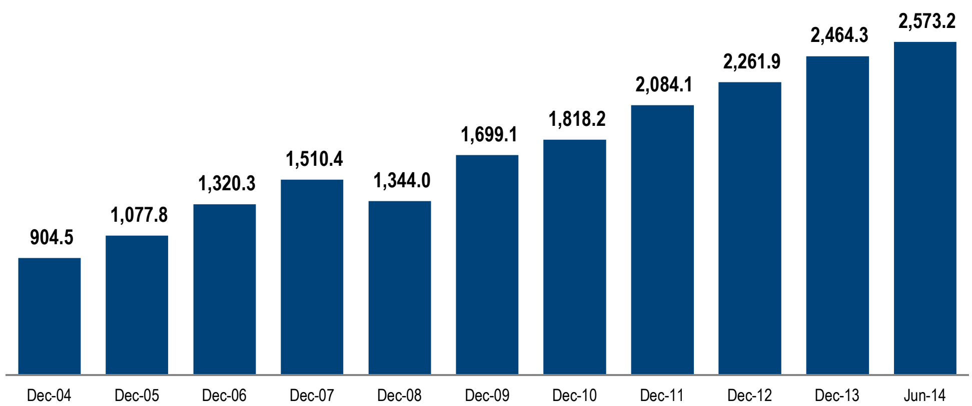
Source: International Financial Services London

The relatively stable economic conditions in Brazil coupled with an aging population have encouraged investors to increase savings. Since 2002, the investment fund industry in Brazil has undergone material changes, in part as a result of regulations promulgated by the CVM. These regulations encouraged market participants to adopt better corporate governance practices and increase transparency in the management of investment funds. Other growth drivers in the asset management industry have been the expansion of the insurance and private pension markets, which benefited from the growth of private pension plans, improved credit ratings of Brazilian issuers and easier access to financial products offered over the internet.

According to ANBIMA, as of June 30, 2014, the asset management industry in Brazil included approximately 8,489 investment funds and over R$2,573.2 billion in AUM.

The graph below reflects AUM in Brazilian investment funds as of the periods indicated:

AUM in Brazilian Investment Funds (R$ billions)



Source: Central Bank

Asset Management Products

In addition to the favorable political and economic conditions in Brazil, the asset management industry has benefited from the increasing availability of new products, such as diversified funds (*fundos multi-mercado*), a lessening risk aversion among domestic and foreign investors and the accelerated growth of private pension funds.

The principal funds in the Brazilian asset management industry include, fixed income funds, money market funds, equity funds, multi-asset funds and structured funds.

Fixed Income Funds. Fixed income funds invest solely in fixed income investments, such as bonds or certificates of deposit. These funds limit the amount of risk an investor takes on, although it could mean a lesser return that would be possible in a riskier fund.

Money Market. The money market is a component of the financial markets for assets based on short-term borrowing and lending with original maturities of one year or shorter periods. In Brazil, the money market is mainly composed of CDI transactions, which are interbank repurchase agreements with one-day maturity and based on highly liquid Brazilian government bonds.

Equity Funds. Equity funds are mutual funds that invests mainly in stocks, that are managed either actively or passively (index fund). Actively managed funds seek to obtain returns by focusing on undervalued stocks and selling them when their prices are higher, including in recession scenarios. Passively managed funds seek to obtain gains by making investments that follow general market positions, particularly equity indexes (e.g., S&P 500).

Multi-asset Funds. Multi-asset funds invest in different types of assets, including stocks, bonds, cash and real property. These types of funds increase the diversification of an overall portfolio by distributing investments throughout several classes. While this investment strategy reduces risk (volatility) compared to holding one class of assets, it also may limit potential returns.

Structured Funds. Structured funds combine both equity and fixed-income products to provide investors with a degree of both capital protection and capital appreciation. These funds use fixed-income securities to give the fund capital protection through principal repayment in addition to interest payments. These funds use options, futures and other derivatives, which are often based on market indexes, to provide exposure to capital appreciation.

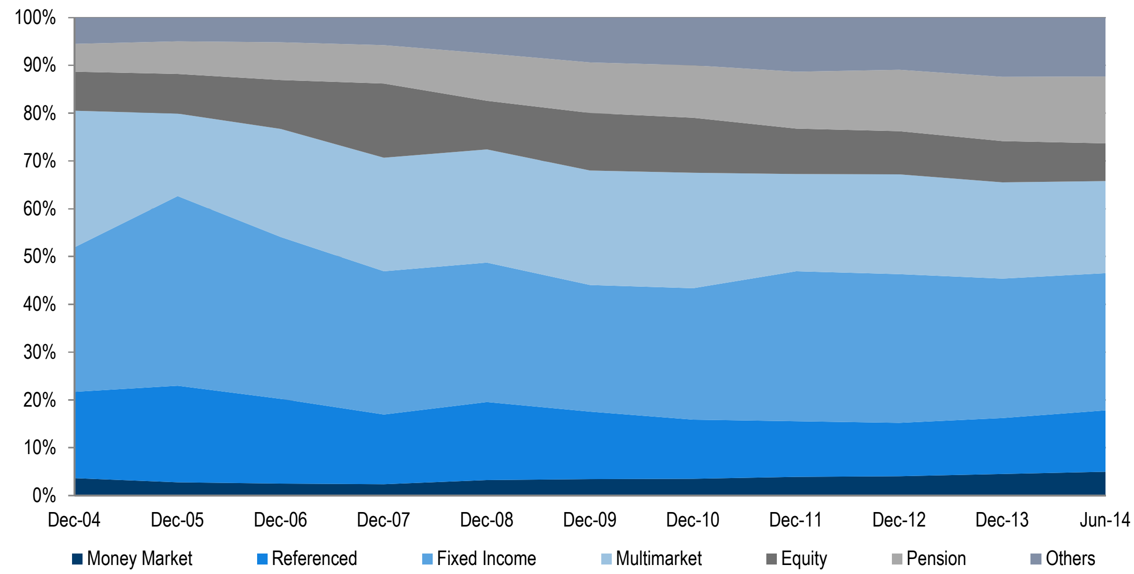
Referenced Funds. Reference funds aim to have at least 95% of their portfolio composed of securities that directly or indirectly follow the variations of the CDI or SELIC rates. Although the securities portfolio of referenced funds is comprised of variable-rate securities, oscillations can occur due to the risk perception of these securities.

Pension Funds. Pension funds are divided into (i) fixed-income pension funds, (ii) balanced pension funds, (iii) multi-market pension funds, (iv) target-date pension funds, and (v) share pension funds. Fixed-income pension funds seek returns through investments in fixed-income assets, using strategies to generate returns on interest rates and price indexes linked to the Brazilian market. Balanced pension funds seek long-term returns by investing in various asset classes, including fixed-income, and equities. These funds use a diversified investment strategy for acquiring assets, and generally invest a portion of their portfolio in variable-income assets. Multi-market pension funds seek long-term returns by investing in various asset classes. These funds do not disclose their asset mix (i.e., percentage of each asset class) and may be measured against other performance indicators that reflect only one asset class. Target-date pension funds seek returns by a target-date by investing in various asset classes and using a periodic rebalancing strategy. These funds seek to reduce risk exposure in accordance with the time remaining until the respective target-date. These funds cannot be measured against performance indicators that reflect only one asset class. Share pension funds are required to have at least 67% of its portfolio in cash equities, subscription warrants, share deposit certificates, quotas of stock funds, quotas of stock index funds or Brazilian Depositary Receipts under Level II or Level III.

Hedge Funds. A hedge fund is an investment fund that typically undertakes a wider range of investment and asset trading than other funds, but which is only open for investment from particular types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or HNWI. Hedge funds invest in a diverse range of assets, but they most commonly trade liquid securities on public markets. These funds usually employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

Notwithstanding the significant growth and size of Brazil's equity capital market, a significant portion of total AUM remains concentrated in fixed income and money market funds, due in part to the legacy of high interest rates in Brazil. As of June 30, 2014, the total amount invested in fixed income and money market funds together represented approximately 47% of total AUM, while hedge funds, equity funds and pension funds represented approximately 19%, 8% and 14%, respectively. The remaining 7% of total AUM represents currency and other types of funds.

The graph and chart below illustrate the volume (in R$ billions) and percentage of each type of fund which comprise the Brazilian asset management industry for the periods indicated:



Source: ANBIMA

Type of Fund	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Jun-14
Money Market	33	30	33	36	44	58	63	81	91	110	128
Referenced	163	218	235	220	219	240	225	243	253	290	330
Fixed Income	274	427	446	453	392	451	500	654	704	719	739
Multimarket	258	186	299	359	318	406	440	424	471	497	495
Equity	74	90	135	234	137	205	209	198	204	212	203
Pension	52	74	105	121	133	180	200	248	291	331	360
Others	50	53	68	88	101	159	181	236	247	306	318
Total	**904**	**1,078**	**1,320**	**1,510**	**1,344**	**1,699**	**1,818**	**2,084**	**2,262**	**2,464**	**2,573**

Source: ANBIMA

Private Equity

The investment period of a private equity fund is usually mid- to long-term. Returns on private equity investments are generated through one, or a combination of, the following three factors: (i) accumulation of cash flows from operations; (ii) improvement of earnings over the life of the investment; and (iii) sale of a business for a higher multiple of earnings than the original purchase price. Exit strategies used by private equity funds include initial public offerings and selling a business to new investors.

The private equity industry in Brazil has expanded in recent years, partially leveraging from an earlier period of private growth from 1994 to 2000.

In recent years, private equity firms have been tapping capital markets in Brazil extensively in order to fund portfolio companies' growth and to recycle funds' portfolios. We believe the private equity industry in Brazil will continue to grow given the number of firms currently interested in investing or building investment platforms in Brazil.

We believe that the current favorable economic condition is the main driver behind the growth of the Brazilian private equity industry. The emerging middle class, eager to benefit from ever increasing disposable income and credit availability, is boosting internal consumption across a broad range of products, from food to government-subsidized housing, making Brazil one of the leading consumer markets worldwide. The Brazilian government is stimulating this growth, mainly by means of large investments in infrastructure, including the Olympic Games in 2016. Other sectors such as commodities and energy will continue to play an important role in the continued growth of Brazilian GDP, backed by solid internal and external consumer markets. Growth, consolidation and governance, this is the Brazilian landscape of the industry, which, in the country work basically in all equity deals.

According to a report published by the 2013 Latin America Venture Capital Association, or LAVCA, Latin American private equity investment activity reached US$7.9 billion in 2012, representing a decrease of 21% over 2011. The $7.9 billion total reflects 237 investments, a 37% increase in the number of deals from the previous year.

Brazil has become a major market for private equity in Latin America. Consistent with previous years, Brazil was the largest market for private equity/venture capital investments in Latin America, accounting for 72% of the total invested and 62% of the total deals in 2012. In Mexico, the total number of deals in 2012 was consistent with 2011, but dollars committed increased by 50% compared to 2011. In 2012, private equity activity in the Andean region was driven by an increasing number of cross border deals, with managers in Colombia, Peru and Chile investing across all three markets.

As a result of Brazil's prominence as a major market for private equity investment, many international funds that previously only invested opportunistically in Brazil are now establishing local offices and raising local funds. This growth was a result of the positive performance of Brazilian equity capital markets, which allowed private equity firms to recycle their portfolios and fund growth. In addition, Brazil's growing middle class coupled with a positive outlook for Brazil's exports created opportunities for further investments in consumer-related and infrastructure sectors. Furthermore, oil services and shipbuilding industries should attract private equity firms for several years to come, in light of the increasingly positive outlook of pre-salt and offshore exploration.

Latin American private equity and venture capital investors faced many of the same key challenges in 2012 that they faced in 2011. Despite increasing demand from global investors for exposure to the region, fundraising requires an arduous effort by all accounts. Competition for deals in Brazil, Colombia and Peru was intense, but competition for human capital to staff investment teams and portfolio companies presented an even greater challenge. Moreover, many business owners remained skeptical of private equity and are often unwilling to give up even a minority stake to a financial investor.

During 2013, concerns regarding economic growth and macroeconomic stability in Brazil contributed to a decline in fundraising for private equity investments. Fundraising reached US$1.0 billion, a level similar to 2009 fundraising volumes, representing 31.9% of all resources raised in Latin America as a whole.

Fundraising has increased for private equity investments in other emerging markets. The table below shows, for the periods indicated, fundraising activity in selected emerging market economies:

EM PE Fundraising Totals by Select Markets, 2003–2013 (US$ millions)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	**230**	**480**	**158**	**2,098**	**2,510**	**2,995**	**1,298**	**2,076**	**7,109**	**2,843**	**1,024**
Latin America	**417**	**714**	**1272**	**2,656**	**4,419**	**4,874**	**2,613**	**6,534**	**8,765**	**5,167**	**3,212**
Brasil as a % of LatAm	*55.2%*	*67.2%*	*12.4%*	*79.0%*	*56.8%*	*61.4%*	*49.7%*	*31.8%*	*81.1%*	*55.0%*	*31.9%*
China	213	311	2,243	4,279	3,890	14,104	6,933	8,079	19,185	11,024	9,626
India	236	706	2,741	2,884	4,569	6,876	2,673	3,225	2,198	2,586	1,187
Russia/CIS	175	200	1,254	222	1,790	1,068	327	75	97	678	601
South Africa	741	340	348	1,190	546	218	N/A	423	n.a.	n.a.	n.a.

Source: Emerging Markets Private Equity Association, IMF

In addition to an increase in fundraising in recent years, private equity investments have increased over time and, despite the adverse impact of recent market developments, activity in Brazil has remained at high levels, representing the majority of investments made in Latin America as a whole, as illustrated in the table below.

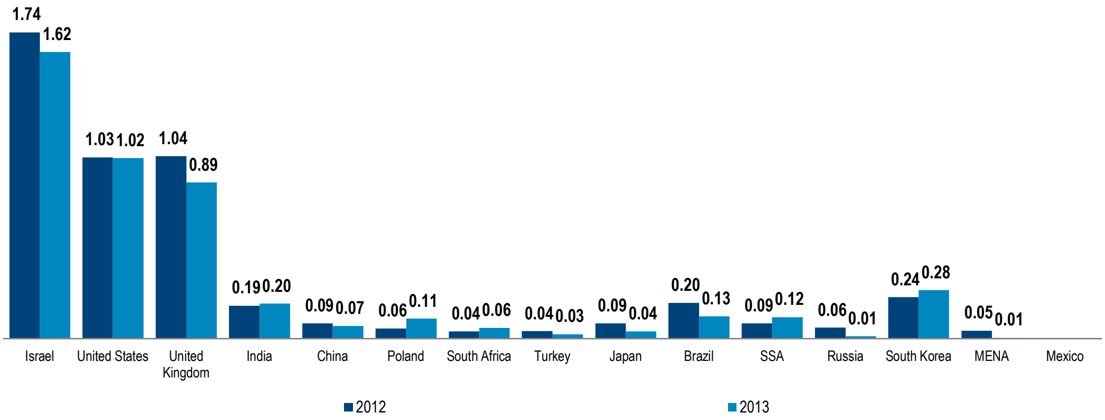
EM PE Investment Totals by Select Markets, 2003–2013 (US$ millions)

Region	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	**321**	**120**	**474**	**1,342**	**5,285**	**3,020**	**989**	**4,480**	**2,853**	**4,589**	**2,784**
Latin America	**822**	**609**	**1015**	**4,264**	**7,545**	**6,962**	**1,318**	**6,613**	**3,905**	**5,486**	**4,288**
Brasil as a % of LatAm	*39.1%*	*19.7%*	*46.7%*	*31.5%*	*70.0%*	*43.4%*	*75.0%*	*67.7%*	*73.1%*	*83.6%*	*64.9%*
China	1667	1389	2,991	8,200	9,458	8,994	6,288	9,038	10,908	7,370	6,783
India	456	1272	1,377	5,687	9,905	7,483	4,011	5,300	6,298	3,462	3,492
Russia/CIS	113	240	240	402	805	2,647	217	898	1,599	1,291	295

Source: Emerging Markets Private Equity Association, IMF

Although Brazil has had a large inflow of capital into private equity investments in recent years, the Brazilian market remains under penetrated compared to other BRIC countries, and especially compared to the United States. According to EMPEA, private equity investment as a percentage of GDP in Brazil was 0.13% in 2013, while private equity investment in the United States and United Kingdom represented 1.02% and 0.89% of GDP in 2013, respectively.

The graph below shows, as of December 31, 2012 and 2013, private equity investments as a percentage of GDP for each of the countries listed:



Source: Emerging Markets Private Equity Association, IMF

Wealth Management

The wealth management industry typically provides services to HNWI, including highly customized and sophisticated investment management services, financial planning consultancy, trust advisory services and other advisory services in connection with estate planning, business succession and small-scale M&A transactions, among others.

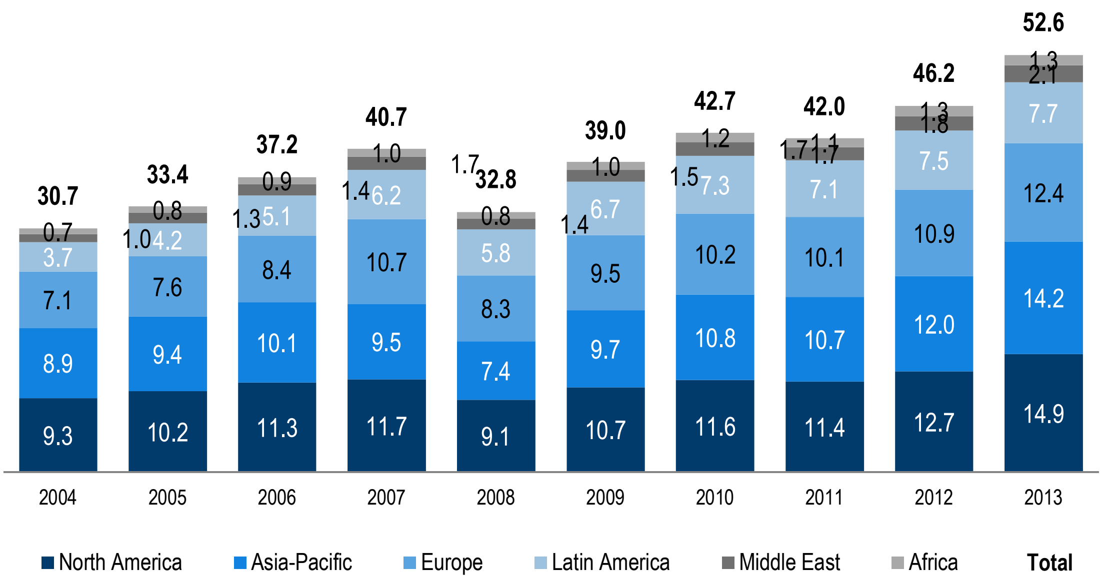
The world's population and aggregate investable wealth of HNWI grew strongly in 2013, reaching record levels. HNWI population increased by 14.4% from 12.0 million in 2012 to reach 13.7 million, with nearly two million individuals joining the HNWI population. Meanwhile, aggregate investable wealth increased 13.8% to US$52.6 trillion from US$46.2 trillion in 2012, the second consecutive year of strong growth. This increase resulted primarily from improved economic conditions and strong equity market performance.

HNWI wealth in 2013 represented a new level of strength, going well past the historical high of US$46.2 trillion set in 2012. UHNWI population and wealth growth in 2013 outperformed other wealth bands in all regions except Latin America.

North America and Asia-Pacific, the two largest HNWI regions, drove global growth, expanding 15.9% and 17.3% respectively in HNWI population, and 17.1% and 18.2% in wealth. North America sustained its position as the largest HNWI market, with 4.3 million HNWI but just 10,000 more individuals than Asia-Pacific's. However, Asia-Pacific is home to the majority of the fastest growing HNWI countries and is expected to surpass North America again in the near future.

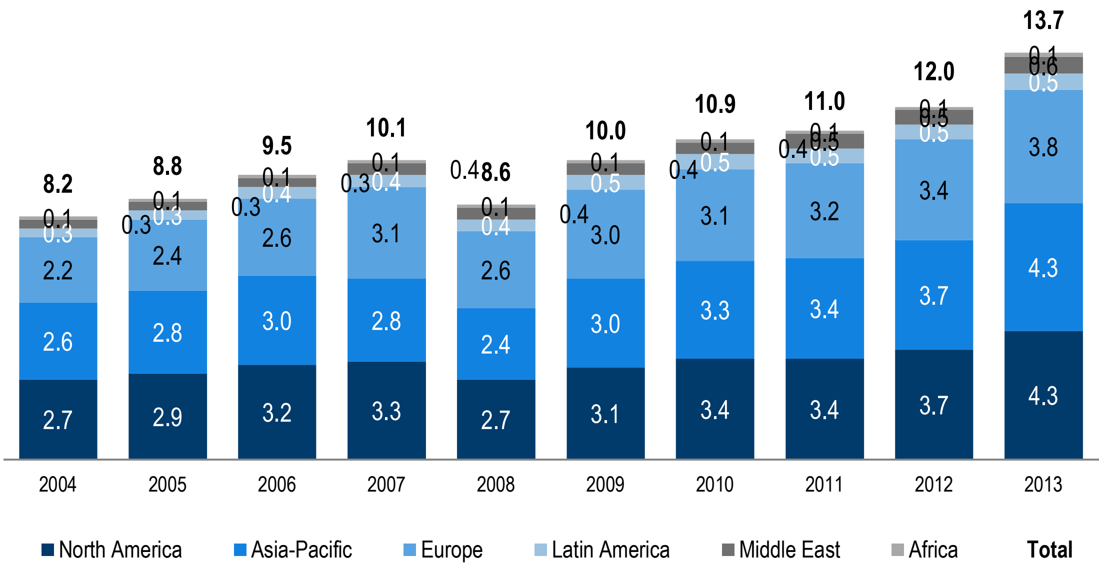
Global HNWI financial wealth is forecast to grow 6.9% annually through 2016 to reach a new record high of US$64.3 trillion, with an additional US$11.7 trillion in HNWI wealth created over the three-year period 2014–2016. Every region except Latin America is expected to grow strongly, though Asia-Pacific is likely to emerge as the clear leader, with a 9.8% annual growth rate. Asia-Pacific's strong growth should allow it to overtake North America in HNWI population in 2014, and in HNWI wealth by 2015.. The following graphs show the amount of wealth (in R$ trillions) and the HNWI across various regions around the world as of December 31 for the years indicated:

HNWI Wealth Distribution (2004-2013) (US$ trillions)



Source: World Wealth Report

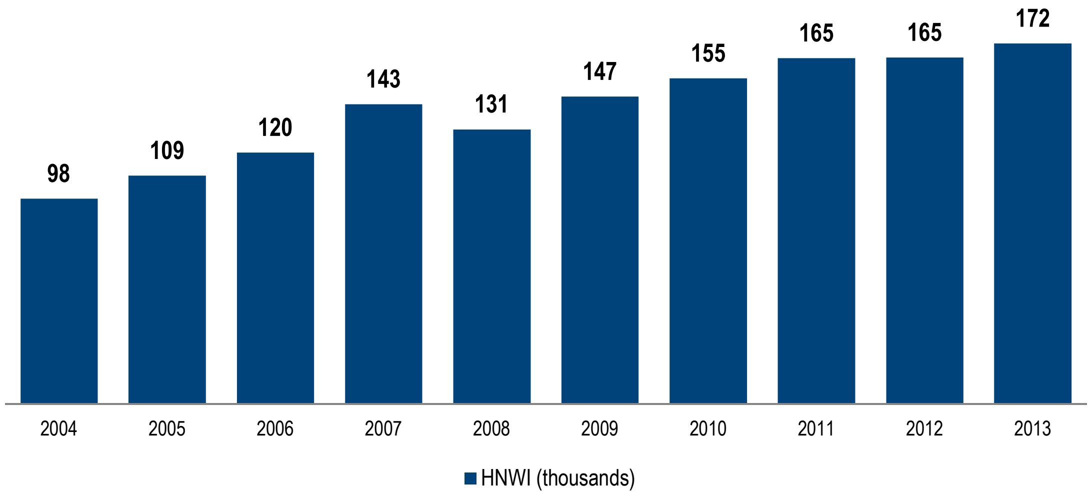
HNWI Population Distribution (2004-2013) (millions)



Source: World Wealth Report

According to the World Wealth Report, Brazil is one of the largest economies in terms of HNWI, with approximately 172,000 individuals. From 2004 through 2013, Brazil had a compounded annual growth rate of 6.4% in terms of HNWI for such period.

The graph below illustrates the number of HNWI in Brazil from 2004 through 2013:



Source: World Wealth Report

A focus on wealth growth, rather than preservation, has recently gained momentum, particularly among UHNWIs. According to World Wealth Report, in 2014, UHNWIs preference for growth increased dramatically, from 18.0% in 2013 to 30.7% in 2014 of UHNWIs prioritizing wealth growth, while the focus on wealth preservation declined from 44.8% in 2013 to 27.6% in 2014. While HNWIs globally are still slightly more focused on preserving their wealth (28.6%) than growing it (27.6%) in 2014, the percentage of respondents focused on preservation has decreased 32.7% compared with a year earlier.

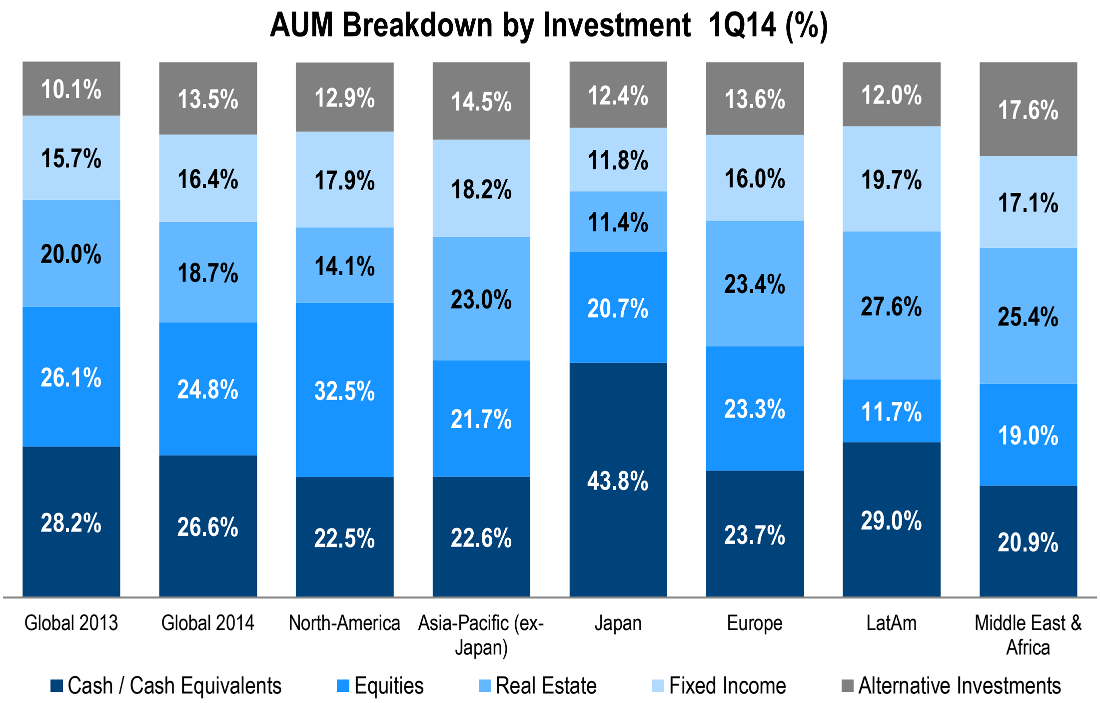
Investment allocations in 2014 reflect the decreased attention toward wealth preservation. According to World Wealth Report, while cash still represents the largest share of HNWI holdings, allocations to this asset class declined by 1.6 percentage points in 2014 compared to the year prior, to 26.6%. Combined allocations to cash and equities declined by 2.8 percentage points to 51.5% in 2014, from 54.3% in 2013. During the same period, allocations to fixed income and alternative investments increased by 4.1 percentage points, from 25.8% in 2013 to 29.9% in 2014.

Equities, which experienced a slight decline of 1.2 percentage points (to 24.8%) in 2014 maintained their position as the second-most-favored asset class after cash. The behavior of institutional investors and UHNWIs often dictates and influences trends in the rest of the market, and their preferences are likely to have an impact on overall HNWI behavior. Accordingly, we believe the overall decline in equity allocations may not persist, given that UHNWIs expanded their equity allocations from 20.2% in 2013 to 23.8% in 2014. The largest drop in equity allocation occurred in North America (4.7 percentage points), though equities remain far more popular in North America compared to all the other regions, capturing 32.5% of allocations in 2014.

In 2014, allocations to alternative investments increased in all regions, except Latin America where challenging economic and market conditions caused HNWIs to boost allocations to cash and fixed income. The increase was marked by a 3.5% growth in hedge fund allocations worldwide in 2014. Allocations to hedge funds increased the most in North America, with 12.1% in 2014 versus 7.6% a year earlier. Those under 40 increased their hedge-fund allocation from 12.5% in 2013 to 17.7% in 2014, while those between 40 and 49 increased their allocation from 10.4% in 2013 to 13.2% in 2014. Overall, hedge funds remain the least favored alternative investment at 13.4% in 2014.

Foreign exchange was the only other alternative investment category besides hedge funds to increase its share of allocations in 2014, moving from 17.3% in 2013 to 18.4% in 2014. Japanese HNWIs are by far the most interested in foreign exchange—in 2014, their allocation of 33.6% is almost double the amount invested by HNWIs in any other region, even though it represents a decrease of 11.0 percentage points from a year earlier. Foreign exchange allocations increased the most in North America, increasing by 6.8 percentage points to reach 12.5% in 2014.

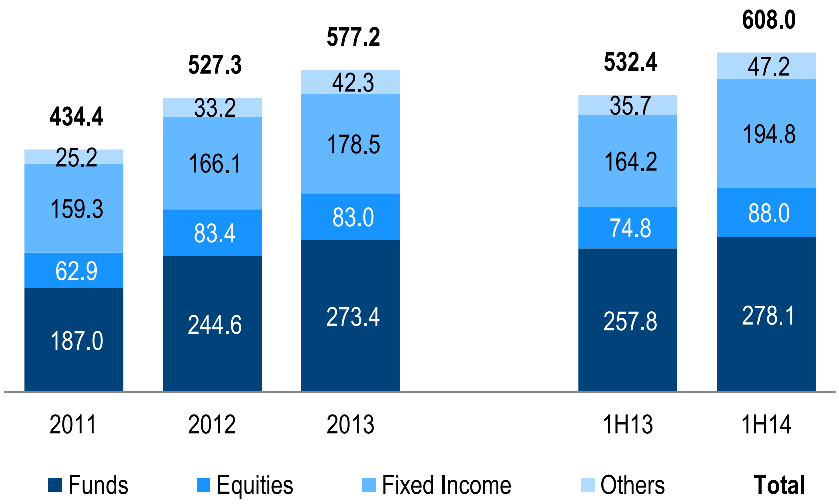
In 2014, foreign investments expanded by double digits in every region except Latin America, led by Europe with a 13.5% increase compared to 2013. HNWIs in North America and Asia-Pacific remain the most likely to invest in their home markets at 68.1% and 67.5% respectively, while those in the Middle East, Africa, and Europe remain the most likely to invest abroad, with allocation to their home markets at 54.0% and 60.7%, respectively, in 2014. HNWIs with more than US$5 million of assets increased their foreign investments by 19.3 percentage points, from 22.8% in 2013 to 42.1% in 2014, indicating that HNWIs in higher wealth bands are willing to take a multi-geography approach to maximize opportunities globally.



Source: World Wealth Report

According to data from ANBIMA, as of June 30, 2014, the Brazilian private banking segment had a total of R$608.0 billion in AUM. Of this total, 32.0% is invested in fixed income products, 45.7% in investment funds (open-ended, closed-ended funds and structured funds), 14.5% in equities and 7.8% in other assets.

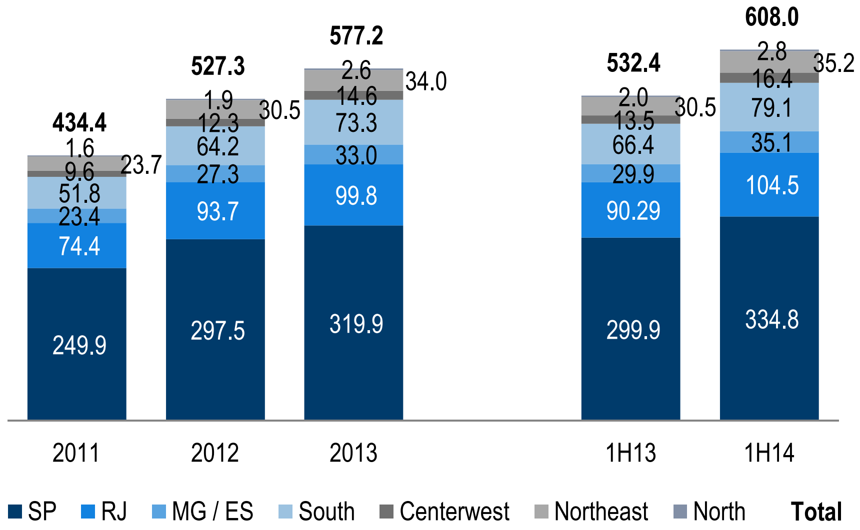
The graph below illustrates the breakdown of wealth (in R$ billions) in Brazil by investment segments:



Source: ANBIMA

The majority of Brazil's high net worth individuals are located in two states, São Paulo and Rio de Janeiro. As of March 31, 2014, São Paulo and Rio de Janeiro accounted for 55.5% and 17.4%, respectively, of all of Brazil's high net worth individuals. With the expected growth of the Brazilian economy through the diversification of businesses and geographical regions, this concentration may decrease in the future, thus representing an opportunity for the wealth management industry to explore different markets.

The graph below illustrates the breakdown of wealth (in R$ billions) in Brazil by geographical regions:



Source: ANBIMA

REGULATORY OVERVIEW

The Brazilian Financial System and Banking Regulation

Regulatory Framework

The basic institutional framework of the Brazilian financial system was established in 1964 by 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;
- the Central Bank;
- the CVM;
- 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*).

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 members of the board of CMN are the Minister of Finance (chairman), the Minister of Planning, Budget and Management and the President of the Central Bank. 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 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;
- regulating the structure and operation of financial institutions;
- 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 and exchange control matters, regulating public and private sector Brazilian financial institutions and monitoring and regulating foreign investment in Brazil. The President of the Central Bank is appointed by the President of Brazil for an indefinite term of office subject to ratification by the Brazilian Senate.

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 the agency responsible for implementing policies established by the CMN and regulates, develops, controls and inspects the securities market. The CVM is headquartered in Rio de Janeiro and has jurisdiction in all Brazilian territory. 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; and
- controlling and overseeing the Brazilian securities 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.

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, (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.

All decisions rendered by the CVM and the Central Bank in administrative proceedings relating to the national financial system and the securities market are subject to appeal to the Board of Appeals of the National Financial System (*Conselho de Recursos do Sistema Financeiro Nacional*), which is comprised of four members appointed by public authorities and four members from the private sector.

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.

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 must be expressly authorized to operate in Brazil by Presidential decree;

- a financial, banking or credit institution may not invest in the equity of any other company, 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, and is subject to certain limitations imposed by the CMN. If a financial, banking or credit institution takes possession of real estate in satisfaction of a debt, such property must be sold within one year, unless otherwise authorized by the Central Bank;

- 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;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, any company which holds more than 10.0% of its shares, except (subject to the prior approval of the Central Bank) in certain limited circumstances;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, any company in which it holds more than 10.0% of the share capital;

- a financial, banking or credit institution may not grant loans to, or guarantee transactions of, its executive officers and directors (including their immediate and extended families) or to any company in which such executive officers and directors (including their immediate and extended families) hold more than 10.0% of the share capital;

- 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; and

- financial institutions may not expose themselves to gold, assets or liabilities referenced in currency exchange variations in excess of 30.0% of their PR.

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 No. 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*) 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 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) 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); (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 No. 4,193, of March 1, 2013, the Central Bank, beginning on January 1, 2016, will be 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 Core Capital (*Adicional de Capital Principal*) and may be imposed upon the following schedule: (i) from 0.625% to 1.25% of RWA, in 2016; (ii) from 1.25% to 2.5% of RWA, in 2017; (iii) from 1.875% to 3.75% of RWA, in 2018; (iv) from 2.5% to 5.0% of RWA, from 2019 on. The imposition of Additional Core Capital (*Adicional de Capital Principal*) must be receded b a twelve months prior notice by the Central Bank. Non-compliance with Additional Core 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 Core 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 reduces the amount to be authorized to make up the Additional Tier 1 Capital (*Capital Complementar*); (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 (*Capital Principal*) 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 (*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) treasury stocks that would be eligible for Additional Tier 1 Capital (*Capital Complementar*).

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 attend all the following conditions to be part of Tier 2 Capital: (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 their date of issuance and maturity date, and may not provide for any repayment before such period; (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 of 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 (*Capital Principal*) 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 (*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) treasury stocks that would be eligible for Tier 1I 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 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.

Banco BTG Pactual's Consolidated Capital Ratios

Prior to October 2013, the PR of a financial institution was calculated pursuant CMN Resolution No. 3,444, of February 28, 2007 and established different definitions for Tier 1 and Tier 2 capital.

Tier 1 capital was represented by the net shareholders' equity plus the balance of positive income accounts and of the deposit in the account designated to compensate capital deficiency, less the amounts corresponding to the balances of negative income accounts, revaluation reserves, contingency reserves, and special profit reserves concerning mandatory dividends not distributed, preferred shares with a redemption clause and preferred shares with cumulative dividends, certain tax credits, deferred fixed assets (less the premiums paid on acquiring the investments), and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the "securities available for sale" category and derivatives used for hedging cash flow.

Tier 2 capital was represented by revaluation reserves, contingency reserves, special reserves of profits concerning mandatory dividends not distributed, preferred cumulative stock issued by financial institutions authorized by the Central Bank, preferred redeemable stock, subordinated debt and hybrid debt capital instruments and the balance of non-accounted gains or losses resulting from mark-to-market securities classified in the "securities available for sale" category, and derivatives used for hedging the cash flow.

Because of these different definitions of Tier 1 and Tier 2 capital, the operating ratios with respect to any period prior to October 1, 2013 are not comparable to the operations ratios following the adoption of the Basel III requirements.

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 current types of reserves required under Brazilian law include:

Demand Deposits. Pursuant to Circular No. 3,632 of February 21, 2013, as amended, banks and other financial institutions are generally required to deposit 45.0% of the daily average balance of their demand deposits, bank drafts, collection of tax receipts, debt assumption transactions and proceeds from the realization of guarantees granted to financial institutions in excess of R$44.0 million with the Central Bank on a non-interest bearing basis. If the applicable reserve requirement of a financial institution is equal to or below R$0.5 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,632, although it must provide information to the Central Bank on demand deposits held by it. Financial institutions with Tier 1 component of the PR higher than R$3.0 billion (as of April 2014) are allowed to deduct, from the amounts to be deposited with the Central Bank (up to 20% of such deposits), funds committed under certain lines of credit benefiting from government subsidies. At the end of each day, the balance in compulsory deposits account shall be equivalent to at least 80% 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. Currently, pursuant to Circular No. 3,128 dated June 24, 2002, the Central Bank has established that Brazilian financial institutions are generally required to deposit in an interest-bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 20.0% 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 saving accounts captured by the entities of the Brazilian Savings and Loan System (*Sistema Brasileiro de Poupança e Empréstimo*, or SBPE) must be used to finance residential real estate or the housing construction sector, as determined by CMN Resolution No. 3,932, of December 16, 2010. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate financings, mortgage notes, charged off residential real estate loans and certain other financings, all as specified in guidance issued by the Central Bank.

Pursuant to CMN Resolution No. 3,023 of October 11, 2002, as amended, the Central Bank established an additional reserve requirement of 10% on the savings account funds captured by the entities of the SBPE. CMN Resolution No. 3,843 of March 10, 2010, sets forth that this additional reserve requirement shall be deposited in cash and will bear interest at a SELIC-based interest rate.

Time Deposits. Pursuant to Central Bank Circular No. 3,569, of December 22, 2011, as amended, 20% of a financial institutions' time deposits and certain other amounts, after a deduction of R$30.0 million, are subject to reserve requirements, in the amount exceeding: (i) R$3.0 billion, for financial institutions with Tier 1 component of the PR below R$2.0 billion; (ii) R$2.0 billion, for financial institutions with Tier 1 component of the PR equal to or higher than R$2.0 billion and below R$5.0 billion; (iii) R$1.0 billion, for financial institutions with Tier 1 component of the PR equal to or higher than R$5.0 billion and below R$15.0 billion; or (iv) zero, for financial institutions with Tier 1 component of the PR equal to or higher than R$15.0 billion. If the applicable reserve requirement of a financial institution is equal to or below R$0.5 million, such financial institution will be exempt from setting aside reserve requirements set forth by Circular No. 3,569, although it must provide information to the Central Bank on time 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 interest at a SELIC-based rate. At the end of each day, deposited amounts shall be equivalent to 100% of the applicable reserve requirement.

Additional Reserve Requirement (Demand Deposits, Saving Accounts and Time Deposits). On March 27, 2013, the Central Bank issued Circular No. 3,655 consolidating the rules regarding additional reserve requirement on deposits maintained in multiple-service banks, investment banks, commercial banks, development banks, credit, financing and investment companies, real estate companies and savings and loan associations.

Pursuant to such regulations, the aforesaid entities are required to reserve, on a weekly basis, the cash equivalent of the sum of the following amounts in excess of R$3.0 billion (for financial institutions with adjusted Tier 1 component of the PR below R$2.0 billion), R$2.0 billion (for financial institutions with Tier 1 component of the PR below R$5.0 billion and equal to or higher than R$2.0 billion), R$1.0 billion (for financial institutions with Tier 1 component of the PR below R$15.0 billion and equal to or higher than R$5.0 billion), or zero (for financial institutions with Tier 1 component of the PR equal to or higher than R$15.0 billion): (i) 11% of the arithmetic average of the time deposits funds and certain other amounts subject to the respective reserve requirement; (ii) 10% of the arithmetic average of the savings deposits funds subject to the respective reserve requirement; and (iii) 0% of the arithmetic average of the demand deposits funds subject to the respective reserve requirement. If the applicable reserve requirement of a financial institution is equal to or below R$0.5 million, such financial institution will be exempt from the reserve requirements set forth by Circular No. 3,655. The reserve requirement must be met in cash in a specific account and, at the end of each day, the balance in such account shall be equivalent to 100% of such additional reserve requirement.

Deposits and Guarantees. Pursuant to Circular 3,090 of March 1, 2002, financial institutions are required to deposit with the Central Bank, on a non-interest bearing basis, an amount in cash equivalent to 45.0% of the amounts corresponding to the sum of the average balance of (i) deposits made by individuals or legal entities domiciled abroad, compulsory deposits and tied deposits (*depósitos vinculados*) in excess of R$2.0 million and (ii) agreements with assumption of obligation related to transactions carried out in Brazil and guarantees granted by them (*garantias realizadas*) in excess of R$2.0 million. At the end of each day, the balance in such account shall be equivalent to at least 100% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

Foreign currency. Pursuant to Circular No. 3,548, of July 8, 2011, as amended, financial institutions authorized to carry out foreign exchange transactions are no longer required to deposit a percentage of their daily exposure in foreign currencies exceeding the amount equivalent to US$3.0 billion, as was previously the case. When requested, deposits were previously made with the Central Bank on a non-interest bearing basis, and, if the applicable reserve requirement of a financial institution or financial conglomerate was equal to or below R$0.1 million, such financial institution was exempt from setting aside reserve requirements set forth by Circular No. 3,548.

In addition, in the past, the Central Bank imposed certain compulsory deposit requirements on other types of transactions that are no longer in effect. However, the Central Bank may restore these requirements or impose similar or more stringent restrictions in the future.

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.

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

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 Ministry'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 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 determined in accordance with criteria set forth from time to time by the Central Bank relating to: (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, delay in payments, contingencies and credit limits; and (ii) the terms of the transaction, such as its nature and purpose, type of collateral and, in particular, its level of 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. 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 maximum risk classifications:

(1) 1 to 14 days overdue: risk level A;

(2) 15 to 30 days overdue: risk level B;

(3) 31 to 60 days overdue: risk level C;

(4) 61 to 90 days overdue: risk level D;

(5) 91 to 120 days overdue: risk level E;

(6) 121 to 150 days overdue: risk level F;

(7) 151 to 180 days overdue: risk level G; 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 reviewed as provided in item (1) above. Such R$50,000 limit may be amended by the Central Bank from time to time and applies only to transactions entered into on or before February 25, 2000.

Failure to comply with the requirements established by the Central Bank will result in the reclassification of any transaction to risk level H.

Credit loss provisions must be made monthly by each financial institution in accordance with the following:

- 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.

Facilitation of Financial Sector Consolidation

The Brazilian government established a set of rules with the purpose of facilitating corporate reorganizations among financial institutions in order to assure the liquidity and solvency of the national financial system and safeguard the interests of depositors and investors. The main measures include: (i) granting the Central Bank power to determine the decrease in current levels of mandatory capitalization and to regulate the transfer of control and/or corporate restructuring of financial institutions; (ii) the establishment by the Central Bank of a special credit facility, known as the Program for the Improvement and Enhancement of the National Financial System (*Programa de Estímulo à Reestruturação e ao Fortalecimento do Sistema Financeiro Nacional*), or PROER, for the specific purpose of financing financial institutions which acquire control or assets and obligations of other financial institutions or whose control is transferred to third parties; and (iii) the creation of certain tax benefits for the financial institutions which are financed by the PROER.

The PROER was created to protect savings and investments in Brazil. The PROER allows the Central Bank to intervene in order to protect against failures of financial institutions facing liquidity crises. The creation of the PROER streamlined the process by which the government could acquire control of a failing financial institution and granted the Central Bank authority to determine an appropriate course of action to prevent failure of any such financial institution, whether through a capital increase, merger, spin-off or otherwise.

Non-compliance by a financial institution with these rules could subject it to the Temporary Special Administration Regime (*Regime de Administração Temporária*), or RAET, as described below. The PROER was established to strengthen prudent supervision of financial institutions by means of verification of liquidity and asset quality. These measures were similar to current measures being implemented in the United States and Europe in response to the current global financial crisis.

Internal Compliance Procedures

All financial institutions must have in place internal policies and procedures to control:

- their financial, operational and management information systems; and
- their compliance with all applicable regulations.

The board of executive officers of the financial institution is responsible for implementing an effective internal controls structure by defining responsibilities and control procedures and establishing corresponding objectives and procedures at all levels of the institution. The board of executive officers is also responsible for verifying compliance with all internal procedures. The internal auditing department of a financial institution reports directly to the board of executive officers or management of the institution, as applicable. The external auditors are responsible for issuing a report on the internal control system.

Brazilian Payment and Settlement System

The rules for the settlement of payments in Brazil are based on the guidelines adopted by the Bank of International Settlements, or BIS. The Brazilian Payment and Settlement System (*Sistema de Pagamentos Brasileiro*), or SPB, began operating in April 2002. The Central Bank and the CVM have the power to regulate and supervise SPB. Pursuant to these rules, all clearing houses are required to adopt procedures designed to minimize the possibility of systemic crises and the risks previously articulated by the Central Bank. The most important principles of SPB are the following:

- the existence of two main payment and settlement systems: real time gross settlements, using the reserves deposited with the Central Bank; and deferred net settlements, through the clearing houses;
- the clearing houses, with some exceptions, will be liable for the payment orders they accept; and
- bankruptcy laws do not affect the payment orders made through the credits of clearing houses nor the collateral granted to secure those orders. However, clearing houses have ordinary credits against any participant under bankruptcy laws.

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, and Decree No. 2,321, enacted on September 8, 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;
- the financial institution has consistently violated Brazilian banking laws or regulations;
- the financial institution fails to pay net debts as they fall due without a relevant legal reason;
- the financial institution is involved in enforcement proceedings and fails to pay or secure payment of the debt;
- the financial institution uses fraudulent means to pay debts;
- the financial institution calls the creditors to propose renegotiation of debts or assignment of assets;
- the financial institution delays payments or defrauds creditors (or seeks to delay payments or defraud creditors) by selling assets or entering into simulated transactions (sham);
- the financial institution sells its main assets to third parties without approval from all creditors and without remaining with sufficient assets to secure payment of debts;
- the financial institution creates (or seeks to create) security over assets, in respect of existing debts, without maintaining sufficient free and clear assets to secure payment of debts; or
- the financial institution leaves its establishment without a legal representative to run the business and without sufficient assets to pay creditors.

Except for the first two bullet points above, these situations would be grounds for an intervention only to the extent that it is a feasible alternative to the liquidation of the financial institution.

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. 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 the Brazilian Bankruptcy Law, or 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, 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.

The decree of extra-judicial liquidation will: (i) suspend the actions or foreclose on rights and interests relating to the estate of the entity being liquidated, and no other actions or executions may be brought during the liquidation; (ii) accelerate the obligations of the entity; (iii) interrupt the statute of limitations with regard to the obligations assumed by the institution; (iv) avoid penalties provided in agreements that became due by virtue of the extra-judicial liquidation; (v) ratably deduct interest until the date when the debts are paid in full; (vi) avoid fines 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 process)) until their respective liabilities are fully settled.

The extra-judicial liquidation will also cease: (i) if interested parties undertake to continue the company's business activities, by presenting the necessary guarantees, at the discretion of the Central Bank; (ii) with the approval of the final accounts of the liquidator and entry in the appropriate public registry; (iii) when converted into ordinary liquidation; or (iv) with a decree of bankruptcy.

On the other hand, a request for liquidation procedures can be filed on reasonable grounds by the officers of the respective financial institution or by the receiver appointed by the Central Bank in the receivership proceedings.

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;
- 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.

There is no minimum term for a RAET, but such procedure ceases upon the occurrence of any of the following events: (i) acquisition of 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) decision by the Central Bank or (iv) declaration of extra-judicial liquidation of the financial institution.

Repayment of Creditors in a Liquidation or Bankruptcy

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, 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 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.4,222 of May 23, 2013, 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). 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, two laws, introduced in 1995, affect the priority of repayment of creditors of Brazilian banks in the event of their insolvency, bankruptcy or similar proceedings. First, Law No. 9,069 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. Second, Law No. 9,450 requires that the assets of any insolvent bank funded by loans made by foreign banks under trade finance lines be used to repay amounts owing under such lines in preference to those amounts owing to the general creditors of such insolvent bank.

Cancellation of Banking License

The Banking Reform Law, together with specific regulations adopted by CMN's Resolution No. 1,065 of December 5, 1985, as amended, 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 exchange transactions. Such a cancellation is applicable under certain circumstances established by the Central Bank, such as in the case of repeated violation of the Central Bank regulations by the management of the financial institution or negligence of the financial institution in pursuing adequate banking practices concerning its exchange activities.

Pursuant to CMN's Resolution No. 4,122 of August 2, 2012, 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, without acceptable justification, (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. 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 and Banking Secrecy in Brazil

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 related to (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 (without notifying the customer) of any transactions of the type referred to under (iii) and (iv) above that exceed R$100,000. 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 Law No. 9,613 enacted on March 3, 1998, as amended. 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 (between 1.0% and 100.0% of the transaction amount or 200.0% over any profit generated or over the transaction amount) 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*), or 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 Federal Police Department; (viii) the Federal Intelligence Agency; (ix) the Ministry of Justice; (x) the Ministry of Social Security; and (xi)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. 3,584, establishing that the institutions authorized to operate in the Brazilian foreign exchange market with financial institutions located abroad must verify if the other party is physically present in the country where it was organized and licensed or is effectively supervised; 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.

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 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 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.

Politically Exposed Individuals in Brazil

Pursuant to 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 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.

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 Central Bank, with a specific review report prepared by independent auditors.

Under CMN Resolution No. 3,786 enacted on September 24, 2009, as from December 31, 2010, 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, and accompanied by an independent audit report confirming that the financial statements have been so prepared.

Independent Auditors in Brazil

On May 27, 2004, the CMN issued 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 CMN 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. The Central Bank has recently 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 system, 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 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

CMN Resolution No. 3,198, as amended, requires financial institutions and certain other entities holding a reference net worth equal to or greater than R$1.0 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

CMN Resolution No. 3,849, of March 25, 2010, or Resolution No. 3,849, establishes that financial institutions and other entities authorized to operate by the Central Bank (in the latter case, to the extent they have micro-enterprises as clients) are required to create an ombudsman office, or Ombudsman Office, independent from internal audit, and compatible with the nature and complexity of their products, services, activities, processes and systems. The Ombudsman Office needs to meet the requirements set forth in Resolution No. 3,849, taking into account efficiency in responding to clients' complaints and opinions, internal handling of deficiencies identified in operating processes, staff training, semi-annual reporting to the Central Bank, and adding value to our business and internal control through appropriate reporting to senior management on the nature of these demands.

Pursuant to Resolution No. 3,849, the by-laws of financial institutions shall provide for: (a) the duties of the Ombudsman Office; (b) criteria for the election and the removal of the ombudsman, as well as its term of office; and (c) the express commitment of the financial institution to create conditions to permit the Ombudsman Office to operate transparently, independently, impartially and objectively, and ensure the Ombudsman Office's access to information to prepare replies to the complaints received.

Resolution No. 3,849 sets forth that financial institutions are required to appoint an ombudsman and an officer responsible for the Ombudsman Office before the Central Bank, *provided* that the following requirements are met:

- the officer responsible for the Ombudsman Office is authorized to hold another position at the financial institution, except for the position as officer responsible for managing third party funds;

- in case of full-service banks, commercial banks, savings and loans banks and credit, financing and investment companies, the ombudsman cannot hold any other position in the financial institution, except for the position as officer responsible for the Ombudsman Office;

- if the same person is appointed to both the ombudsman and the Ombudsman Office's officer positions, such person is prohibited from holding any other position in such financial institution; and

- the information data about the officer responsible for the Ombudsman Office and the ombudsman must be inserted and updated into the information system designated by the Central Bank.

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. Any delays in providing the Central Bank with the required information and documents will subject the relevant financial institution to fines. 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 of 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.

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 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. 306, of May 5, 1999, 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.

The Central Bank, except in very specific circumstances, has prohibited institutions that manage third party assets and their affiliated companies from investing in fixed rate income funds that they also manage. The CVM allows investments in equity funds. There are specific rules regarding mutual fund portfolio diversification and composition, which aim to reduce exposure to certain types of risk.

The Central Bank issued Circular No. 3,086 of February 15, 2002, as amended, which establishes criteria for the registration and accounting evaluation of titles, securities and financial instruments, derivatives that form financial investment funds, application funds in quotas at investment funds, individual programmed retirement funds and offshore investment funds. By this Circular, the Central Bank ordered fund managers to mark their fixed-income securities to market; hence, the fund's portfolio assets must be accounted for at their fair market value, instead of their expected yield to maturity. As a result of this mark-to-market mechanism, the fund quotas reflect the fund's net asset value.

On August 18, 2004, the CVM enacted Instruction No. 409, as amended, which consolidated the rules applicable to investment funds (except for structured investment funds, which are regulated by specific rules).

Adoption of International Financial Reporting Standards

IFRS was adopted as the Brazilian accounting standard in 2008. This change had the potential to cause significant shifts on the profits of Brazilian corporations. The Brazilian IRS decided that such changes should not have tax effects before the adoption of the IFRS was concluded and fully understood. As such, a Transitory Taxation Regime, or RTT, was enacted, setting forth that Income Tax and Social Contributions should be assessed based on the accounting rules in force on December 31, 2007 (BR GAAP) - before the adoption of the IFRS. The MP 627 (converted into Law No. 12,973/2014) has determined that RTT will be terminated as of 2014 or 2015 (the taxpayer can elect the date). Therefore, corporations which have higher profits under IFRS are expected to have higher tax liabilities.

Regulation in Luxembourg

General

In general, no person other than a credit institution, whose activity includes the granting of credits for its own account, may carry on the business of taking deposits or other repayable funds from the public in Luxembourg.

There are two types of credit institutions in Luxembourg:

- credit institutions which are engaged in all types of banking activities covered by the Luxembourg Banking Act and related laws and regulations and which have obtained the so-called "universal banking license"; and

- specialized credit institutions, which are not generally authorized to conduct all types of banking transactions but rather more specific activities such as issuing mortgage bonds.

Credit institutions in Luxembourg must be licensed and are governed by, among other laws and regulations, the Luxembourg Banking Act. As of the date of this Offering Memorandum, Banking licenses are granted by the Luxembourg Minister of Finance, upon written application, following an investigation by the CSSF. In the framework of the investigation, the CSSF assesses whether the conditions promulgated by the Luxembourg Banking Act and related regulations are fulfilled. Beginning in November 2014, the European Central Bank, or ECB, will assume supervisory tasks under the Single Supervisory Mechanism.

The Luxembourg Branch and its subsidiary Banco BTG Pactual Luxembourg S.A., have both obtained a universal banking license in Luxembourg.

Branches of credit institutions originating from a country outside the EU and the EEA that perform banking activities, such as the Luxembourg Branch, need to obtain a banking license in Luxembourg and are in principle subject to the same authorization rules as those applicable to credit institutions located in Luxembourg. As of the date of this Offering Memorandum, compliance with these rules is, for a large part, assessed by the CSSF in relation to the foreign bank. However, a Luxembourg branch is also subject to additional rules, such as (i) a permanent disposal of an endowment capital or capital base equivalent to that required for a Luxembourg bank (authorized share capital of EUR8,700,000 of which EUR6,200,000 must be fully paid up) (ii) approved representatives with sufficient professional standing and experience, (iii) rules in relation to sound and prudent management (iv) the existence of a satisfactory administrative infrastructure in Luxembourg, (v) compliance with, among other requirements, certain own funds requirements and liquidity ratios and (vi) restrictions when acquiring participations in other companies. As of the date of this Offering Memorandum the CSSF may exempt the branch for certain rules and requirements. In general such exemption is granted if the CSSF considers that the supervision of the foreign bank is sufficient for the relevant purposes.

Generally, credit institutions established in Luxembourg in accordance with the Luxembourg Banking Act (including Luxembourg branches of credit institutions located outside the EU and EEA) are obliged to comply with the EU legal regulatory framework, including, without limitation, (i) the CRD IV package consisting of Directive 2013/36/EU and Regulation 575/2013; (ii) Directive 2004/39/EC on markets in financial instruments (MiFID) and (iii) Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

Luxembourg credit institutions (including Luxembourg branches of credit institutions located outside the EU and EEA) must also comply with capital ratios and capital requirements in order to ensure the creditworthiness and liquidity of Luxembourg credit institutions. Such ratios relate, amongst others, to own funds, concentrations of risk, solvency, capital adequacy, liquidity. The Luxembourg Branch is, together with the competent regulators, currently assessing to which extent it will be subject to a number of such ratios and requirements that apply in Luxembourg. See "Risk Factors—Minimum capital adequacy requirements imposed on us following the implementation of the Basel III Accord may negatively impact our results of operations and financial condition."

Luxembourg credit institutions are required to have robust internal governance arrangements, which include a clear organizational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks they are or might be exposed to, adequate internal control mechanisms, including sound administrative and accounting procedures and remuneration policies and practices that are consistent with and promote sound and effective risk management, as well as control and security mechanisms of their IT systems. The rules related to such organization and structure are set forth in the Banking Act and circular 12/552, as amended, of the CSSF.

Supervision

Luxembourg credit institutions (including Luxembourg branches of credit institutions located outside of the EU and EEA) are subject to the prudential supervision of the CSSF. The ongoing prudential supervision consists of analyzing the periodical financial information communicated by the credit institutions, on-site inspections and the analysis of reports and evaluations transmitted by the *réviseurs d'entreprises agréés* (approved statutory auditors) and internal auditors. Moreover, the CSSF hosts meetings with credit institutions on a regular basis.

The Luxembourg Central Bank, or BCL, is in charge of essential missions regarding monetary policy, the issuing of banknotes, financial stability, payment systems and economic analysis. In this context it is also responsible for supervising general liquidity in the markets as well as evaluating market operators for this purpose (including credit institutions). The scope of the BCL's task in respect to the supervision of general liquidity is set out in the BCL's Regulation 2009/N°4 of 29 April 2009 on the supervision of liquidity.

Reporting

As of the date of this Offering Memorandum, credit institutions are subject to extensive Luxembourg reporting requirements, which in general consist of (i) periodic reporting and (ii) TAF/MifID reporting. For prudential supervisory purposes, the Luxembourg credit institutions are required to transmit to the CSSF data relating to their activities on a monthly, quarterly, half-yearly or annual basis, depending on the object (periodic reporting). For the purpose of supervising markets in financial instruments, Luxembourg credit institutions are required to report to the CSSF all transactions in financial instruments admitted to trading on a regulated market of the EEA whether or not these transactions have been made on a regulated market (TAF/MifID reporting). The reporting requirements in Luxembourg are subject to change.

Credit institutions also have regulatory reporting obligations towards the BCL. Such reporting obligations are, amongst others, set out in BCL Regulation 2011/9 on payment instruments and operations.

Deposit

Luxembourg credit institutions are required to maintain on deposit with the BCL a certain level of reserves in accordance with the EU Council Regulation concerning the application of minimum reserves by the ECB (no 2531/98 of 23 November 1998 as modified by no 134/2002 of 22 January 2002) and the Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 concerning the application of minimum reserves (BCE/2003/9). Commercial banking operations in Luxembourg may also be subject to supervision by the ECB in coordination with the BCL when establishing monetary policies.

Deposit Guarantees

In general, all Luxembourg credit institutions are required, pursuant to the Banking Act, to participate in a deposit guarantee scheme and in an investors' compensation scheme established in Luxembourg, *the Association pour la garantie des depots*, or the *AGDL*.

Natural persons who are customers of a Luxembourg credit institution benefit from the two aforementioned schemes. In addition, companies governed by Luxembourg law or the law of another EU Member State also benefit under certain conditions from such schemes.

Guaranteed cash deposits (as defined by the AGDL) are guaranteed up to a maximum value equivalent to €100,000. In addition, the AGDL guarantees, under the investors' compensation scheme, claims up to a maximum value equivalent to €20,000. If the AGDL guarantee is invoked following the failure of a member of the AGDL, payment under the guarantee is effected by means of a contribution made by each member to the AGDL, determined in accordance with the rules defined in the articles of association of the AGDL.

Money Laundering

Luxembourg credit institutions are required to have adequate proceedings to prevent operations related to money laundering or terrorist financing and to enable them to respond promptly to inquiries from the Luxembourg authorities responsible for combating money laundering and the financing of terrorism.

Luxembourg credit institutions are also obliged to establish procedures allowing for the identification of customers (as well as their beneficial owners and/or of an agents, if any) and to have in place systems for assessing and managing money-laundering and terrorism financing risks in accordance with the varying degree of risk attached to the relevant clients and transactions.

Luxembourg credit institutions are also required to report to a special judicial authority (*Cellule de Renseignement financier*), any transaction that they suspect to be related to money laundering or the financing of terrorism.

Reorganization measures of Luxembourg branches

Luxembourg branches of non-European credit institutions subject to reorganization measures which are decided upon by the administrative or judicial authorities of the State in which it has its registered office and which, according to the law of that State, are effective in Luxembourg shall be fully effective in Luxembourg, without any further formalities, in accordance with the legislation of the home State. This rule shall also apply where Luxembourg law does not provide for such measures or makes their implementation subject to conditions which are not fulfilled. The reorganization measures shall be effective in Luxembourg once they become effective in the State where they have been taken.

However, the Luxembourg District Court shall have jurisdiction to declare, upon application by the CSSF, a suspension of payments in respect of a Luxembourg branch of a non-European credit institution. The CSSF alone shall be competent to apply to the Luxembourg District Court for a declaration of suspension of payments, if it considers this necessary in order to preserve the interests of creditors of the Luxembourg Branch.

Cancellation of banking license

Luxembourg banking licenses are withdrawn if (i) the credit institution does not make use of the license within 12 months, expressly renounces the license or has ceased to engage in business for the preceding six months; (ii) it has been obtained by making false statements or by any other irregular means or (iii) the credit institution is no longer able to fulfill its obligations towards its creditors."

Regulation in the United Kingdom

One of our operating entities, BTG Pactual Europe LLP, or 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, or the Principles. Pursuant to these 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, or 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$200,000. 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, or 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

The following summary describes certain provisions of the Notes and the Indenture. This summary is not complete and is subject to, and qualified in its entirety by reference to, the provisions of the Indenture and the Notes, including the definitions therein of certain terms. In case of any conflict regarding the rights and obligations of the Issuer and the Noteholders under the Indenture, the Notes and this Offering Memorandum, the terms of the Indenture will prevail. We urge you to read each of the Indenture and the form of the Notes because they define your rights as holders of the Notes. Copies of the Indenture and forms of Notes may be obtained by Noteholders upon written request to the Trustee or the paying agents without the consent of the Issuer at the addresses set forth on the back cover page of this Offering Memorandum. You can find the definitions of certain terms used in this description under "—Certain Definitions" or in the Indenture governing the Notes. In this section, we also use certain terms derived from Brazilian law and regulations that are explained in more detailed elsewhere in this Offering Memorandum (see "Regulatory Overview—Capital Adequacy and Leverage).

For purposes of this "Description of the Notes," the term "Issuer" means Banco BTG Pactual S.A., acting through its Luxembourg branch, and its successors under the Indenture, excluding its subsidiaries.

General

The Issuer will issue, through its Luxembourg branch, US$1,300,000,000 of 8.750% Perpetual Non-Cumulative Junior Subordinated Notes (the "Notes"), under an indenture to be dated as of September 18, 2014 (the "Indenture"), among the Issuer, Deutsche Bank Trust Company Americas, as Trustee, registrar, paying agent and transfer agent (the "Trustee"), and Deutsche Bank Luxembourg S.A., as Luxembourg transfer agent and paying agent.

The Notes:

- are the Issuer's direct, unsecured subordinated obligations, subordinated in right of payment to all existing and future Senior Liabilities in accordance with the subordination provisions of the Indenture;
- are pari passu in right of payment among themselves and with all existing and future Tier 1 Pari Passu Liabilities, except in the event of a Write-Off as described below under "—Write-Off by the Issuer";
- to the extent permitted by applicable law, are senior in right of payment to the Issuer's Junior Liabilities, except in the event of a Write-Off as described below under "—Write-Off by the Issuer";
- are issued in an aggregate principal amount of US$1,300,000,000;
- are perpetual securities and have no fixed maturity date or mandatory redemption date; and
- 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 US$200,000 and integral multiples of US$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."

Neither the Issuer nor any legal entity related to the Issuer within the same financial conglomerate or a non-financial entity controlled by the Issuer (as defined by applicable Brazilian laws and Central Bank regulations) have entered, and none of them will enter, into any agreement that provides for any guarantee of, or insurance with respect to, or any security of collateral for, the Notes affecting the subordination of the Notes in accordance with CMN Resolution No. 4,192

In the event of a Dissolution Event, all principal, premium, if any, and interest due or to become due on all Senior Liabilities and any other 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, whether the principal, interest or otherwise. The Noteholders will be entitled to receive payment pari passu among themselves and with all existing and future Tier 1 Pari Passu Liabilities, except in the event of a Write-Off as described below under "—Write-Off by the Issuer."

As of June 30, 2014 without giving effect to this offering, the Issuer's Senior Liabilities and the Issuer's subordinated liabilities totaled R$108.5 billion and R$7.0 billion, respectively. Out of the R$7.0 billion of subordinated liabilities, R$4.5 billion qualified as Tier 2 Capital of the Issuer. As of June 30, 2014, the Issuer did not have any Tier 1 Pari Passu Liabilities outstanding. The terms and conditions of the Notes do not limit the amount of Senior Liabilities and Tier 1 Pari Passu Liabilities that the Issuer may hereafter incur. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Banco BTG Pactual's Consolidated Capital Ratios" for a description of the Issuer's capital ratios.

Additional Notes

The Indenture will provide that, from time to time, without notice to or the consent of the Noteholders, additional notes ("Additional Notes") 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 any Additional Notes delivered to the Trustee, or pursuant to a supplemental indenture. Any Additional Notes will have the same terms in all respects as the Notes except that the Additional Notes may have a different issue date, issue price and, if applicable, the first payment date; provided, however, that unless such Notes are issued under a separate CUSIP, either such Additional Notes are part of the same "issue" within the meaning of United States Treasury Regulation Section 1.1275-1(f) or neither the Notes nor such Additional Notes are issued with original issue discount for US federal income tax purposes. The Notes offered hereby and any Additional Notes will be treated as a single series for all purposes under the Indenture and will vote together as one class on all matters with respect to the Notes. For purposes of this "Description of the Notes," references to the Notes include Additional Notes, if any.

Interest

Subject to the provisions contained under "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments" below, interest on the Notes will accrue on the Current Principal Amount of the Notes at:

- 8.750% per annum (the "Base Rate") for each Interest Period ending prior to (and excluding) September 18, 2019 (the "First Call Date"); and

- a rate equal to the Benchmark Reset Rate plus the Credit Spread (the "Reset Rate") for each Interest Period from (and including) the First Call Date, as recalculated as described below in "Benchmark Reset Rate."

So long as the Notes are listed on the Official List of Luxembourg Stock Exchange and are admitted for trading on the Euro MTF, any Reset Rate and Benchmark Reset Rate shall be notified to Luxembourg Stock Exchange.

Unless the Issuer suspends payments of interest as described below under "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments", interest will be payable semi-annually in arrears on March 18 and September 18 of each year, commencing on March 18, 2015 (each such date, an "Interest Payment Date"); provided that (i) interest on the Current Principal Amount of Notes after any Redemption Date and (ii) interest on any overdue interest, shall accrue (to the extent lawful) at the Base Rate or Reset Rate, as applicable, plus 1% per annum (the "Arrears Rate"). Interest payable on each Interest Payment Date will be calculated on the basis of a 360-day year of twelve 30-day months.

The Issuer will calculate the Reset Rate as described above and will inform the Trustee pursuant to the provisions set forth in the Indenture.

Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments

Pursuant to Article 17, V, of Resolution 4,192, the Issuer may only make Non-Principal Payments with proceeds solely from distributable profits and accumulated profit reserves, as defined under applicable Brazilian laws and the Issuer's bylaws, available as of the end of the last Financial Period (as defined below).

Non-Principal Payments (or any portion thereof, as applicable) will not be due and payable and will not accrue or accumulate if:

(i) with respect to the portion of any such Non-Principal Payment that exceeds the proceeds resulting from distributable profits and accumulated profit reserves available during the last Financial Period in accordance with Article 17, VI, of Resolution 4,192;

(ii) the Issuer determines that it is, or if such Non-Principal Payment would result in it being, in non-compliance with the then applicable minimum requirements for Regulatory Capital, Additional Core Capital (*Adicional de Capital Principal*) or other operational limits. In the event of insufficient funds to comply with the Additional Core Capital requirements but otherwise comply with the Regulatory Capital or other operational limits requirements, the restriction on Non-Principal Payment will follow the percentages set forth in Article 9, §4, of CMN Resolution 4,193. As of the date of this Offering Memorandum these percentages are as follows: (1) no Non-Principal Payments will be made if the Additional Core Capital of the Issuer is below 25% of the legally required amount; (2) 20% of the Non-Principal Payments will be made if the Additional Core Capital of the Issuer is equal to or above 25% and below 50%, (3) 40% of the Non-Principal Payments will be made if the Additional Core Capital of the Issuer is equal to or above 50% and below 75%; and (4) 60% of the Non-Principal Payments will be made if the Additional Core Capital of the Issuer is equal to or above 75% and below 100%. In the event of insufficient funds to comply with the Regulatory Capital or other operational limits (regardless of whether the Issuer has funds to comply with the Additional Core Capital requirements), the payment of the whole amount of Non-Principal Payments will not be due and payable and such Non-Principal Payments will not accrue or accumulate;

(iii) the Central Bank or any applicable Brazilian Governmental Authority restricts the distribution of dividends and other similar payments relating to instruments then treated as Common Equity Tier 1 Capital (*Capital Principal*) by the Issuer, in which case the limitation on Non-Principal Payment will be made pro rata to any such restriction (which is as set forth in Article 17, VII of Resolution 4,192); or

(iv) a Dissolution Events occurs.

The Issuer shall provide a written notice to the Noteholders and to the Trustee that an event or circumstance triggering a suspension of Non-Principal Payments has occurred within ten Business Days 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 suspension of Non-Principal Payments has occurred and describing the event or circumstances that caused the suspension. In addition, such notice will be published on the website of the Luxembourg Exchange at www.bourse.lu.

In the event that a Non-Principal Payment (or any portion thereof) was not made when due and payable as described above, the Issuer shall recommend to its shareholders not to approve and, to the fullest extent permitted by applicable law, the Issuer shall not make, or take any action that would constitute, a Restricted Purchase and or a Restricted Payment until all Non-Principal Payments that are due and payable on the Notes have been reinstated and resumed in full.

In the event of a suspension of accrual of a Non-Principal Payment in accordance with the above provisions, such Non-Principal Payment (or any portion thereof) shall not accrue, accumulate or otherwise trigger the application of the Arrears Rate and shall not be deemed due and payable under the terms of the Notes (in accordance with Article 17, XVII, of Resolution 4,192), and such failure to pay such Non-Principal Payment will not constitute a Payment Default. The Issuer and the Noteholders also acknowledge that under Resolution 4,192, such failure will not cause the acceleration of any debt under any other business transaction to which the Issuer is a party or in which the Issuer participates (in accordance with Article 17, XVI, of Resolution 4,192), regardless of the acceleration of the Current Principal Amount as a result of the occurrence of a Dissolution Event as described in "—Default, Limitation of Remedies—Acceleration of Current Principal Amount" below.

See "Regulatory Overview—Capital Adequacy and Leverage" for a detailed description of the terms used in this section "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments."

Write-Off by the Issuer

The outstanding principal, interest and all other amounts due, or with respect to, the Notes shall be permanently written-off by the Issuer in an amount at least equal to the amount of the Notes accounted as Tier 1 Capital of the Issuer, in the following events (each a "Write-Off"):

(1) 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 5.125% 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 until the disclosure notice is no longer subject to review or republication in the event of review or reissue of the documents that have been used by the Issuer as a basis to calculate the proportion between the Common Equity Tier 1 Capital (*Capital Principal*) and the risk-weighted assets of the Issuer (in accordance with Article 17, XVIII, of CMN Resolution 4,192);

(2) the execution of a commitment by a Brazilian Government Authority to make a public sector injection of capital or take similar actions with respect to the Issuer, pursuant to and in accordance with the terms of a specific written law, as set forth in Article 28 of Brazilian Supplementary Law No. 101, as of May 4, 2000;

(3) the Central Bank (or other Brazilian Governmental Authority charged with the responsibility to make such determinations) declares the intervention or the establishment of a special administration regime (*regime de administração especial*) in the Issuer; or

(4) 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.

A Write-Off will not constitute a Payment Default and shall not allow any Noteholder to require any repayment on any then outstanding principal, interest (including, but not limited to, the Arrears Rate) and all other amounts due, or with respect to, the Notes. The Issuer and the Noteholders also acknowledge that under Resolution 4,192, a Write-Off will not cause the acceleration of any debt under any other business transaction to which the Issuer is a party or in which the Issuer participates (in accordance with Article 17, XVI, of Resolution 4,192).

In addition, the outstanding principal, interest and all other amounts due, or with respect to, the Notes may be written-off in the event our Common Equity Tier 1 Capital (*Capital Principal*) falls below 5.125% of our risk-weighted assets pursuant to item (1), even if such shortfall amount is lower than the total outstanding principal amount of the Notes accounted as Additional Tier 1 Capital.

With regard to item (1) 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, (i) specify the information to be disclosed; (ii) detail the internal control systems in place with respect to this process; (iii) include an ongoing confirmation process for the accuracy of the information and adequacy of its content; and (iv) provide the criteria for determining the materiality of information disclosed to the market under Article 12 of CMN Resolution No. 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 Core Capital and other minimum capital requirements. We believe that the determination and disclosure referred to in item (1) above (and any review and republication relating thereto) will be made in accordance with those rules.

With regard to items (2) and (4) above,

- according to CMN Resolution 4,192, the Central Bank will determine the amount of a Write-Off of any Additional Tier 1 Capital of the Issuer, including the Notes, before it will determine the Write-Off of any Tier 2 Capital of the Issuer;

- Brazilian Supplementary Law No. 101, dated May 4, 2000, as amended, provides for the responsible management of public finances. Pursuant to Chapter VI of the Brazilian Supplementary Law No. 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 No. 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; and

- CMN Resolution No. 4,279, dated October 31, 2013, sets forth the criteria as adopted by the Central Bank for determining in what circumstances securities accounted for as Additional Tier 1 Capital or Tier 2 Capital may be written off. Pursuant to CMN Resolution No. 4,279, the Central Bank can write-off such Additional Tier 1 Capital 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 systems 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.

By purchasing the Notes, each holder of Notes 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 the, payment of the principal amount of the Notes (or any portion thereof) that was subject to a Write-Off as described above, any Additional Amounts payable in connection therewith or any interest with respect thereto, 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 and to the Trustee that an event triggering a Write-Off has occurred within ten Business Days 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 is subject to the Write-Off) and the effective date of the Write-Off. In addition, such notice will be published on the website of the Luxembourg Exchange at www.bourse.lu.

See "Risk Factors—The circumstances surrounding a write-off 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."

Ranking

The Notes will be the Issuer's direct, unsecured obligations, and, upon the occurrence of a Dissolution Event, will be subordinated obligations ranking:

- junior in right of payment to the payment of all the Issuer's Senior Liabilities;
- *pari passu* among (i) themselves and (ii) with any Tier 1 Pari Passu Liabilities;
- to the extent permitted by applicable law, senior in right of payment to the payment of the Issuer's Junior Liabilities.

For the avoidance of doubt, an intervention or the establishment of a special administration regime (*regime de administração especial*) relating to the Issuer does not constitute 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 Write-Off, the notes will be effectively subordinated to (1) the Common Equity Tier 1 Capital since the Common Equity Tier 1 Capital is not subject to a Write-Off and (2) other Tier 1 Capital of the Issuer that is not subject to a Write-Off. See "Risk Factors—The circumstances surrounding a write-off 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."

If a Dissolution Event occurs, all principal, premium, if any, and interest or other amounts due or to become due on all Senior Liabilities will be paid in full before the Noteholders are entitled to receive any payment. The Noteholders will be entitled to receive payment pari passu among themselves and with other Tier 1 Pari Passu Liabilities and, to the extent permitted by applicable law, payment prior to the payment of the Issuer's Junior Liabilities.

The Indenture provides that, unless all principal of, or interest on, Senior Liabilities has been paid in full, no payment or other distribution may be made in respect of the Notes in the following circumstances:

(a) in a Dissolution Event; or

(b) (i) in the event and during the continuation of any default in the payment of principal of, any interest and other amounts due and payable on, any Senior Liabilities beyond any applicable grace period, or (ii) in the event that any event of default with respect to any Senior Liabilities has occurred and is continuing beyond any applicable grace period, permitting the holders of such Senior Liabilities (or a Trustee) to accelerate the maturity of such Senior Liabilities, whether or not the maturity is in fact accelerated (unless, in the case of a payment default or event of default, such payment default or event of default has been cured or waived or ceased to exist and any related acceleration has been rescinded), or (iii) in the event that any judicial proceeding is pending with respect to a payment default or event of default described in (i) or (ii).

Even if the subordination provisions prevent the Issuer from making any payment when due and payable on the Notes, except in the event of a suspension of payment or Write-Off as described in "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments" and "Write-Off by the Issuer", the Issuer will be in default on its obligations under the Notes if it does not make the payment when due and payable. This means that the Trustee under the Indenture, and the holders of the Notes, can take action against the Issuer, but they will not receive any money until the claims of the holders of Senior Liabilities are fully satisfied. The Indenture allows the holders of Senior Liabilities to obtain a court order requiring the Issuer and any holder of Notes to comply with the subordination provisions.

If, in a Dissolution Event, the Trustee or any Noteholder receives any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities, before Senior Liabilities are paid in full, that payment or distribution must be paid over or delivered to the Trustee in bankruptcy or other person making payment or distribution of assets of the Issuer for application to the payment of all Senior Liabilities until all Senior Liabilities are paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Liabilities.

Conflicts with CMN Resolution No. 4,192

Pursuant to Article 14, II of CMN Resolution No. 4,192, any provision of this Description of the Notes, this Offering Memorandum, the Indenture, the Notes or the Purchase Agreement among the Issuer and the Initial Purchasers that conflicts with any of the provisions of the Terms of Subordination (*núcleo de subordinação*) or Articles 17 of CMN Resolution No. 4,192 will be null and void.

Payment of Principal, Interest and Other Amounts

Payment of the principal (if due and payable), interest and other amounts due on the Notes will be made on the relevant Payment Date, to the person in whose name the Note is registered as of the close of business, New York time, on the day before such Payment Date. Payments in respect of Global Notes will be paid by wire transfer of immediately available funds to DTC, and payments in respect of certificated Notes will be paid by a US dollar check drawn on, or, if requested by a Noteholder of at least US$1.0 million in principal amount of the Notes, by transfer to a US dollar account maintained by the payee with a bank in New York City.

In the event that any Payment Date is not a Payment Business Day, then payment of the principal, interest or other amounts payable on such Payment Date will be made on the next succeeding day that is a Payment Business Day (and without any interest (including Arrears Rate interest) or other payment in respect of any such delay).

Additional Amounts

The Issuer will make all payments of principal (if due and payable), interest and other amounts due on the Notes, without withholding or deducting any present or future taxes, penalties, fines, duties, assessments or other governmental charges of any nature (collectively, "taxes") imposed by Brazil or Luxembourg or by the jurisdiction of any successor to the Issuer in the event of a consolidation, merger, transfer or conveyance, or in the event that the Issuer appoints additional paying agents, by the jurisdictions of any additional paying agents, or, in each case, any political subdivision or governmental authority of those jurisdictions having power to tax (each, a "Taxing Jurisdiction") unless such withholding or deduction is required by law. If the Issuer is required by law to withhold or deduct any such taxes, except as provided below, the Issuer will pay the Noteholders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction ("Additional Amounts"). The Issuer will not, however, pay any Additional Amounts in connection with any taxes imposed due to any of the following:

- the Noteholder or beneficial owner has some connection with the Taxing Jurisdiction other than merely holding the Notes, receiving principal or interest payments on the Notes or enforcement of rights with respect to the Notes (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing Jurisdiction);

- any tax that is payable otherwise than by withholding from payment of principal or interest on a Note;

- the Noteholder or beneficial owner fails to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the Taxing Jurisdiction, if (1) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the taxes, (2) the Noteholder or beneficial owner is able to comply with those requirements without undue hardship and (3) the Issuer has given all Noteholders at least 30 days' prior notice that they will be required to comply with such requirements;

- the Noteholder fails to surrender (where surrender is required) its Note within 30 days after the Issuer has made available to the Noteholder a payment of principal or interest; provided that the Issuer will pay Additional Amounts to which a Noteholder would have been entitled had the Note owned by such Noteholder been surrendered on any day (including the last day) within such 30-day period;

- any estate, inheritance, gift, value added, use or sales taxes or any similar taxes, assessments or other governmental charges;

- where any such withholding or deduction is imposed on a payment on the Notes to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this directive;

- where the Noteholder or beneficial owner could avoid withholding or deduction by requesting that a payment on the Notes be made by, or presenting the relevant Notes for payment to, another paying agent;

- any tax required to be deducted or withheld pursuant to Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto; or

- any combination of the foregoing.

The Issuer will make any required withholding or deduction and remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law. The Issuer will furnish to the Trustee, within 30 days after the date of payment of any such taxes, certified copies of tax receipts or other documentation evidencing that payment. Upon written request, copies of those receipts or other documentation, as the case may be, will be made available to the Noteholders.

The Issuer will pay any stamp, administrative, court, documentary, excise or property taxes arising in a Taxing Jurisdiction in connection with the Notes.

The obligations to make payments of Additional Amounts with respect to principal, interest or other amounts payable on the Notes will survive any termination, defeasance or discharge of the Notes and the Indenture.

If the Issuer is required at any time to pay Additional Amounts to Noteholders pursuant to the terms of the Indenture and the Notes, the Issuer will use reasonable efforts to obtain an exemption from the payment of (or otherwise avoid the obligation to pay) the taxes which have resulted in the requirement that the Issuer pay Additional Amounts.

The Trustee shall not be responsible for the calculation of any Additional Amounts or whether or when such Additional Amounts are to be paid by the Issuer.

The Issuer will appoint and maintain a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax in respect of payments on the Notes pursuant to Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive or the conclusions of the ECOFIN Council meeting of November 26-27, 2000 (so long as there is such a member state).

Listing

The Issuer has made an application to list the Notes on the Official List of Luxembourg Stock Exchange and it has made an application for admission to trading on the Euro MTF.

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:

Payments Under the Notes and the Indenture

The Issuer will pay all amounts owed by it under the terms of 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

Subject to 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 will not, without the consent of Noteholders holding the majority of the in aggregate principal amount of the Notes outstanding, consolidate with or merge into any other person or convey or transfer all or substantially all of its properties and assets or all or substantially all of its properties, assets and Liabilities (including the Notes issued under the Indenture) to any other person unless thereafter:

- the person formed by such consolidation or into which the Issuer is merged (if other than the Issuer), or the person which acquires all or substantially all of the Issuer's properties and assets or all or substantially all of the Issuer's properties, assets and Liabilities (including the Notes issued under the Indenture) expressly assumes the due and punctual payment of the principal (if due and payable) of and interest on all the Notes and the performance or observance of every covenant of the Indenture and the Notes on the part of the Issuer to be performed or observed;

- immediately after giving effect to such transaction, no default, Payment Default or event that, with the giving of notice, lapse of time or other conditions, would become a default or Payment Default, has occurred and is continuing and no covenant or agreement in the Indenture and the Notes has been materially breached; and

- the person formed by such consolidation or into which the Issuer is merged, or the person which acquires all or substantially all of its properties and assets or all or substantially all of the Issuer's properties, assets and Liabilities (including the Notes issued under the Indenture) delivers to the Trustee an officer's certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance or transfer and, if a supplemental indenture is required in connection with the transaction, the supplemental indenture comply with the Indenture and that all conditions precedent in the Indenture relating to the transaction have been complied with.

In addition, the conditions set out above only apply in the event that the Issuer wishes to merge or consolidate with another entity or sell all or substantially all of its assets to another entity. The Issuer will not need to satisfy these conditions if it enters into other types of transactions, including any transaction in which it acquires the stock or assets of another entity, any transaction that involves a change in the Issuer's control but in which it does not merge or consolidate, and any transaction in which the Issuer sells less than substantially all of its assets.

Optional 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 First Call Date, or any Interest Payment Date occurring thereafter, 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 Core Capital (*Adicional de Capital Principal*) requirements under CMN Resolution No. 4,193 and other operational limits. The Trustee shall not have any responsibility for the Base Redemption Price.

Optional Redemption due to a Tax Event

From and after the First 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 (as defined herein), 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 Core Capital (*Adicional de Capital Principal*) requirements under CMN Resolution No. 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 Redemption due to a Regulatory Event

From and after the First 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 (as defined herein), 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 Core Capital (*Adicional de Capital Principal*) requirements under CMN Resolution No. 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 written notice confirming that the Issuer is entitled to exercise such right of redemption.

The Issuer Will Suspend Redemption in Certain Circumstances

The Indenture provides that, if at any time following the receipt by the Trustee of a redemption notice described under "Redemption—Redemption Procedures—General" below and before a Redemption Date the Issuer determines that payment of the Base Redemption Price would result in the Issuer being in non-compliance with the Risk Based Capital Requirements, then the Issuer will suspend such payment until such time as such payment would not result in non-compliance with the Risk Based Capital Requirements. However, the Issuer must immediately deliver an officer's certificate to the Trustee containing a certification that payment of the Base Redemption Price or any other amounts due and payable under the Indenture and the Notes, as applicable, would result in the Issuer being in non-compliance with the Risk Based Capital Requirements and a detailed statement of facts giving rise to such suspension. Also, within 14 Business Days of becoming aware that it is in compliance with (or, if applicable, such a payment would no longer result in the Issuer being in non-compliance with) the Risk Based Capital Requirements, the Issuer must make such payment to the Trustee or Paying Agent. The Issuer has acknowledged that any breach of its obligation to make such payment upon becoming so aware under the Indenture will be a Payment Default. For the avoidance of doubt, the Notes shall not be deemed repaid and cancelled unless and until the Trustee or the Paying Agent (on behalf of the Noteholders) shall have received the applicable payment.

No Optional Redemption by Noteholders

Noteholders shall have no right to request that the Issuer redeem all or any portion of the Notes and the Notes shall be redeemable only at the Issuer's option, including in the event of suspension of interest or other amounts due on the Notes as described under "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments." There will be no mandatory redemption or sinking fund payments for the Notes.

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 then required)) the Issuer will give the Trustee (and so long as the Notes are listed on the Official List of Luxembourg Stock Exchange and admitted to trading on the Euro MTF and the rules of that exchange so require, either on the website of 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.

Subject to the suspension described above under "—The Issuer Will Suspend Redemption in Certain Circumstances," the Notes will become due and payable at the Base Redemption Price upon the receipt of the redemption notice by the Trustee as described above.

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.

No Liability of Directors, Officers, Employees and Stockholders

Subject to mandatory provisions of applicable law, none of the Issuer's directors, officers, employees or stockholders will have any liability for any of the Issuer's obligations under the notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Noteholder, by accepting a Note, waives and releases all such liability, to the fullest extent permitted by applicable law, and such waiver and release are part of the consideration for the issuance of the Notes.

Purchases of Notes by the Issuer

The Issuer or any of its Affiliates may at any time purchase any Notes in the open market or otherwise in any manner and at any price and provided that such Notes shall not qualify as Additional Tier 1 Capital and such Notes may be (i) delivered to the Trustee to be promptly cancelled by it in accordance with its procedures upon written instructions delivered by the Issuer to the Trustee and shall no longer be considered part of the Issuer's Tier 1 Capital or (ii) resold; provided, that, any resale is in compliance with all relevant laws, regulations and directives.

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 No. 4,192, the Issuer or any Affiliate may, at any time subsequent to First Call Date, repurchase any Notes in the open market 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 Core Capital (*Adicional de Capital Principal*) requirements under CMN Resolution No. 4,193 and other operational limits. The repurchased Notes need not be cancelled and may be resold; provided, that, any resale thereof is in compliance with all relevant laws, regulations and directives.

Default, Limitation of Remedies

Payment Default

The Indenture provides that a Payment Default occurs in the event that the Issuer: (i) fails to pay the amount due to satisfy any payment on the Notes when due and payable and such failure continues after expiration of the Grace Period, unless such payment is suspended as described above in "—Limitation on Obligation to Pay Interest and Make other Non-Principal Payments" or written-off as described above under "—Write-Off by the Issuer"; or (ii) fails to pay the Base Redemption Price on a Redemption Date, or in case of suspension of a redemption as described under "—Optional Redemption— The Issuer Will Suspend Redemption in Certain Circumstances" above, the Issuer fails to pay the Base Redemption Price within 14 Business Days of becoming aware that it is in compliance with the Risk Based Capital Requirements.

Limitation of Remedies

If a Payment Default occurs and is continuing, the Trustee may (or if for any reason the Trustee is unwilling or unable to do so, then the holders of the Notes may), to the fullest extent permitted by applicable law, institute judicial proceedings against the Issuer in any state or federal court in New York State or any court in Luxembourg, but may not declare the Current 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 the sums due and unpaid.

Acceleration of Current Principal Amount

The Current Principal Amount of the Notes will be automatically accelerated and become due and payable upon a Dissolution Event to the extent required under the Brazilian subordination rules described in "—Ranking" to allow Noteholders to participate in bankruptcy, liquidation, dissolution, winding up or similar legal procedures in Brazil relating to such Dissolution Event. For the avoidance of doubt, the acceleration of the Current Principal Amount in this case does not constitute a Payment Default under the Indenture and should not result in the acceleration of any other debt or financial instrument to which the Issuer is a party.

General

By purchasing the Notes, the Noteholders will be deemed to have waived any right of set-off, counterclaim or combination of accounts 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.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in the event that a Payment Default occurs and is continuing, the Trustee will be under no obligation to any Noteholder, unless any such Noteholder has offered indemnity or other security to the Trustee reasonably satisfactory to the Trustee. Subject to those provisions of the Indenture relating to indemnification of the Trustee, Noteholders of a majority of the Current Principal Amount 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 with respect to the Notes, if the direction is not in conflict with any rule of law or with the Indenture and the Trustee does not determine that the action would be unjustly prejudicial to the Noteholder or any Noteholders not taking part in that direction. The Trustee may take any other action that it deems proper that is not inconsistent with that direction.

The Indenture provides that the Trustee will, within 90 days after the occurrence of a Payment Default, give to each Noteholder notice of the Payment Default actually known to a Responsible Officer, unless the Payment

Default has been cured or waived. The Trustee will be protected in withholding notice, however, if it determines in good faith that withholding notice is in the interest of the Noteholders.

Amendments

Amendments Requiring Holder's Approval

Subject to certain exceptions described in "—Amendments Not Requiring Holder's Approval" below, the Indenture and the Notes may be amended or supplemented with the consent of the holders of at least a majority of the Current Principal Amount then outstanding, and any past Payment Default or compliance with any provision may be waived with the consent of the holders of at least a majority of the Current Principal Amount then outstanding. However, without the consent of each holder of an outstanding Note affected thereby, no amendment or waiver may:

(i) change the time for payment of interest on the Indenture and Notes, the First Call Date or the Benchmark Reset Date;

(ii) reduce (A) the Current Principal Amount, (B) the Reset Rate, (C) the Base Rate, (D) the Arrears Rate or (E) the redemption price for the Notes;

(iii) change the currency of any payment on a Note other than as permitted by the Note;

(iv) change the place of payment on a Note;

(v) reduce the percentage in the Current Principal Amount whose Noteholders must consent to any amendment to the Indenture or the Note or waiver of provision thereof;

(vi) change provisions relating to the priority of payments on the Notes or subordination of the Notes that may adversely affect the Noteholders; and

(vii) make any change in the amendment or waiver provisions of the Indenture or the Notes which require each Noteholder's consent.

Amendments Not Requiring Holder's Approval

The Issuer expects to qualify the Notes as Tier 1 Capital subject to the Central Bank's approval. The Issuer will be permitted to, without the prior consent of Noteholders, amend the terms and conditions of the Notes from time to time, during the period of one year from the Closing Date, in order to, and only to the extent necessary 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 Additional Tier 1 Capital pursuant to Resolution 4,192, as amended or supplemented, and provided that such amendment is not listed in items (i) through (ix) described under "—Amendments Requiring Holder's Approval" above. Any amendment described herein shall require the delivery to the Trustee of an officer's certificate and an opinion of applicable counsel confirming compliance with the Indenture and the satisfaction of all conditions precedent, if any, in connection with the execution and delivery of such amendment.

In addition, the Issuer and the Trustee may, without the consent or vote of any holder of the Notes, amend or supplement the Indenture or the Notes for the following purposes to:

(1) cure any ambiguity, omission, defect or inconsistency, provided that such amendment or supplement does not materially and adversely affect the rights of any holder;

(2) evidence and provide for the acceptance of an appointment by a successor trustee;

(3) comply with any requirements of the SEC in connection with any qualification of the Indenture under the U.S. Trust Indenture Act of 1939, as amended;

(4) provide for the issuance of Additional Notes; or

(5) make any other change that does not materially and adversely affect the rights of any holder of the Notes, or to conform the Indenture to this "Description of the Notes" to the extent the Trustee has received an officer's certificate stating that any text to be so conformed constitutes an unintended conflict with the correspondence provision in this "Description of the Notes."

Changes Impacting Subordination

Pursuant to CMN Resolution No. 4,192, an amendment, modification or revocation of any provision of the Indenture affecting the subordination of the Notes may only be implemented when approved by the Central Bank.

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, including any Additional Amounts, 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"—Payments 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 paying agents, 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) US dollars; or (ii) US Government Obligations; or (iii) a combination thereof, in an amount sufficient, in the opinion of an internationally recognized firm of independent public accountants, 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 default, Payment Default, or event which with notice or lapse of time or other conditions would become a default or Payment Default, has occurred and is continuing on the date of the deposit;

- the Issuer must deliver to the Trustee either a ruling received from the 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 future taxes or other governmental charges imposed by any Taxing Jurisdiction, except to the extent that Additional Amounts in respect thereof have been deposited in trust with the Trustee (as to the United States, in the case of legal defeasance, such an opinion could not be given absent a change of law after the date of the Indenture);

- the Trustee has received an opinion of counsel to the effect that such defeasance 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;

- 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 US 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 Liabilities has occurred and is continuing, such Senior Liabilities has not been accelerated and no other event of default under the Senior Liabilities 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 principal and all amounts due and payable on the Notes have become due and payable;
- 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; and
- no default or Payment Default or event that, with the giving of notice, lapse of time or other conditions, would become a default of Payment 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.

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 and 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 Registrar and certain other matters specified in the Indenture including, but not limited to, the rights, powers, immunities, indemnities and protections of the Trustee 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 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 on 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. The address of the Trustee is 60 Wall Street, 16th Floor, New York, N.Y. 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, transfer agent and Registrar and has appointed Deutsche Bank Luxembourg S.A. as Luxembourg transfer agent and paying agent. The Issuer may at any time appoint other paying agents, transfer agents and Registrars. However, the Issuer will at all times maintain a paying agent in New York until the Notes are paid and a listing and paying agent in Luxembourg for so long as the Notes are listed on the Euro MTF. We will provide prompt notice of any changes in the listing agent or any change in the location of their offices.

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 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.

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 the Issuer 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.

Voting by Affiliates of the Issuers

Under the Indenture, Notes held by Affiliates of the Issuer will not be considered "outstanding" for purposes of determining whether the number of Noteholders required to give consents, waivers, authorizations and other actions, has been met. This means that Affiliates of the Issuer, including BTG MB Investments L.P., will not be allowed to vote on these matters.

Prescription

Claims against the Issuer (if any) for payment in respect of the Notes will be prescribed and become void unless made within a period of six years from the date on which the relevant payment became due.

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 US federal court sitting in the Borough of Manhattan, The City of New York, and any appellate court from any of those courts. As long as any of the Notes remain outstanding, the Issuer will at all times have an authorized agent in The City of New York, upon whom process may be served in any legal action or proceeding arising out of or relating to the Indenture or any Note. Service of process upon such agent and written notice of such service mailed or delivered to the Issuer will to the extent permitted by law be deemed in every respect effective service of process upon the Issuer in any such legal action or proceeding. The Issuer will appoint BTG Pactual US Capital LLC as its agent for such purpose, and covenants and agrees that service of process in any suit, action or proceeding may be made upon it at the office of such agent at 601 Lexington Avenue, 57th floor; New York, N.Y. 10022 (or at such other address or at the office of such other authorized agent as the Issuer may designate by written notice to the Trustee).

Currency Rate Indemnity

The US dollar is the sole currency of account for the Notes and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than US 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 a Noteholder with respect to any amount due to it under the Notes will constitute a discharge to the Issuer only to the extent that the Noteholder is able to purchase with the amount it receives or recovers the relevant amount in US dollars (or if it is not practicable to make a purchase of US dollars on that date, on the first date on which it is practicable to do so). If the amount in US dollars is less than the amount expressed to be due to the Noteholder, the Issuer will indemnify the Noteholder and the Trustee against any loss sustained as a result. In any event, the Issuer will indemnify the Noteholder and the Trustee against the cost of any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the Noteholder or the Trustee 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 US 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 US dollars on that date had not been practicable, on the first date on which it would have been practicable, so long as the Noteholder or the Trustee 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 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.

Certain Definitions

"Additional Amounts" means in the event that any withholding or deduction for or on account of any Taxes is required, any additional amounts that the Issuer will pay the Noteholders, or the Trustee or other paying agent, as the case may be, necessary to ensure that they receive the same amount as they would have received without such withholding or deduction that may be required;

"Additional Core Capital (*Adicional de Capital Principal*)" means the additional core capital required pursuant to CMN Resolution No. 4,193 (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitutes Additional Core Capital);

"Additional Notes" means any additional Notes issued pursuant to the Indenture after the Closing Date;

"Additional Tier 1 Capital (*Capital Complementar*)" means the capital determined pursuant to Article 6 CMN Resolution No. 4,192, which has been authorized and will become authorized by the Central Bank to be eligible to Tier 1 Capital (See "Regulatory Overview─ Capital Adequacy and Leverage" for a detailed description of what constitutes Additional Tier 1 Capital);

"Affiliate" means any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person; it being understood that for purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person shall mean the possession, direct or indirect, of the power to vote 10% or more of the equity or similar voting interests of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of such interests, by contract or otherwise. With respect to the Issuer, the term Affiliate should also include any Person that belongs to the same conglomerate or any non-financial Person controlled by the Issuer (as defined under Brazilian laws and regulations).

"Arrears Rate" shall have the meaning ascribed to it above;

"Authorized Representative" of the Issuer or any other Person means the person or persons authorized to act on behalf of such entity pursuant to a valid power of attorney by its Board of Directors or any other similar competent governing body of such entity or any other Person duly authorized in accordance with its organizational documents;

"Base Rate" shall have the meaning ascribed to it above;

"Base Redemption Price" means (i) 100% of the Current Principal Amount, plus (ii) accrued and unpaid interest, if any, thereon through the Redemption Date, including Additional Amounts, if any, but excluding any Non-Principal Payments that were suspended as described under "—Limitation on Obligation to Pay Interest and Make Other Non-Principal Payments";

"Benchmark Reset Date" means the First Call Date and each successive fifth anniversary of the First Call 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 US 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 US 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 US Treasury Bond, calculated by a Reference Dealer appointed by the Issuer using a price for the 5-Year US Treasury Bond (expressed as a percentage of its principal amount) equal to the average of four quotations obtained with the Reference Dealers for the applicable Benchmark Reset Date. The Benchmark Reset Rate will be calculated on the third (3rd) business day preceding the applicable Benchmark Reset Date.

"Board of Directors," 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 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 or São Paulo, Brazil.

"Closing Date" means September 18, 2014;

"CMN" means Conselho Monetário Nacional, the National Monetary Council of Brazil;

"CMN Resolution No. 4,192" means Resolution No. 4,192, issued by the CMN on March 1, 2013, as amended, modified, supplemented or superseded from time to time;

"CMN Resolution No. 4,193" means Resolution No. 4,193, issued by the CMN on March 1, 2013, as amended, modified, supplemented or superseded from time to time;

"Credit Spread" means 697.8 basis points;

"Common Equity Tier 1 Capital (*Capital Principal*)" means capital determined pursuant to Articles 4 et seq. of CMN Resolution No. 4,192 and included in Tier 1 Capital (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitutes Common Equity Tier 1 Capital);

"Current Principal Amount" means the outstanding principal amount of each Note, equal to the Original Principal Amount of such Note as such amount may be reduced, from time to time, as a result of a Write-Off;

"Dissolution Event" means the Issuer's winding up, moratorium of payments, insolvency, or other similar event being declared in respect of the Issuer, 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 Issuer, except that, if such event involves the consolidation of the Issuer with, or the merger of the Issuer into, any other person or the conveyance or transfer by the Issuer of all or substantially all of its properties and assets or all or substantially all of its properties, assets and liabilities (including the Notes issued under the Indenture) to any other person, in compliance with the provisions under "—Certain Covenants—Consolidation, Merger, Conveyance or Transfer", such event shall not be deemed, or will no longer be deemed, a Dissolution Event.;

"Financial Period" means in respect of each interest payment made on March 18 of each year, the prior fiscal period commencing on January 1 and ending on June 30 and in respect of each interest payment made on September 18 of each year, the prior fiscal period commencing on July 1 and ending on December 31, in each case, corresponding to the periods for which the Issuer is required to prepare consolidated financial statements pursuant to Law No, 4,595 of December 31, 1964, as amended, the Accounting Plan for the National Finance System (*Plano Contábil das Instituições do Sistema Financeiro Nacional* or "COSIF") and the Issuer's bylaws);

"First Call Date" means September 18, 2019, the date that is five years following the Closing Date;

"Grace Period" means the period of 15 days from the due date for any payment of interest, or any Additional Amounts due on any Note from the due date or from any other date on which the payment of interest, or Additional Amounts is required to be paid in accordance with the terms of the Notes and the Indenture before any such unpaid amount constitutes an event of default;

"Initial US Treasury Rate" means 1.772% per annum, determined by the bid-yield appearing on Reuters screen "19901" for the 5-Year US Treasury Bond at the time of pricing on September 11, 2014;

"Interest Payment Date" shall have the meaning ascribed to it above;

"Interest Period" means the period beginning on and including an Interest Payment Date (or, in the case of the first Interest Period, the Closing Date) and ending on and excluding the next Interest Payment Date;

"Junior Liabilities" means any Liabilities approved or to be approved by the Central Bank and to be classified as Common Equity Tier 1 Capital (*Capital Principal*) of the Issuer, pursuant to CMN Resolution No. 4.192 (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitutes Junior Liabilities);

"Liabilities" means all liabilities of any person, including, but not limited to, (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 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, (iii) any instrument which is qualified as a liability pursuant to regulations issued by the Central Bank or other Brazilian banking or monetary authorities (to the extent the Central Bank or other such authorities have issued guidance with respect to the accounting treatment of such instrument, and if no such guidance has been issued, then pursuant to CVM regulations), in whole or in part (if in part, only to such extent) and (iv) any other claim of a creditor of the Issuer.

"Non-Principal Payment" means (i) interest, and (ii) any other payment on the Notes other than (x) the whole or any part of the Current Principal Amount, and (y) any fees, expenses and indemnification amounts due to the Trustee, any paying agent, the security registrar or any other agent appointed hereunder in relation to the services to be provided by such Trustee, paying agent, security registrar or other agent hereunder;

"Original Principal Amount" means, in respect of each Note, the amount of the denomination of such Note on the Closing Date, and in respect of each Additional Note, the amount of such Additional Note on its respective closing date.

"Payment 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 or São Paulo, Brazil.

"Payment Date" means any of the Interest Payment Dates, the Redemption 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" means the occurrence of the Issuer failing to pay the amount due to satisfy any payment on the Notes when due and payable in accordance with the terms of the Indenture and the Notes whether on the Redemption Date or otherwise, and such failure continues after the expiration of the Grace Period.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency, department or political subdivision thereof.

"Redemption Date" means the date of redemption of the Notes pursuant to the terms and conditions of the Indenture.

"Reference Dealers" means each of, BNP Paribas Securities Corp., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Standard Chartered Bank or their respective successors; 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 Bank will substitute therefor another Primary Treasury Dealer.

"Regulatory Capital" means Tier 1 Capital and Tier 2 Capital;

"Regulatory Event" means, at any time subsequent to the time that the Notes initially qualify as Tier 1 Capital, (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 Tier 1 Capital 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 1 Capital of the Issuer.

"Reset Rate" shall have the meaning ascribed to it above;

"Responsible Officer" means when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, or any other officer of the Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture;

"Restricted Payment" means any distribution payment of any kind made or declared by the Issuer or any of its subsidiaries on the Issuer's Junior Liabilities or Tier 1 Pari Passu Liabilities, except where such payment was in its entirety mandatory due to the terms and conditions of such Junior Liabilities or Tier 1 Pari Passu Liabilities or the mandatory operation of Brazilian law;

"Restricted Purchase" means any transaction in which the Issuer or any of its subsidiaries redeems, purchases or otherwise acquires for any consideration any of the Issuer's Junior Liabilities or any Tier 1 Pari Passu Liabilities, other than:

(i) by conversion of (a) a Junior Liability or Tier 1 Pari Passu Liability into, or in exchange for, the Issuer's Junior Liabilities, or (b)a Tier 1 Pari Passu Liability into, or in exchange for, other Tier 1 Pari Passu Liability;

(ii) in connection with transactions effected by the Issuer or any of its subsidiaries on a proprietary basis in the ordinary course of its business of securities trading either on a proprietary basis or for the account of the Issuer's customers or customers of any of the Issuer's subsidiaries in connection with interest, trading or market-making activities in respect of the Junior Liabilities or Tier 1 Pari Passu Liabilities;

(iii) in connection with the Issuer's satisfaction of the Issuer's or the Issuer's subsidiaries' obligations under any employee benefit, bonus or retention plans or similar arrangements with or for the benefit of employees, officers, directors or consultants;

(iv) with respect to Junior Liabilities, as a result of a reclassification of the Issuer's capital stock or any of the Issuer's subsidiaries' capital stock or the exchange or conversion of one class or series of capital stock for another class or series of capital stock; or

(v) the purchase of the fractional interests in shares of the Issuer's capital stock or the capital stock of any of the Issuer's subsidiaries pursuant the conversion or exchange provisions of that capital stock (or the security being converted or exchanged).

"Risk Based Capital Requirements" mean the applicable capital adequacy or other requirements set out in Resolution 4,192, Resolution 4,193 and Resolution 2,099, either existing at the date of the Indenture or subsequently promulgated or enacted by the Brazilian banking or monetary authorities or any other applicable Governmental Authority and applying to the Issuer, including the Regulatory Capital, the Additional Core Capital (*Adicional de Capital Principal*) and other operational limits.

"Senior Liabilities" means all Liabilities of the Issuer other than (i) the Tier 1 Pari Passu Liabilities and (ii) Junior Liabilities."

"Tax Event" means a determination by the Issuer that immediately prior to the giving of proper notice with respect to the relevant Interest Payment Date that the Issuer would, because of any change in or amendment to any treaty with, or the laws (or any rules or regulations thereunder) of, Brazil or Luxembourg any political subdivision or authority thereof or therein having power to tax or any amendment to or change in an official interpretation, administration or application of such laws, treaties, rules or regulations (including a holding by a court of competent jurisdiction), which, in any case, will become effective after the date of the issuance of the Notes for a payment on the Notes, be obligated to pay Additional Amounts in excess of the Additional Amounts that 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 the case of any taxes imposed by Brazil, (b) 25% in the 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; or (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 the case of any taxes imposed by Luxembourg, 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 and, in each such case, the Issuer cannot avoid such circumstance by taking reasonable measures available to it.

"Tier 1 Capital" means capital (or similar instruments) comprised of the Common Equity Tier 1 Capital (*Capital Principal*) and Additional Tier 1 Capital (*Capital Complementar*) qualifying as Tier 1 capital, as set forth in CMN Resolution No. 4,192 (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitutes Tier 1 Capital);

"Tier 2 Capital" means capital (or similar instruments) qualifying as Tier 2 capital, as set forth in CMN Resolution No. 4,192 (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitutes Tier 2 Capital);

"Tier 1 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 Additional Tier 1 Capital (*Capital Complementar*) of the Issuer pursuant to CMN Resolution No. 4.192 (See "Regulatory Overview─Capital Adequacy and Leverage" for a detailed description of what constitute Tier 1 Pari Passu Liabilities);

"US Government Obligations" means obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, provided that the full faith and credit of the United States of America is pledged in support thereof.

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 The Depository Trust Company ("DTC") and deposited with a custodian for 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 US 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 Bank S.A./N.V., as operator of Euroclear System ("Euroclear") and Clearstream Banking, sociétè anonyme ("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 account holders 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, crossmarket 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 account holders 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 account holder 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 account holder 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 Holder (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 "—Default, 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 Holders. 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 Notes 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 OR COUPONS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.

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.

Payments on the Notes made by the Issuer

Considering that the Notes will be issued by our Luxembourg Branch, and based on the position that, as a general rule, the Luxembourg 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 notes issued through our Luxembourg 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 Luxembourg 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.

Payments on the Notes made by our Brazilian Principal Office

In the event the Issuer fails to timely pay principal, interest or any other amounts that may be due and payable in respect of the Notes, our Brazilian Principal Office may be required to pay such due amounts to the Non-Resident Holder. As there is no specific legal provision dealing with the imposition of the Brazilian income tax on payments made by Brazilian sources to non-resident beneficiaries under this kind of obligation and no uniform decision from the Brazilian courts, there is a risk that the tax authorities will take the position that the general 15% rate of the Brazilian income tax should apply. We understand that there are arguments to sustain that payments made under this this kind of obligation should be subject to imposition of the Brazilian income tax according to the nature of such payment, in which case only interest and fees should be subject to taxation at the rates of 15%, or 25% in cases of Non-Resident Holders located in low tax jurisdiction.

On June 24, 2008, Law No. 11,727 was enacted with effect from January 1, 2009, establishing that a jurisdiction or country where local legislation imposes restrictions on disclosing the shareholding composition or the ownership of an investment is also considered a low tax jurisdiction. Law No. 11,727 also changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with the creation of the concept of a tax privileged 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%; (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 territory or (b) conditioned upon the non-exercise of a substantial economic activity in the country or territory, (iii) does not tax proceeds generated abroad or taxes them at a maximum rate lower than 20%, or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. In addition, on June 7, 2010, the Brazilian tax authorities enacted Ordinance No. 1,037, as amended, listing (i) the countries and jurisdictions considered Favorable Tax Jurisdiction, and (ii) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that such concept of "privileged tax regime" shall be solely applied for purposes of the observance of transfer pricing and thin capitalization rules, it is still not clear whether this "privileged tax regime" concept will also be applied to interest payments made to Non Resident Holders in respect of the Notes, under the scenario reviewed above.

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 at a rate of 15% or 25%, depending on whether or not the beneficiary is resident of a tax haven jurisdiction under Brazilian law.

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 position mentioned above does not prevail, gains realized by a non-resident holder from the sale or other disposition of the Notes 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).

Although we believe that gains realized by a non-resident holder on the repayment or redemption of the Notes as a result of a fluctuation in currency exchange rates do not constitute taxable income in Brazil, Brazilian tax laws are not entirely clear on the matter. If this position does not prevail, any such gains may be subject to Brazilian withholding tax at the rates of 15% or 25%, as discussed above. In this case, the Issuer would be required to pay such additional amounts as may be necessary to ensure that the net amounts to be received by a non-resident holder after withholding for the applicable taxes will equal the amounts that would have been payable in the absence of such withholding.

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-A 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. However, in the case of the liquidation of foreign exchange transactions (including simultaneous foreign exchange transactions) agreed from June 4, 2014, in connection with the inflow of proceeds to Brazil deriving from foreign loans, including those obtained through the issuance of notes in the international market, with the minimum average term not exceeding 180 days, the IOF/Câmbio tax rate is 6% (this rate of 6% will be levied with penalties and interest in the case of financings or international bonds with a minimum average term longer than 180 days in which an early redemption occurs in the first 180 days). 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.

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 Savings Directive

Under EC Council Directive 2003/48/EC (the "EU Savings Directive") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at the rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement between the EU and certain non-EU states relating to the exchange of information relating to such payments. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic exchange of information under the EU Savings Directive.

A number of non-EU states, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On March 24, 2014, a Council Directive was adopted amending the EU Savings Directive and broadening the scope of the above requirements. One such change is where payments of interest or other similar income are paid to or secured for certain entities or arrangements outside the application of the EU Savings Directive which are beneficially owned by individuals who are resident in a Member State, such payments may be treated as payments to the individuals and the EU Savings Directive will apply. Member States are required to implement legislation giving effect to these changes by January 1, 2016 (which such legislation must apply by January 1, 2017).

Luxembourg Tax Considerations

The following is a general description of certain Luxembourg tax considerations relating to the purchase, owning, disposal or redemption of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based on laws, regulations, practice and decisions in effect in Luxembourg at the date of this offering circular, which may change in each case. Any changes could apply retroactively and could affect the continued validity of this summary. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Please be aware that the residence concept used in the sub-headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers only to Luxembourg tax law and/or concepts. Also, please note that a reference to Luxembourg income tax generally encompasses corporate income tax ("*impôt sur le revenu des collectivités*"), municipal business tax ("*impôt commercial communal*"), a solidarity surcharge ("*contribution au fonds pour l'emploi*"), as well as personal income tax ("*impôt sur le revenu*"). Investors may further be subject to net wealth tax ("*impôt sur la fortune*") as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Withholding Tax

Individuals

All payments of interests (including accrued but unpaid interests) and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Notes, which are not profit sharing, can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law, subject however to:

(i) the application of the Luxembourg laws of 21 June 2005 (the "Savings Laws") implementing the EU Savings Directive and several agreements (the "Agreements") concluded with certain dependent or associated territories of the EU Member States and providing for the possible application of a withholding tax on interest paid to or for the benefit of certain non-Luxembourg resident investors (individuals and certain types of entities called "residual entities", as defined by the Savings Laws) in the event that such payments are made by the relevant issuer or by an appointed paying agent established in Luxembourg within the meaning of the EU Savings Directive or Agreements, unless the beneficiary of the payment of interest or similar income elects for an exchange of information or provides a specific tax certificate to the Luxembourg paying agent (for more information, see paragraph "EU Savings Directive" above); and

(ii) the application of the Luxembourg law of 23 December 2005 as amended, which has introduced a final (withholding) tax on certain payments of interest made to certain Luxembourg resident individuals (the "Law").

Resident holders of Notes

Payment of interest or similar income (within the meaning of the Law) on debt instruments made or deemed made by a paying agent (within the meaning of the Law) established in Luxembourg to or for the benefit of an individual Luxembourg resident for tax purposes who is the beneficial owner of such payments or to certain residual entities (such entities defined in article 4.2 of the EU Savings Directive, "Residual Entities") established in another EU Member State or in an associated or dependent territory with which an Agreement has been signed, and deemed to be acting on behalf of an individual Luxembourg resident, may be subject to a tax rate of 10%. Such final tax will be in full discharge of income tax if the individual beneficial owner acts in the course of the management of his/her private wealth. Responsibility for the withholding and payment of the tax is assumed by the Luxembourg paying agent (within the meaning of the Law), including the Luxembourg Issuer, to the extent it qualifies as a Luxembourg paying agent.

An individual beneficial owner of interest or similar income (within the meaning of the Law) who is a resident of Luxembourg and acts in the course of the management of his/her private wealthy may opt in accordance with the Law for a final tax of 10% when he receives or is deemed to receive such interest or similar income from a paying agent established in an another EU Member State, in a Member State of the EEA which is not an EU Member State, or in a State which has concluded a treaty directly in connection with the EU Savings Directive. The individual resident that is the beneficial owner of interest is responsible for the declaration and the payment of the 10% final tax.

Non-Resident holder of Notes

Under the EU Savings Directive and the Savings Laws, a Luxembourg based paying agent (within the meaning of the EU Savings Directive) may be required to withhold tax on interest and other similar income (within the meaning of the Savings Laws) paid by it to (or under certain circumstances, for the benefit of) an individual or a Residual Entity which is a resident of, or established in another Member State of the EU, unless the beneficiary of the interest payments or the Residual Entity (where applicable) elects for an exchange of information or provides the relevant documents (including a specific tax certificate) to the Luxembourg paying agent. The same regime applies to payments by a Luxembourg based paying agent to individuals or Residual Entities resident in certain non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino) and certain dependent or associated territories (including Jersey, Guernsey, Isle of Man, Monterrat, British Virgin Islands, Curaçao, Saba, Saint Eustatius, Bonaire, St. Maarten and Aruba).

The current tax rate is 35%. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. The tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries (for the intention of the Luxembourg Government to abolish this withholding see paragraph "EU Savings Directive" above).

Corporations

There is no Luxembourg withholding tax for Luxembourg resident and non-resident corporations holders of the Notes on payments of interest (including accrued but unpaid interests), except for interest paid on certain profit-sharing bonds and, arguably, profit-sharing interest paid on loans, which is subject to 15% withholding tax unless on the basis of the tax treaty, concluded with Luxembourg and the country in which the corporation is tax resident, a lower tax rate or an exemption is available.

Taxes on Income and Capital Gains

A holder of Notes who derives income from such note or who realizes a gain on the holding, disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains (subject to the Savings Laws and the Law) unless:

(i) such holder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or

(ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg.

Non-Resident holders of Notes

Non-resident holders of Notes, not having a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the Notes or income therefrom are attributable, are not subject to Luxembourg income taxes on income accrued or received, redemption premiums or issue discounts, under the Notes nor on capital gains realized on the disposal or redemption of the Notes. Non-residents holders who have a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the Notes or income therefrom are attributable are subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realized upon the sale or disposal of the Notes.

Resident holders of Notes

Individuals

A resident individual acting in the course of the management of a professional or business undertaking must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A resident holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the Notes, except if tax has been levied on such payments in accordance with the Law.

A gain realized by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than 6 months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Law.

Corporations

A resident holder of Notes (which is not exempt) from income taxation must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A holder of the Notes that is governed by the law of May 11, 2007 on family estate management companies (as amended), or by the law of December 17, 2010 on undertakings for collective investment (amending the law of December 20, 2002), or the law of February 13, 2007 on specialized investment funds (as amended) is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium, nor on gains realized on the sale or disposal, in any form whatsoever, of the Notes.

Net Wealth Tax

An individual holder of Notes, whether he/she is resident of Luxembourg or not, should not be subject to Luxembourg wealth tax on such Notes.

However, net wealth tax may be levied on a resident corporate holder of Notes or non-resident corporate holder of Notes if:

(i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions and is not a holder of Notes governed by (a) the law of 17 December 2010 on undertakings for collective investment (amending the law of 20 December 2002), or (b) the law of 22 March 2004 on securitization, or (c) the law of 15 June 2004 on the investment company in risk capital, or (d) the law of 11 May 2007 on family estate management companies (as amended) or (e) the law of 13 July 2005 on Luxembourg pension structures or (f) the law of 13 February 2007 on specialized investment funds (as amended); or

(ii) such note is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

Inheritance and Gift Tax

Where the Notes are transferred for no consideration:

(i) No Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a holder of Notes in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes;

(ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary or is registered in Luxembourg.

Value Added Tax

No Luxembourg value added tax is levied with respect to (i) any payment made in consideration of the issuance of the Notes, (ii) any payment of interest, (iii) any repayment of principal or upon redemption, and (iv) any transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

Other Taxes and Duties

It is not compulsory that the Notes are filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes in accordance therewith. However in the case of proceedings in a Luxembourg court (including but not limited to a Luxembourg insolvency proceeding), registration of the Notes may be ordered by the court, in which case the Notes will be respectively subject to a fixed duty of EUR 12 or an ad valorem duty. Registration would in principle further be ordered, and the same registration duties could be due, when the Notes are produced, either directly or by way of reference, before an official authority ("autorité constituée") in Luxembourg. A registration duty may also apply upon voluntary registration of the Notes in Luxembourg (although there is no obligation to do so).

Residence

A holder of Notes will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such note or the execution, performance, delivery and/or enforcement of that or any other note.

Certain United States Federal Income Tax Considerations

The following discussion summarizes certain U.S. federal income tax considerations associated with the purchase, ownership, and disposition of Notes issued in this offering by U.S. Holders (as defined below). This discussion is a summary for general information only and does not consider all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership and disposition of a Note by a prospective investor in light of its particular circumstances. This discussion is limited to the U.S. federal income tax considerations to beneficial owners of a Note who acquire a Note upon initial issuance at the initial offering price and hold such Note as a capital asset under the Code. This summary does not discuss all the tax considerations that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- dealers or traders in securities or currencies;
- financial institutions;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt entities;
- insurance companies;
- persons holding a Note as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- persons liable for alternative minimum tax;
- grantor trusts;
- persons that own or are deemed to own 10.0% or more of the voting shares of the Issuer;
- persons whose "functional currency" is not the U.S. dollar; or
- certain former citizens or long-term residents of the United States.

Moreover, the discussion below is based upon the provisions of the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, and such provisions may be repealed, revoked, modified or subject to differing interpretations, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below. Furthermore, this discussion does not address the Medicare tax on investment income, or U.S. federal estate and gift tax considerations of the acquisition, ownership or disposition of a Note.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation (or other entity subject to tax as a corporation) 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 taxation regardless of its source; or
- a trust if it (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding a Note, we urge you to consult your own tax advisor.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO IT OF THE PURCHASE, 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. However, no assurance can be given that the U.S. Internal Revenue Service, or 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 and U.S Holders hereby agree to treat the Notes as equity for U.S. federal income tax purposes. As a result of this assumption, the following discussion treats each payment under the Notes that is referred to herein as "interest" (including Additional Amounts, if any) as a distribution by the Issuer with respect to an equity interest, and each reference in the following discussion to dividends refers to any such payment under the Notes.

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 Note 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 Note. 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. Under current law, 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, Retirement, or Other Disposition

A U.S. Holder will generally recognize gain or loss upon a sale of a note 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 the Notes sold, as the case may be. 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, as the case may be, and will generally be treated as "passive category income" for most 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 your 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.

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 are urged to consult their own 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 a Note, 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. See "—Brazilian Tax Considerations" and "—Luxembourg Tax Considerations" for a description of when a disposition may be subject to a foreign tax. U.S. Holders should consult their tax advisors as to whether these foreign taxes may be creditable against the holder's 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 a Note will generally constitute U.S.-source income.

Passive Foreign Investment Company Considerations

In general, the passive foreign investment company ("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 corporations that are organized outside the United States 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" (the "Income Test") 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 "Asset Test").

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 proposed regulations (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, 2014 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, 2014. 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.wri

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.

Recent Legislation with Respect to Certain U.S. Tax Reporting Requirements

Recently enacted legislation requires 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, 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 imposes certain penalties for noncompliance. The reporting requirement with respect to such assets is effective for taxable years beginning after March 18, 2010. U.S. Holders should consult their independent tax advisors regarding the consequences of these reporting requirements in connection with the acquisition of a Note.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the acquisition of the Notes by employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, "plans" (as definied in Section 4975(e) of the Code that are subject to Section 4975 of the Code), non-U.S., governmental or church plans not subject to such provisions of ERISA or the Code, but which are subject to the provisions of any Similar Law and entities or accounts whose underlying assets are deemed to include the assets of any such employee benefit plan or other plan (each, a "Plan").

General Fiduciary Matters

ERISA imposes certain duties on Plans subject to Title I of ERISA and persons who are fiduciaries of such Plans, and ERISA and the Code prohibit certain transactions involving the assets of a Plan subject to Title I of ERISA or Section 4975 of the Code (each, an "ERISA 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, any person who exercises any discretionary authority or control over the administration of a Plan subject to Title I of ERISA or the management or disposition of the assets of such a Plan, or who renders investment advice for a fee or other compensation to such a Plan, is generally considered to be a fiduciary of such Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary of such Plan 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 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.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets 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. 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 ERISA 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 ERISA Plan with respect to which the Issuer, an Initial Purchaser, the Trustee or certain of their 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, or "PTCEs," that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation and as amended from time to time, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting transactions involving insurance company pooled separate accounts, PTCE 91-38 respecting transactions involving bank collective investment funds, PTCE 95-60 respecting transactions involving insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions with a person that is a party in interest or disqualified person solely by reason of providing services to an ERISA Plan (or solely by reason of a relationship to such a service provider), provided that neither the party in interest or disqualified person nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the ERISA Plan involved in the transaction and provided further that the ERISA Plan receives no less, nor pays no more, than adequate consideration in connection with the transaction. 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, 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 (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. In addition, each person that acquires any Notes (or any interest therein) with the assets of a Plan will be deemed to have represented and warranted that neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets.

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 to a Plan is in no respect a representation by the Issuer, the Initial Purchasers 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

Subject to the terms and conditions contained in the purchase agreement dated September 18, 2014, or the purchase agreement, among us and the Initial Purchasers, we have agreed to sell, and the Initial Purchasers have agreed, severally and not jointly, subject to certain conditions, to purchase, the following principal amount of Notes:

Initial Purchasers	Principal Amount
Banco Bradesco BBI S.A.	US$216,667,000
Banco BTG Pactual S.A. – Cayman Branch	US$216,667,000
BB Securities Limited	US$216,667,000
Citigroup Global Markets Inc.	US$216,667,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US$216,666,000
Santander Investment Securities Inc.	US$216,666,000
Total	US$1,300,000,000

The purchase agreement provides that the obligation of the Initial Purchasers to pay for and accept delivery of the Notes is subject to the conditions specified in the purchase agreement, including the delivery of legal opinions by their counsel. Subject to the terms and conditions of the purchase agreement, the Initial Purchasers have agreed severally, and not jointly, to purchase all of the Notes sold under the purchase agreement if any such notes are not purchased. In the purchase agreement, subject to the conditions thereof, the Initial Purchasers have agreed to purchase the Notes at a discount. We have been advised by the Initial Purchasers that they propose to offer and sell the Notes initially to investors at the offering price set forth on the cover page of this Offering Memorandum and that after the initial offering, the price to investors may be changed.

The purchase agreement provides that we will indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments the Initial Purchasers may be required to make in respect thereof.

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."

The Initial Purchasers have agreed that, except as permitted by the purchase agreement, they will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the original issuance date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, other than in accordance with Rule 144A, and they will send to each distributor, dealer or other person receiving a selling concession or similar fee to which they sell Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until the expiration of the 40-day restricted period referred to above, an offer or sale of Notes within the United States by a dealer (whether or not it is participating in this 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. Terms used in this paragraph have the meanings given to them by Regulation S.

Prior to this offering, there has been no established market for the Notes. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF, which is not a regulated market within the meaning of the MiFID Directive.

We have been advised by the Initial Purchasers that they currently intend to make a market in the Notes as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time at the sole discretion of the Initial Purchasers. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you as to the liquidity of, or the development or continuation of trading markets for, the Notes.

In connection with this offering, the Initial Purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchasers may bid for and purchase Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. In addition, if the Initial Purchasers create a short position in the Notes in connection with the offering by selling more Notes than are listed on the cover page of this Offering Memorandum, then the Initial Purchasers may reduce that short position by purchasing Notes in the open market. The Initial Purchasers may also impose penalty bids, which would permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by Initial Purchasers are purchased in a covering transaction to cover short positions. In general, purchases of a security for the purpose of stabilizing or reducing a short position could cause the price of that security to be higher than it might otherwise have been in the absence of those purchases.

No action has been or will be taken in any country or jurisdiction by us or the Initial Purchasers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Memorandum comes are required by us and the Initial Purchasers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Initial purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

BB Securities Limited is not a broker-dealer registered with the SEC, and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Limited intends to effect sales of the notes in the United States, it will do so only through Banco do Brasil Securities LLC or one or more U.S. registered broker-dealers, or otherwise as permitted by applicable U.S. law. BB Securities Asia Pte. Ltd. may be involved in the sales of the notes in Asia.

Banco BTG Pactual S.A.—Cayman Branch will only participate in the sale, outside the United States, of Regulation S Notes, and will not purchase any Notes to be resold to investors located in the United States.

Bradesco Securities Inc. will act as agent of Banco Bradesco BBI S.A. for sales of the Notes in the United States of America. 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.

Relationships with the Initial Purchasers

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

In addition, the Initial Purchasers and their affiliates have in the past engaged, and may in the future, from time to time, engage in, additional commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with us or any parties related to us, in respect of which they have and may in the future receive customary fees and commissions. As a result of these transactions, these parties may have interests that may not be aligned, or could possibly conflict, with the interests of investors and us.

In the ordinary course of their various 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, and such investment and securities activities may involve securities and/or instruments of us. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such 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.

In connection with the offering of the Notes, Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A., each an affiliate of Deutsche Bank Securities Inc., are acting as (i) trustee, registrar, paying agent and transfer agent and (ii) Luxembourg transfer agent and paying agent.

Additionally, we, through our Cayman Branch, are also participating as an initial purchaser in this offering. See "Risk Factors—Risk Factors Relating to the Notes—We, through our Cayman Islands branch, are an Initial Purchaser in this offering and a significant investor in the Notes is an affiliated company, and through our and such investor's participation in the bookbuilding process, distortions may occur in the setting of the material terms and the price of the Notes and your rights under the Notes may be materially impacted."

Purchase of Notes by Certain of our Affiliates

Merchant Banking Partnership, which is owned by the Partners, will purchase approximately US$575.0 million of Notes and certain Partners, acting in a personal capacity, will purchase US$375.0 million through different investment vehicles. Please see "Related Party Transactions—Purchase of the Notes by the Merchant Banking Partnership and Certain Partners."

The table below sets forth the principal amount of Notes to be purchased by theses affiliates of the Issuer opposite each such affiliate's name:

Name of Issuer Affiliate	Principal Amount
Merchant Banking Partnership	US$575,000,000
Certain Partners acting in a personal capacity through different investment vehicles...	US$375,000,000
....	
Total	**US$950,000,000**

Certain affiliates of the Initial Purchasers intend to provide direct and indirect financing to certain affiliates and related parties of the Issuer that are acquiring Notes being offered hereby. It is expected that these loans made by lenders to such affiliates and related parties of the Issuer will be separately negotiated by each such lender, may in certain instances be secured by the Notes being acquired by such affiliates and related parties of the Issuer and in some cases may be disbursed in connection with the initial sale of the Notes or thereafter.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each Initial Purchaser has represented and agreed that:

(a) 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 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

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Luxembourg

The terms and conditions relating to this Offering Memorandum have not been approved by and will not be submitted for approval to the CSSF 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, the Indenture nor any other circular, prospectus, form of application, advertisement or other material related to such offer may be distributed, or otherwise be made available in or from, or published in, Luxembourg except if a prospectus has been duly approved by the CSSF in accordance with the Prospectus Law or the offer benefits from an exemption to or constitutes a transaction otherwise not subject to the requirement to publish a prospectus for the purpose of the Prospectus Law.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus 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 the 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 under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, 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 by a relevant person which is: (a) a corporation (which is not an accredited investor) 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 is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Mexico

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico, except pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality.

Chile

The Notes may not be offered or sold in Chile, directly or indirectly, by means of a “Public Offer” (as defined under Chilean Securities Law (Law No 18,045 and regulations from the *Superintendencia de Valores y Seguros* of the Republic of Chile)). Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes. See “Offering and Sale” in this offering memorandum for additional restrictions on the offer and sale of the Notes in certain jurisdictions.

Colombia

The Notes have not been and will not be registered on the Colombian National Registry of Securities and Issuers or in the Colombian Stock Exchange. Therefore, the Notes may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

Peru

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y 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.

Switzerland

This document does not constitute a prospectus within the meaning of Article 652a of the Swiss Code of Obligations. The Notes may not be sold directly or indirectly in or into Switzerland except in a manner which will not result in a public offering within the meaning of the Swiss Code of Obligations. Neither this document nor any other offering materials relating to the Notes may be distributed, published or otherwise made available in Switzerland except in a manner which will not constitute a public offering of the Notes in Switzerland.

Brazil

The Notes have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, have not been and will not be registered with the Securities Commission of Brazil (Comissão de Valores Mobiliários, or "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 of December 7, 1976 ("Law No. 6,385"), as amended, and Instruction No. 400, issued by the CVM on December 29, 2003 ("CVM Instruction No. 400"), 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), or 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.

The Republic of Italy

The offering of the Notes has not been cleared by CONSOB pursuant to Italian securities legislation. Accordingly, none of the Notes may be offered, sold or delivered, directly or indirectly, nor may copies of this offering memorandum or any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Securities Act"), as implemented by Article 26, paragraph 1, letter (d) of CONSOB Regulation No. 16190 of October 27, 2007, as amended ("Regulation 16190"), pursuant to Article 34-ter, paragraph 1, letter (b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended ("Regulation 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Securities Act and its implementing CONSOB regulations, including Regulation No. 11971.

Any such offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in the Republic of Italy must be in compliance with the selling restriction under (i) and (ii) above and:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Securities Act, Regulation No. 16190 and Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Act");

(b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Cayman Islands

No invitation may be made by or on behalf of the Issuer to the public in the Cayman Islands within the meaning of Section 175 of the Cayman Islands Companies Law (as amended) to subscribe for the Notes, and no such invitation is made hereby.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of our Notes.

No U.S. Registration, Investment Company Act and Other Restrictions

We are not registered as an investment company under the Investment Company Act, and our Notes have not been registered under the Securities Act. They may not be offered or sold within the United States except in a transaction that:

- is in compliance with the registration requirements of the Securities Act and all applicable securities laws in the states of the United States;
- is exempt from, or is not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States; and
- is neither prohibited by the Investment Company Act nor would require our company to register as an investment company under the Investment Company Act.

In addition, the offering or sale of our Notes must be in compliance with the applicable rules under ERISA, Section 4975 of the Code and any Similar Law.

Interests in any Notes will be offered and sold initially only:

- inside the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act) that are also qualified purchasers (as defined in Section 2(a)(51) of the Investment Company Act) in compliance with the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder, and who have submitted orders to acquire Notes in an amount of not less than US$250,000 as reasonably determined by the international purchasers or as certified by the purchasers of Notes.

Interests in the Regulation S Global Note will be offered and sold initially only:

- outside the United States to persons in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act (and no such transaction may involve a sale of the Regulation S Global Note to or for the account or benefit of a U.S. person as defined in Regulation S) or (ii) if such person is a U.S. person (as defined in Regulation S) but the transaction otherwise complies with Regulation S, such person is a qualified purchaser (as defined in Section 2(a)51 of the Investment Company Act).

We are not obligated to file a registration statement with respect to our Notes, and we may not file such a registration statement.

The offer and sale of the Notes is also subject to certain ERISA restrictions as described under the section entitled "Certain ERISA Considerations" and summarized in the representations deemed made by the purchaser of our Notes and the legends included in our Notes, as set forth below in these transfer restrictions.

Each purchaser of Notes may be required, at the Initial Purchasers' exclusive discretion, to certify in any manner acceptable to the Initial Purchasers that such purchaser is eligible to purchase the Notes being offered in this offering.

Investment Company Act

In reliance on Section 3(c)(7) under the Investment Company Act, or Section 3(c)(7), we have not registered as an investment company pursuant to the. Investment Company Act. To rely on Section 3(c)(7), we must have a "reasonable belief" that all purchasers of the Restricted Global Note (including the initial purchasers and subsequent transferees) that are located in the United States or that are U.S. persons as defined for purposes of Regulation S are "qualified purchasers" within the meaning of Section 2(a)(51) of the Investment Company Act at the time of their purchase of such securities. We will establish a reasonable belief for purposes of Section 3(c)(7) based upon (i) the representations deemed made by the purchasers of the securities as set forth in these transfer restrictions, (ii) the legends included in our Notes and (iii) the procedures and restrictions referred to below.

Deemed Representations of U.S. Purchasers

Each purchaser of our Restricted Global Note in this offering, as well as any person who acquires such Restricted Global Note in the future (each, a "purchaser"), that is in the U.S. or is a U.S. person as defined for purposes of Regulation S (including the registered holders and beneficial owners of the Restricted Global Note) will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser (i) is a "*qualified institutional buyer*" as defined in Rule 144A of the Securities Act or an institutional "*accredited investor*" as defined in Rule 144A of the Securities Act; (ii) is aware that the sale of the Restricted Global Note to it is being made in reliance on an exemption from the registration requirements of the Securities Act and (iii) is acquiring such Restricted Global Note for its own account or the account of one or more qualified institutional buyers or institutional accredited investors;

2. the purchaser (i) is a "*qualified purchaser*" within the meaning of Section 2(a)(51) of the Investment Company Act and the rules and regulations thereunder, which term generally includes (a) any natural person (including any person who holds a joint, community property, or other similar shared ownership interest in an issuer that is exempt from registration under Section 3(c)(7) of the Investment Company Act with that person's qualified purchaser spouse) who owns not less than US$5,000,000 in investments, as defined by the SEC; (b) any company that owns not less than US$5,000,000 in investments and that is owned directly or indirectly by or for two or more natural persons who are related as siblings or spouse (including former spouses), or direct lineal descendants by birth or adoption, spouses of such persons, the estates of such persons, or foundations, charitable organizations, or trusts established by or for the benefit of such persons; (c) any trust that is not covered by clause (b) and that was not formed for the specific purpose of acquiring the securities offered, as to which the trustee or other person authorized to make decisions with respect to the trust, and each settlor or other person who has contributed assets to the trust, is a person described in clause (a), (b), or (d); or (d) any person, acting for its own account or the accounts of other qualified purchasers, who in the aggregate owns and invests on a discretionary basis, not less than US$25,000,000 in investments; (ii) is aware that we will not be registered under the U.S. Investment Company Act in reliance on the exemption set forth in Section 3(c)(7) thereof and that the Restricted Global Note has not been and will not be registered under the Securities Act and (iii) is acquiring such Restricted Global Note for its own account or the account of one or more qualified purchasers as to which the purchaser exercises sole investment discretion, as the case may be;

3. the purchaser is not a broker-dealer that owns and invests on a discretionary basis less than US$25,000,000 in securities of unaffiliated issuers;

4. either (i) the purchaser is not and for so long as it holds the Restricted Global Note (or any interest therein) will not be (and is not acquiring the Restricted Global Note or any interest therein directly or indirectly with the assets of a person who is or while the Restricted Global Note or any interest therein are held will be) a Plan, or (ii) the purchaser's acquisition and holding of the Restricted Global Note (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;

5. if the purchaser is acquiring the Restricted Global Note (or any interest therein) with the assets of a Plan, neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets;

6. the purchaser is not purchasing the Restricted Global Note with a view to the resale, distribution or other disposition thereof in violation of the Securities Act;

7. the purchaser was not formed for the purpose of investing in us;

8. the purchaser understands that we may receive a list of participants holding positions in the Notes;

9. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving the Restricted Global Note that have the purpose or effect of evading the applicable restrictions on resale;

10. neither the purchaser nor any account for which the purchaser is acquiring the Restricted Global Note will hold such Restricted Global Note for the benefit of any other person and the purchaser and each such account will be the sole beneficial owners thereof for all purposes and will not sell participation interests in the Restricted Global Note or enter into any other arrangement pursuant to which any other person will be entitled to an interest in the distributions on the Restricted Global Note ;

11. the Restricted Global Note is being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Restricted Global Note has not been and will not be registered under the Securities Act and we have not been and will not be registered under the Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Restricted Global Note, such Restricted Global Note may be offered, resold, pledged or otherwise transferred only (i) (A) to a person who the purchaser reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) or an institutional accredited investor (as defined in Rule 501 under the Securities Act) that are, in each case, also a qualified purchaser (as defined in the Investment Company Act) in a transaction exempted from registration under the Securities Act, or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined in Regulation S) and (ii) in accordance with all applicable securities laws of the States of the United States; and

12. in the event that we or the transfer agent determine in good faith that a U.S. holder or beneficial owner of the Restricted Global Note is in breach, at the time given, of any of the representations or agreements set forth above, we or the transfer agent may require such holder or beneficial owner to transfer such Restricted Global Note or beneficial interests therein to a transferee acceptable to us as set forth under "Forced Sale of Securities;" pending such transfer, the U.S. holder will be deemed not to be the holder of such Restricted Global Note for any purpose, and such U.S. holder will be deemed to have no interest whatsoever in such Restricted Global Note except as otherwise required to redeem or sell its interest therein.

Deemed Representations of Non-U.S. Purchasers

Each purchaser (as defined above) of our Regulation S Global Note in this offering, as well as any person who acquires such Regulation S Global Note in the future that is outside the U.S. and is a non-U.S. person as defined in Regulation S (including the registered holders and beneficial owners of the Regulation S Global Note), will be deemed to have represented, agreed and acknowledged as follows:

1. the purchaser is a person who, at the time the buy order for the Regulation S Global Note was originated, was outside the United States and was not a "U.S. person" (and was not purchasing for the account or benefit of a "U.S. person") as defined in Regulation S;

2. the purchaser understands that we may receive a list of participants holding positions in our securities;

3. the purchaser will not engage in hedging or short-selling or place simultaneous sell and buy orders or engage in similar kinds of transactions involving Regulation S Global Note that have the purpose or effect of evading the applicable restrictions on resale;

4. either (i) the purchaser is not and for so long as it holds the Regulation S Global Note (or any interest therein) will not be (and is not acquiring the Regulation S Global Note or any interest therein directly or indirectly with the assets of a person who is or while the Regulation S Global Note or any interest therein are held will be) a Plan, or (ii) the purchaser's acquisition and holding of the Regulation S Global Note (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;

5. if the purchaser is acquiring the Regulation S Global Note (or any interest therein) with the assets of a Plan, neither the Issuer nor any of its affiliates has investment discretion or renders investment advice (for a fee or other compensation) with respect to such assets; the Regulation S Global Note is being offered only in a transaction not involving any public offering within the meaning of the Securities Act. The Regulation S Global Note has not been and will not be registered under the Securities Act and we have not been and will not be registered under the Investment Company Act and, if in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Regulation S Global Note, such Regulation S Global Note may be offered, resold, pledged or otherwise transferred only (i) (A) to a person who the purchaser reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) or an institutional accredited investor (as defined in Rule 501 under the Securities Act) that are, in each case, also a qualified purchaser (as defined in the Investment Company Act) in a transaction exempted from registration under the Securities Act, or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined in Regulation S) and (ii) in accordance with all applicable securities laws of the States of the United States; and

6. in the event that we or the transfer agent determine in good faith that a holder or beneficial owner of the Regulation S Global Note is in breach of any of the representations or agreements set forth above, we or the transfer agent may require such holder or beneficial owner to transfer such Regulation S Global Note or beneficial interests therein to a transferee acceptable to us, as set forth under "Forced Sale of Securities"; pending such transfer, the holder will be deemed not to be the holder of such Regulation S Global Note for any purpose, and such holder will be deemed to have no interest whatsoever in such Regulation S Global Note except as otherwise required to redeem or sell its interest therein.

Legends

Each purchaser (including the registered holders and beneficial owners of the Notes as they exist from time to time, including as a result of transfers, in each case as of the time of purchase) of Restricted Global Note within the United States pursuant to Rule 144A and Section 3(c)(7) by accepting delivery of this Offering Memorandum, understands that such Restricted Global Note, unless we determine otherwise in compliance with applicable law, will bear a legend to the following effect:

> **"THE ISSUER OF THIS NOTE IS NOT, AND WILL NOT BE, REGISTERED AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR THE INVESTMENT COMPANY ACT, AND THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR RULE 144A, TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS BOTH A QUALIFIED INSTITUTIONAL BUYER (OR A "QIB"), WITHIN THE MEANING OF RULE 144A, AND A QUALIFIED PURCHASER, (OR A "QP"), WITHIN THE MEANING OF THE INVESTMENT COMPANY ACT THAT (I) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (II) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (III) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR ONE OR MORE ACCOUNTS, EACH OF WHICH IS A QIB THAT IS A QP, IN A PRINCIPAL AMOUNT OF NOT LESS THAN THE MINIMUM DENOMINATION FOR THE NOTES FOR THE PURCHASER AND FOR EACH SUCH ACCOUNT, (IV) WAS NOT FORMED FOR PURPOSES OF INVESTING IN US, AND (V) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, —(2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), PROVIDED, HOWEVER, THAT IF ANY HOLDER OR BENEFICIAL OWNER OF THIS NOTE IS A U.S.**

PERSON, SUCH HOLDER OR BENEFICIAL OWNER IS A QP, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION.

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO US, THE TRANSFER AGENT OR ANY INTERMEDIARY.

BY ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE ACQUIROR WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) (I) AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL~~,~~ OR CHURCH OR OTHER BENEFIT PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (B) ITS ACQUISITION AND HOLDING 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 A SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW. ANY PERSON ACQUIRING THIS NOTE (OR ANY INTEREST HEREIN) WITH THE ASSETS OF ANY SUCH PLAN, ENTITY OR ACCOUNT WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT NEITHER THE ISSUER NOR ANY AFFILIATE HAS INVESTMENT DISCRETION OR RENDERS INVESTMENT ADVICE (FOR A FEE OR OTHER COMPENSATION) WITH RESPECT TO SUCH ASSETS."

Each purchaser of Regulation S Global Note outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Global Note in resales, by accepting delivery of this Offering Memorandum and the Notes, understands that such Regulation S Global Note, unless otherwise determined by us in accordance with applicable law, will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, OR THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ITS ACQUISITION AND HOLDING OF THIS NOTE (OR ANY INTEREST HEREIN), THE ACQUIROR WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) EITHER (1) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) (I) AN "EMPLOYEE BENEFIT PLAN"

(AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR ERISA), THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" (AS DEFINED IN SECTION 4975(e)(1) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, OR THE CODE) THAT IS SUBJECT TO SECTION 4975 OF THE CODE, (III) A NON-U.S., GOVERNMENTAL, OR CHURCH OR OTHER BENEFIT PLAN THAT IS NOT SUBJECT TO SUCH PROVISIONS OF ERISA OR THE CODE BUT WHICH IS SUBJECT TO THE PROVISIONS OF ANY NON-U.S. OR U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE, OR A SIMILAR LAW, OR (IV) AN ENTITY OR ACCOUNT WHOSE ASSETS ARE DEEMED TO BE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN SUBJECT TO ERISA, SECTION 4975 OF THE CODE OR ANY SIMILAR LAW, OR (2) ITS ACQUISITION AND HOLDING 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 A SIMILAR VIOLATION OF ANY APPLICABLE SIMILAR LAW, AND (B) IT IS A QUALIFIED PURCHASER (A "QP") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, OR IT IS PURCHASING OR HOLDING THE NOTE FOR THE ACCOUNTS OF A QP. ANY PERSON ACQUIRING THIS NOTE (OR ANY INTEREST HEREIN) WITH THE ASSETS OF ANY SUCH PLAN, ENTITY OR ACCOUNT WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT NEITHER THE ISSUER NOR ANY AFFILIATE HAS INVESTMENT DISCRETION OR RENDERS INVESTMENT ADVICE (FOR A FEE OR OTHER COMPENSATION) WITH RESPECT TO SUCH ASSETS."

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO US, THE TRANSFER AGENT OR ANY INTERMEDIARY.

Forced Sale of Securities

The purchaser agrees that in the event that we or the transfer agent determine in good faith that a holder or beneficial owner of the Notes is in breach, at the time given, of any of the representations or agreements set forth above, we or the transfer agent, as the case may be, may require such acquirer or beneficial owner to transfer such Notes or beneficial interests therein to a transferee acceptable to us who is able to and who does make all of the representations and agreements set forth in these transfer restrictions.

If a U.S. beneficial owner of our Restricted Global Note who is required to be a qualified purchaser within the meaning of Section 2(a)(51) under the U.S. Investment Company Act is at any time not a qualified purchaser, we may (i) require such beneficial owner to sell its Restricted Global Note to a person who is a qualified purchaser and who is otherwise qualified to purchase such Restricted Global Note in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Restricted Global Note to us or an affiliate thereof at a price equal to the purchase price paid by the holder (less all interest and principal payments received by the holder of the Note) for such Restricted Global Note. If a non-U.S. beneficial owner of our Regulation S Global Notes who is required to be outside the U.S. and required to not be a "U.S. person" as defined in Regulation S (including the registered holders and beneficial owners of the Regulation S Global Note) is at any point considered to be a "U.S. person," we may (i) require such beneficial owner to sell its Regulation S Global Note to a person who is not a "U.S. person" and who is otherwise qualified to purchase such Regulation S Global Note) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S (and, for the avoidance of doubt, no such offshore transaction may be pre-arranged with or otherwise represent a sale to a purchaser who is known to be a U.S. person as defined for purposes of Regulation S) or (ii) require the beneficial owner to sell such Regulation S Global Note to us or an affiliate thereof at a price equal to the purchase price paid by the holder (less all interest and principal payments received by the holder of the Note) for such Regulation S Global Note. Pending such transfer, such U.S. holder will be deemed not to be the holder of such Notes for any purpose, including but not limited to receipt of coupon payments on such Notes, and such U.S. holder will be deemed to have no interest whatsoever in such Notes except as otherwise required to sell its interest therein as described in this paragraph.

INDEPENDENT AUDITORS

The consolidated financial statements of Banco BTG Pactual S.A. as of and for the years ended December 31, 2011, 2012 and 2013 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 June 20, 2014 and for the six months ended June 30, 2014, included in this offering memorandum, Ernst & Young Auditores Independentes S.S. reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August, 5 2014 included in this offering memorandum states that they did not audit and did not express an opinion on those unaudited 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.

With respect to our pending acquisition of BSI, the audited consolidated financial statements of BSI as of and for the years ended December 31, 2012 and 2013 included elsewhere in this Offering Memorandum have been audited in accordance with Swiss law and Swiss auditing standards by Ernst & Young Switzerland, independent auditors as stated in their report included herein.

With respect to the unaudited interim consolidated balance sheet and consolidated profit and loss statement as of June 30, 2014 and for the six months ended June 30, 2013 and 2014 of BSI S.A, as of June 20, 2014 and for the six months ended June 30, 2014, included in this offering memorandum, Ernst & Young Switzerland reported that they have applied limited procedures in accordance with Swiss Auditing Standard 910 applicable to review engagements by Ernst & Young Switzerland. However, their separate report dated September, 3 2014 included in this offering memorandum states that they did not audit and did not express an opinion on those unaudited 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, Machado, Meyer, Sendacz e Opice Advogados, our Brazilian counsel, and Loyens & Loeff Luxembourg S.à r.l., our special Luxembourg counsel, will pass on the validity of the Notes for us. Shearman and Sterling LLP, counsel to the Initial Purchasers, and Demarest Advogados, Brazilian counsel to the Initial Purchasers, will pass on the validity of the Notes for the Initial Purchasers.

GENERAL INFORMATION

The Global Notes representing the Notes have been accepted for clearance through DTC, Euroclear and Clearstream Luxembourg. The CUSIP, ISIN, and common codes for the Notes are as follows:

144A Note CUSIP	05952V AA6
144A Note ISIN	US05952VAA61
144A Common Code	111265097
Regulation S Note CUSIP	P0779L AA3
Regulation S Note ISIN	USP0779LAA37
Regulation S Common Code	111196265

We are a corporation *(sociedade anônima)* 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, 5 º e 6º andares, Rio de Janeiro, RJ–22250-040, Brazil. The registered office of our Luxembourg Branch is located at 2, Avenue Charles De Gaulle, L-1653 Luxembourg, Grand Duchy of Luxembourg. 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.

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 registered office of the Luxembourg Branch, the offices of the Trustee and any paying agent, including the Luxembourg paying agent and transfer 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 registered office of the Luxembourg Branch, the offices of the Trustee and any other paying agent, including the Luxembourg paying agent and transfer agent at our and their respective addresses listed on the back cover of this Offering Memorandum.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial position since June 30, 2014, the date of the latest unaudited financial statements included in this offering memorandum.

Except as disclosed in this Offering Memorandum, we are not or have not been involved in any governmental, legal or arbitration proceedings during the 12-month period immediately preceding the date of this Offering Memorandum that had or may reasonably be expected to have any material adverse effect on our financial position and results of operations.

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.

The creation and issuance of the Notes were authorized pursuant to written resolutions of our board of directors on September 10, 2014.

To the best of our knowledge, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

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 financial statements for regulatory purposes in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank, or 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, or 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*), or COSIF, 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, or 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 Accounting Practices Adopted in Brazil applicable to institutions accredited by the Central Bank and IFRS (which incorporates all 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 of those 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 accredited by the Central Bank and IFRS as of December 31, 2013. Differences resulting from changes in accounting standards that will become effective after December 31, 2013 have not been taken into account in this summary.

- Differences among accounting practices adopted in Brazil applicable to institutions accredited 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 accredited by the Central Bank and IFRS that could affect future comparisons among accounting practices adopted in Brazil applicable to institutions accredited 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 accredited by the Central Bank and IFRS may be significant to our financial position or results of operations, prospective investors unfamiliar with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank should consult their own professional advisors for an understanding of the differences among accounting practices adopted in Brazil applicable to institutions accredited 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 accredited 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 accredited by the Central Bank, the financial statements of subsidiaries operating in non highly inflationary currency environments are translated using the current exchange rate. Financial statements presented in highly inflationary currency environments are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statement.

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 accredited 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. IAS 31 permits either the proportionate consolidation method or the equity 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 (SIC-12), 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.

From January 1, 2013, IFRS 10 Consolidated Financial Statements became effective ("IFRS 10") 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.

Business Combinations, Purchase Accounting and Goodwill

Under accounting practices adopted in Brazil applicable to institutions accredited 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 client deposit and relationship portfolios intangible asset is recorded and amortized over a period in which the asset is expected to contribute directly or indirectly to the future cash flows.

Transfer of Financial Assets

Until December 31, 2011, no specific accounting pronouncement addressed the recording of transfers of financial assets pursuant to Brazilian GAAP, except for when such a transfer involved a special purpose entity that is in substance controlled by the reporting entity. In addition, the sale or transfer of financial assets was derecognized from the balance sheet when the transferor retained all or substantially all of the risks and benefits relating to the ownership of such transferred asset. Commencing on January 1, 2012, 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.

Under IFRS, financial assets can be derecognized in full or partially but only when the necessary conditions are met. Derecognition conditions depend on the following factors:

- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed;
- substantially all risks and rewards are transferred and the following conditions are met:
  - (i) no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
  - (ii) the obligation to pass through cash flows; and
  - (iii) obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

Accounting for Guarantees by a Guarantor

Under accounting practices adopted in Brazil applicable to institutions accredited 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 accredited 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.

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 accredited 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 as 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.

Financial Derivative Instruments

Under accounting practices adopted in Brazil applicable to institutions accredited 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 hedging 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.

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.* 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 accredited 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 accredited 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, independently of 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 been 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 been 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 accredited 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, 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 Circular No. 3,171, as amended, which revoked 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 accredited 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 accredited 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.

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Condomínio São Luiz
Av. Pres. Juscelino Kubitschek, 1830
Torre I - 8º Andar - Itaim Bibi
04543-900 - São Paulo, SP, Brasil

Tel: (5511) 2573-3000
Fax: (5511) 2573-5780
www.ey.com.br

A free translation from Portuguese into English of the independent auditors' review 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 auditors' review report

To the Shareholders and Management of
Banco BTG Pactual S.A. and subsidiaries
São Paulo - SP

We have reviewed the consolidated financial statements of Banco BTG Pactual and its subsidiaries ("Bank") for the quarter ended June 30, 2014, which comprise the consolidated balance sheet as of June 30, 2014 and the related consolidated statements of income for the three and six-month periods then ended, and changes in shareholders' equity and cash flows for the six-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 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 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 consolidated interim financial statement referred above have not been prepared, in all material respects, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis of matter

As of June 30, 2014, the jointly controlled subsidiary Banco Pan S.A. (formerly Banco Panamericano S.A.) has deferred tax assets recorded on its balance sheet amounting to R$ 2.9 billion, recognized based on long-term deferred tax realization projection. This deferred tax realization projection was reviewed by Banco Pan S.A.'s management based on current and future scenarios analysis on June 2014 and approved by its Board of Directors on June 30, 2014, which main assumptions used were the macroeconomics indexes for production, funding costs, a capital injection and disposal of assets. 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 S.A. Our conclusion is not qualified in respect to this matter.

Other matters

Statement of value added

We have also reviewed the consolidated statement of value added (SVA), for the six-month period ended June 30, 2014, prepared under the responsibility of Bank's management, the presentation of which is considered as supplementary information. This statement has been subject to the same review procedures previously described, and based on our review nothing has come to our attention that causes us to believe that the consolidated statement of value added is not fairly presented, in all material respects, in relation to the overall consolidated financial statements.

São Paulo, August 5, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP 015.199/O-6

Emerson Morelli
Accountant CRC – 1SP 249.401/O-4

Rodrigo De Paula
Accountant CRC – 1SP 224.036/O-8

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at June, 30, 2014 and December 31, 2013
(In thousands of reais)

	Note	30/06/2014	31/12/2013
Assets			
Current assets		95,724,587	93,363,249
Cash at banks	6	1,264,535	1,074,026
Short-term interbank investments	7	33,085,650	23,761,010
Open market investments		26,817,291	19,953,446
Interbank deposits		6,268,359	3,807,564
Securities and derivative financial instruments		34,591,203	34,802,461
Own portfolio	8	16,259,773	15,938,183
Subject to repurchase agreements	8	2,953,919	9,806,523
Subject to unrestricted repurchase agreements	8	206,110	964,890
Derivative financial instruments	9	14,281,281	4,162,587
Subject to guarantees	8	890,120	3,930,278
Interbank transactions		355,917	238,046
Payments and receipts		155	-
Deposits in the Central Bank of Brazil		355,173	237,802
Correspondent banks		589	244
Loans	10	5,514,135	5,732,340
Loans – private sector		5,662,420	5,794,178
Allowance for loan losses		(148,285)	(61,838)
Other receivables		20,894,034	27,673,754
Credits for guarantees honored		47,946	51,188
Foreign exchange portfolio	11	8,210,696	13,315,152
Income receivable	12	1,062,468	1,505,570
Securities trading and brokerage	11	6,810,064	8,489,329
Sundry	12	5,879,822	5,425,772
Allowance for losses on other receivables	10	(1,116,962)	(1,113,257)
Other assets		19,113	81,612
Other assets		21,508	35,124
Prepaid expenses		9,429	55,341
Provision for losses		(11,824)	(8,853)
Long-term-assets		29,992,904	21,923,654
Long-term interbank investments	7	24,894	51,317
Interbank deposits		24,894	51,317
Securities and derivative financial instruments		18,709,376	7,854,751
Own portfolio	8	5,240,955	753,256
Derivative financial instruments	9	5,564,721	3,077,245
Subject to repurchase agreements	8	6,521,561	3,372,236
Subject to guarantees	8	1,382,139	652,014
Interbank transactions		1,853	1,853
Restricted credits – National Housing System		1,853	1,853
Loans	10	7,428,824	9,347,667
Loans – private sector		7,524,221	9,452,070
Allowance for loan losses		(95,397)	(104,403)
Other receivables		3,806,722	4,651,496
Securities trading and brokerage	11	1,644,158	3,042,224
Sundry	12	2,171,132	1,622,455
Allowance for losses on other receivables	10	(8,568)	(13,183)
Other assets		21,235	16,570
Prepaid expenses		21,235	16,570
Permanent assets		4,093,658	4,514,424
Investments		3,238,624	3,551,319
Investments in associates and jointly controlled entities - in Brazil	13	772,697	966,819
Investments in associates and jointly controlled entities - abroad	13	2,360,692	2,478,710
Other investments		108,157	108,712
Allowance for losses		(2,922)	(2,922)

	Note	30/06/2014	31/12/2013
Property and equipment in use		136,701	116,741
Property in use		19,663	11,105
Other property and equipment in use		210,376	193,424
Accumulated depreciation		(93,338)	(87,788)
Deferred charges		24,724	25,149
Amortization and expansion costs		64,075	58,188
Accumulated amortization		(39,351)	(33,039)
Intangible assets	14	693,609	821,215
Other intangible assets		1,097,127	1,150,676
Accumulated amortization		(403,518)	(329,461)
Total assets		129,811,149	119,801,327

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at June, 30, 2014 and December 31, 2013
(In thousands of reais)

	Note	30/06/2014	31/12/2013
Liabilities			
Current liabilities		79,649,141	82,746,090
Deposits	15	15,879,711	15,875,602
Demand deposits		186,151	156,495
Interbank deposits		341,061	320,313
Time deposits		15,352,499	15,398,794
Open market funding	15	25,146,441	29,474,212
Own portfolio		3,863,012	11,216,234
Third-party portfolio		13,335,335	6,864,760
Free trading portfolio		7,948,094	11,393,218
Funds from securities issued and accepted	15	7,747,163	6,984,926
Real estate, mortgage, credit and similar notes		6,038,068	4,858,251
Securities issued abroad		1,683,628	2,126,675
Certificates of structured transactions		25,467	-
Interbank transactions		4,288	2,513
Unsettled receipts and payments		4,288	2,513
Loans and on lending	15	2,662,712	3,365,313
Loans abroad		2,524,916	2,889,466
Loans in Brazil		131,606	469,305
Onlending in Brazil		6,190	6,542
Derivative financial instruments	9	13,729,114	4,695,603
Derivative financial instruments		13,729,114	4,695,603
Other liabilities		14,479,712	22,347,921
Collection and payments of tax and similar charges		2,159	2,852
Foreign exchange portfolio	11	7,173,145	12,783,692
Social and statutory	16	1,122,868	1,670,578
Tax and social security	16	921,350	427,564
Securities trading and brokerage	11	3,657,935	6,405,322
Sundry	16	1,602,255	1,057,913
Long-term liabilities		35,748,470	24,441,479
Deposits	15	2,024,266	1,777,101
Interbank deposits		81,533	68,297
Time deposits		1,942,733	1,708,804
Open market funding	15	8,460,460	1,819,095
Own portfolio		5,854,741	1,819,095
Free trading portfolio		2,605,719	-
Funds from securities issued and accepted	15	9,758,840	7,912,042
Real estate, mortgage, credit and similar notes		6,341,211	4,243,866
Securities issued abroad		3,417,629	3,668,176
Loans and onlending	15	2,411,260	1,715,153
Loans in Brazil		394,519	-
Loans abroad		695,452	739,209
Onlending in Brazil		1,321,289	975,944
Derivative financial instruments	9	4,446,437	2,797,828
Derivative financial instruments		4,446,437	2,797,828
Other liabilities		8,647,207	8,420,260
Social and statutory	16	3,124	1,544
Tax and social security	16	917,167	775,775
Securities trading and brokerage	11	-	128,329
Subordinated debt	15	6,966,170	6,748,716
Sundry	16	760,746	765,896
Deferred income		128,044	151,851
Non-controlling interest		805,910	334,083
Shareholders’ equity	19	13,479,584	12,127,824
Capital - domiciled in Brazil		4,687,289	4,687,289
Capital - domiciled Abroad		1,719,574	1,719,574
Fair value of assets available for sale		49,878	57,544
Income reserves		5,753,756	5,663,417
Retained earnings		1,269,087	-
Total Liabilities and Shareholders’ equity		129,811,149	119,801,327

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

Quarters and semesters ended June 30
(In thousands of reais, except net income per share)

		Quarter ended:		Semester ended:	
	Note	**30/06/2014**	**30/06/2013**	**30/06/2014**	**30/06/2013**
Financial income		3,578,061	1,890,022	6,929,460	4,135,908
Loans		414,183	555,403	905,432	840,190
Securities		2,043,727	1,302,802	3,637,157	3,025,719
Derivative financial instruments		757,221	(113,574)	1,372,830	93,069
Foreign Exchange		355,817	140,306	998,814	166,329
Mandatory investments		7,113	5,085	15,227	10,601
Financial expenses		(2,184,564)	(1,352,147)	(4,125,075)	(2,416,999)
Funding operations		(2,056,558)	(873,930)	(3,890,733)	(1,895,741)
Borrowing and onlending		(65,922)	(397,853)	(118,903)	(361,816)
Allowance for loan losses and other receivables		(62,084)	(80,364)	(115,439)	(159,442)
Net financial income		1,393,497	537,875	2,804,385	1,718,909
Other operating income (expenses)		(207,927)	113,404	50,451	134,901
Income from services rendered	20	642,134	610,990	1,299,269	1,229,719
Personnel expenses		(168,083)	(129,277)	(339,553)	(248,898)
Other administrative expenses	23	(296,493)	(204,141)	(547,308)	(433,612)
Tax charges		(115,459)	(64,444)	(196,792)	(155,940)
Equity in the earnings of associates and jointly controlled entities	13	(229,225)	(160,326)	(115,189)	(285,170)
Other operating income	21	73,435	120,898	159,338	181,140
Other operating expenses	22	(114,236)	(60,296)	(209,314)	(152,338)
Operating income		1,185,570	651,279	2,854,836	1,853,810
Non-operating income		6,996	2	3,965	1,004
Income before taxation and profit sharing		1,192,566	651,281	2,858,801	1,854,814
Income tax and social contribution	18	(98,779)	300,369	(612,719)	(137,441)
Provision for income tax		(178,821)	(81,460)	(467,261)	(307,715)
Provision for social contribution		(91,419)	(41,404)	(218,393)	(172,541)
Deferred income tax and social contribution		171,461	423,233	72,935	342,815
Statutory profit sharing		(219,652)	(146,017)	(441,826)	(421,163)
Non-controlling interest		(3,005)	(47,000)	3,612	(46,895)
Net income for the quarter/semester		871,130	758,633	1,807,868	1,249,315
Interest on equity	19	(301,800)	(255,000)	(301,800)	(255,000)
Weighted average numbers of share outstanding		2,714,902,212	2,648,400,000	2,714,902,212	2,648,400,000
Net income per share - R$		0.32	0.29	0.67	0.47

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
Semesters ended June 30
(In thousands of reais)

	Note	Capital	Increase in capital	Income reserves – Legal	Income reserves – Unrealized	Income reserves – Statutory	Income reserves – Total
Balances as at December 31, 2012		6,354,375	52,488	326,039	1,291,350	2,044,244	3,661,633
Capital increase	19	52,488	(52,488)	-	-	-	-
Net income for the semester		-	-	-	-	-	-
Net income allocation							
Legal reserve		-	-	61,240	-	-	61,240
Intermediate interest on equity (R$ 0.09 per share)		-	-	-	-	-	-
Intermediate dividends (R$ 0.02 per share)		-	-	-	-	-	-
Balances as at June 30, 2013		6,406,863	-	387,279	1,291,350	2,044,244	3,722,873
Balances as at December 31, 2013		6,406,863	-	458,187	1,078,592	4,073,264	5,610,043
Changes in fair value of assets available for sale	13	-	-	-	-	-	-
Changes in fair value of assets available for sale in jointly controlled entities		-	-	-	-	-	-
Net income for the semester		-	-	-	-	-	-
Net income allocation	19	-	-	-	-	-	-
Legal reserve	19	-	-	90,339	-	-	90,339
Intermediate interest on equity (R$0.11 per share)	19	-	-	-	-	-	-
Intermediate dividends (R$0.05 per share)	19	-	-	-	-	-	-
Balances as at June 30, 2014		6,406,863	-	548,526	1,078,592	4,073,264	5,700,382

Reconciliation of net income (loss) and shareholders' equity of Banco BTG Pactual S.A. and subsidiaries is

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows
Semesters ended June 30
(In thousands of reais)

	Note	30/06/2014	30/06/2013
Operating activities			
Net income for the semester		1,807,868	1,249,315
Adjusts to net income		289,351	373,276
Equity pick up from associates and jointly controlled entities	13	115,189	285,170
Goodwill amortization	22	78,607	80,759
Goodwill exchange variation	14	61,624	(26,827)
Depreciation and amortization	23	33,931	34,174
Adjusted net income for the semester		2,097,219	1,622,591
Increase/decrease in operational activities			
Short-term interbank investments		1,340,189	(22,995,173)
Securities and derivative financial instruments		31,087	2,750,052
Loans		2,137,048	(4,048,366)
Other receivables and other assets		7,682,328	(9,914,341)
Interbank transactions		(116,096)	3,850
Other liabilities		(7,928,065)	3,739,773
Deferred income		(23,807)	28,929
Deposits		251,274	3,893,244
Open market funding		2,313,594	23,940,731
Loans and onlending		(6,494)	1,492,963
Cash provided by operating activities		7,778,277	514,253
Investing activities			
Sale of other investments		-	(817)
Sale of investments	13	176,906	39,823
Acquisition of equity interests	13	(11,143)	(2,061,185)
Dividends	13	31,529	39,264
Acquisition of property and deferred charges		(81,600)	(22,596)
Sale of property and deferred charges		47,638	22
Acquisition of intangible assets	14	(31,991)	(23,457)
Sale of intangible assets	14	73	22
Cash provided by/(used in) investing activities		131,412	(2,028,924)
Financing activities			
Funds from securities issued and accepted		2,609,035	5,792,126
Subordinated debt		217,454	329,591
Non-controlling interest		471,827	198,623
Interest on equity	19	(246,900)	(220,000)
Dividends distributed	19	(132,190)	(192,085)
Cash provided by financing activities		2,919,226	5,908,255
Increase in cash and cash equivalents		10,828,915	4,393,584
Balance of cash and cash equivalents	25		
At the beginning of the semester		10,755,165	17,445,761
At the end of the semester		21,584,080	21,839,345
Increase in cash and cash equivalents		10,828,915	4,393,584
Non cash transactions		448,439	315,466
Interest on equity	19	301,800	255,000
Dividends declared	19	146,639	60,466

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added

Semesters ended June 30
(In thousands of reais)

	30/06/2014	30/06/2013
Income	8,067,316	5,235,991
Financial brokerage	6,929,460	4,135,908
Services rendered	1,299,269	1,229,719
Allowance for loan losses and other receivables	(115,439)	(159,442)
Other	(45,974)	29,806
Expenses	(4,009,636)	(2,257,557)
Financial brokerage	(4,009,636)	(2,257,557)
Inputs acquired from third parties	(469,137)	(361,517)
Materials, energy and other	(5,370)	(3,959)
Outsourced services	(463,767)	(357,558)
Gross value added	3,588,543	2,616,917
Depreciation and amortization	(33,931)	(34,174)
Net value added produced by the entity	3,554,612	2,582,743
Value added received through transfer	(115,189)	(285,170)
Equity in the earnings of associates and jointly controlled entities	(115,189)	(285,170)
Value added to be distributed	3,439,423	2,297,573
Distribution of value added	3,439,423	2,297,573
Personnel	781,379	637,188
Direct compensation	703,039	611,258
Benefits	39,721	18,438
FGTS – government severance pay fund	38,619	7,492
Taxes, fees and contributions	809,511	326,253
Federal	769,113	275,612
Municipal	40,398	50,641
Remuneration of third party capital	44,277	37,922
Rent expenses	44,277	37,922
Remuneration of shareholders	1,804,256	1,296,210
Interest on equity	301,800	255,000
Dividends	146,639	60,466
Retained earnings	1,359,429	933,849
Non-controlling interest	(3,612)	46,895

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

Condomínio São Luiz
Av. Pres. Juscelino Kubitschek, 1830
Torre I - 8º Andar - Itaim Bibi
04543-900 - São Paulo, SP, Brasil

Tel: (5511) 2573-3000
Fax: (5511) 2573-5780
www.ey.com.br

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
June 30, 2014
(In thousands of reais)

1. Operations

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating jointly with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and 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.

On October 10, 2013, Banco BTG Pactual S.A. and BTG Pactual Participations Ltd have completed the listing of their units on NYSE Euronext in Amsterdam. The entities have not offered or issued any new shares or units on this process. Previously, the units were admitted to listing on NYSE Alternext, also in Amsterdam. All units listed and traded in Amsterdam remained wholly interchangeable with the units in Brazil on BM&FBovespa.

The consolidated financial statements were approved by Bank's Management in August 05, 2014, and they contain a true and fair view of the development and results of the Bank and subsidiaries.

2. Corporate reorganization and acquisitions

Corporate events

On April 15, 2014, SUSEP approved BTG Pactual PV Holding LIDA. (subsequently had changed the name for BTG Pactual Vida e Previdência S.A.) to operate pension plan products.

On January 24, 2014 Banco BTG Pactual received licenses from the Luxembourg Ministry of Finance to the Bank's new offshore branch as well as its local subsidiary. Further infrastructure and operational processes are being implemented with the objective to initiate the business activities still in 2014.

In December 2013, Banco BTG Pactual sold its interests in BTG Pactual Absolute Return Fund II, L.P ("ARF II") to an independent third party for a total consideration equal to the net asset value ("NAV") of such interests. On the same date, such third party entered into a separate binding agreement to sell such interests in ARF II to BTGI, which is the primary investment vehicle for the *principal investments* business unit of the BTG Pactual Group.

The legal title to the interests in ARF II will be transferred from Banco BTG Pactual to the third party (and from the third party to BTGI) only upon payment of the total consideration for the transaction. However, in December 2013 the transaction was considered for all relevant purposes to represent the immediate transfer of the risk, rewards and control from Banco BTG Pactual to the third party (and from the third party to BTGI).

On April 22, 2013 the Central Bank of Brazil approved the formation of Banco BTG Pactual Chile in Santiago (Chile), with initial capital of US$50 million. This transaction remains subject to the approval of the Chilean authorities.

At the same date, the Central Bank of Brazil also approved the allocation of resources totaling US$300 million, with the purpose of investment in the new established companies in connection with our commodities business.

On February 26, 2013, BTG Pactual RE Holding SA, a subsidiary of Banco BTG Pactual, received authorization from SUSEP to offer reinsurance products in Brazil.

Acquisitions and disposals

On November 21, 2013 the Bank sold to Harpia Ômega Participações S.A, controlled invest by BTG Investiments LP, an amount of shares equivalent to 21.42% from the total of 24.53% on BR properties equity participation. On December 2013 Harpia Ômega Participações S.A. subscribed capital in BTG Pactual Property Co with its total shares of BR Properties. On January 23, 2014, the bank sold the remaining 2.98% equity interest to BTG Pactual PropertyCo II LLC, a “BTG Investments LP” subsidiary. Both trades were done in BM&F BOVESPA, based on the opening price of the day.

On April 10, 2014, BTG Pactual Property Co and BTG Pactual Property Co II LLC sold 15% and 3.65%, respectively, of its shares to the fund Propertyco FIM CP IE, whose shareholder is the Bank. The referred transaction was executed on the Brazilian Stock Exchange (BM&F BOVESPA) based on the closing price of April 10, 2014, for a total consideration of R$1,075 million. Such assets were classified as “Securities” in trading category.

During the semester ended June 30, 2014, and year ended December 31, 2013, the company’s investments was measured by equity pickup using affiliates net worth on base dates, deducted from non-permanent devaluation provision. This action is based on BACEN Resolution No. 3566 (CPC01 – Impairment of Assets), these results were recognized in the line of equity pick up in associates and jointly controlled entities.

On July 26, 2013 the Bank concluded the acquisition process of 94.34% of TTG Brasil Investimentos Florestais Ltda. (“TTG Brasil”) for a total amount of R$20.2 million. TTG Brasil is one of the largest timberland asset management companies in Latin America and has offices in Brazil and New York City. This acquisition was approved on June 24, 2013 by the Central Bank of Brazil. For accounting purposes, the acquisition date of TTG was July 01, 2013 and the goodwill recorded in the transaction was R$0.7 million. In addition, on September 6, 2013 and through its subsidiary BTG Pactual Timberland Investments Group LLC, the Bank acquired timberland management contracts from Regions Timberland Group (“RTG”), a division of Regions Bank. This acquisition, which expands BTG Pactual’s current timberland investment platform, establishes the Bank as the largest independent timberland manager in Latin America and one of the largest worldwide, with committed and invested assets of nearly US$3 billion and a portfolio of over 1.77 million acres (716,000 hectares) diversified across the USA, Latin America, Europe and South Africa.

On June 14, 2013 the Bank and Petróleo Brasileiro S.A. - Petrobras ("Petrobras"), through its subsidiary Petrobras International Braspetro B.V. ("PIBBV"), established a joint venture for oil and gas exploration and production in Africa. The joint venture was established upon the acquisition by BTG Pactual and its clients, acting through BTG Pactual E&P Empreendimentos e Participações S.A., of 50% of the shares issued by Petrobras Oil & Gas B.V. ("PO&G"). The price for such shares, which were previously fully owned by PIBBV, was US$1.525 billion. As of June 30, 2014 Banco BTG Pactual had approximately 33% indirect economic interest in PO&G after the sale of the economic interest to its clients. The joint venture involves PO&G's E&P operations located in Angola, Benin, Gabon, Namibia, and Tanzania.

On January 30, 2013, the Bank signed definitive agreements related to its acquisition of certain credits and rights held by Fundo Garantidor de Créditos ("FGC") against Banco Bamerindus do Brasil S/A ("Bamerindus"), in Extrajudicial Liquidation (the "Institution"), and other companies in the Institution's economic group ("Transaction"). In connection with the Transaction, BTG Pactual will pay approximately R$418 million to the FGC in five installments, the first of which will be paid at the closing of the Transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted. Consummation of the Transaction is subject the termination of the process, completion of the extrajudicial liquidation of the Institution and its subsidiaries, and the settlement of certain of their financial obligations, resulting in positive shareholders' equity. The Institution's assets do not include the Bamerindus brand.

The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. In October 2013, we signed an amendment to the agreement extending the period that the parties had to satisfy the typical closing conditions. We expect the transaction to concluded in 2014, although there can be no assurance that the transaction will be concluded.

This transaction will result in BTG Pactual acquiring (i) control of the Institution and its subsidiaries, (ii) an interest in the Institution greater than ninety-eight percent 98% of its total and voting capital, and (iii) the receivables and assets held by the Institution, which will be used in BTG Pactual credit operations context. The consummation of the Transaction is subject to certain conditions, including obtaining all required regulatory approvals.

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 National Monetary Council (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.

(In thousands of reais)

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.

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	**30/06/2014**	**31/12/2013**
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 Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	99.90	99.90
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Global Ltd.	Cayman	100.00	100.00
BW Properties S.A.	Brazil	67.49	67.49
BTG Pactual Commodities S.A.	Brazil	99.99	99.99
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.99	99.99
Recovery do Brasil Consultoria S.A.	Brazil	50.24	50.24
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	-
BTG Pactual Timberland Investments Group LLC	USA	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 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		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 Seguradora S.A.	Brazil	99.99	99.99

(In thousands of reais)

	Country	Equity interest - % 30/06/2014	31/12/2013
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	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	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
BTG Pactual Chile Proyectos y Rentas S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile Finanzas y Servicios S.A.	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	100.00
BTG Pactual Holding Delaware LLC	Delaware	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 S.A. Sociedad Comissionista de Bolsa	Colombia	100.00	100.00
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTGP Corp SAS	Colombia	100.00	100.00
BTG Pactual E&P Empreendimentos e Participações S.A.	Brasil	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
BTG Pactual Commodities Holding (UK) Limited	UK	100.00	100.00
BTG Pactual Commodities (UK) LLP	UK	100.00	100.00
BTG Pactual Commodities (Singapore) PLC	Singapure	100.00	100.00
BTG Pactual Commodities (Switzerland) SA	Switzerland	100.00	100.00
BTG Pactual Commodities Holding (US) LLC	USA	100.00	100.00
BTG Pactual Commodities (US) LLC	USA	100.00	100.00
BTG Pactual Commodities (South Africa) (Pty) Ltd	South Africa	100.00	100.00
BTG Pactual Commodities Argentina S.A.	Argentina	100.00	-
BTG Pactual Warehousing (SG) PTE	Singapore	100.00	-
BTG Pactual Commodities (Shanghai) Co	China	100.00	-
BTG Pactual Warehousing (US) LLC	USA	100.00	-
BTG Pactual Warehousing (UK) Ltd	UK	100.00	-
BTG Pactual Commodities Trading US LLC	USA	100.00	-
BTG Pactual Commodities Ukraine	Ukraine	100.00	-
BTG Pactual Commodities (Italy) SRL	Italy	100.00	-
BTG Pactual Commodities (Costa Rica) SRL	Costa Rica	100.00	-
BTG Pactual Commodities Absolute Return Ltd.	Cayman	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	94.34	94.34
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	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
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	70.75	70.75
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	95.67	95.67
Nala Fundo de Investimento em Participações	Brazil	100.00	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	100.00
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	100.00	100.00
Fundo de Investimento em Participações Quartzo	Brazil	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP (i)	Brazil	100.00	100.00
BTG Pactual E&P FIP (i)	Brazil	100.00	100.00
BTG Pactual Mall Fundo de Investimento Imobiliário	Brazil	100.00	100.00

(In thousands of reais)

	Country	Equity interest - %	
		30/06/2014	31/12/2013
Fundo de Investimento Imobiliário BTG Pactual Shopping	Brazil	100.00	100.00
Fundo de Investimento Imobiliário Onix	Brazil	100.00	100.00
BTG Pactual Real State Developement Fund I	Brazil	54.15	-
Propertyco FIM CP IE	Brazil	100.00	-
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	-
Warehouse Fundo de Investimento em Participação	Brazil	100.00	-
Caravelas Fundo de Investimento em Ações	Brazil	56.00	-
BTG Pactual Absolute Return III Master Fund LP	Cayman	100.00	-
Covalis Capital Fund Ltd	Cayman	100.00	100.00
Covalis Capital Master Fund Ltd	Cayman	100.00	100.00

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 generally US dollar, 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.

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:

Fair value 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 income (loss).

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-delivery 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 measured initially at cost and subsequently using the fair value model. Subsequent changes in fair value are recognized on other operating income.

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 and negative 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

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 15% 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)

r. Earnings per share

Calculated based on weighted average shares outstanding for the semesters.

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.

a. Operating limits

	30/06/2014	31/12/2013
Reference Shareholders' Equity	13,425,118	10,966,010
Tier I	12,780,257	11,375,535
Common Equity	12,780,257	11,375,535
Tier II	4,545,445	5,113,625
Reference Shareholders' Equity (PR) - (a)	17,325,702	16,489,160
Required Reference Shareholders' Equity (PRE)	11,917,875	10,201,774
Total exposure risk-weighted - (b)	11,917,875	10,202,073
Credit risk	6,415,094	6,309,435
Operational risk	694,655	398,908
Market risk	4,808,126	3,493,730
Basel ratio - (a/b*11%)	16.0%	17.8%
Tier I capital	11.8%	12.3%

(In thousands of reais)

	30/06/2014	31/12/2013
Reference Shareholders' Equity	13,425,118	10,966,010
Tier II capital	4.2%	5.5%
Fixed assets ratio	99.0%	73.6%
Fixed assets to equity capital ratio	8,656,238	8,237,556
Status for fixed assets to equity capital ratio	8,567,606	6,062,576
Amount of margin or insufficient	88,632	2,174,979

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 Circulars-Letters 3.310/08 and 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13 and Circular-Letter 3.625/13.

The Bank has chosen the basic indicator approach to measure operating risk.

As at the semester ended June 30, 2014 and year ended December 31,2013 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 and its subsidiaries' daily average VaR for the semesters ended:

In millions of R$	June 2014	December 2013	June 2013
Daily average VaR	95.5	57.5	48.4

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 extremely 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)

7. Interbank investments

	30/06/2014					31/12/2013
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**Over 3 years**	**Total**
Open market investments	26,817,291	26,555,793	261,498	-	-	19,953,446
Own portfolio	3,098,654	3,053,027	45,627	-	-	2,243,260
Federal government bonds	2,444,762	2,399,135	45,627	-	-	1,803,487
Corporate bonds	640,872	640,872	-	-	-	186,695
Foreign government bonds	13,020	13,020	-	-	-	253,078
Third-party portfolio	20,443,735	20,383,504	60,231	-	-	13,882,393
Federal government bonds	19,755,836	19,695,605	60,231	-	-	13,882,393
Corporate bonds	27,171	27,171	-	-	-	-
Foreign government bonds	660,728	660,728	-	-	-	-
Short position	3,274,902	3,119,262	155,640	-	-	3,827,793
Federal government bonds	3,274,902	3,119,262	155,640	-	-	3,827,793
Interbank investments (*)	6,293,253	6,178,024	90,335	24,894	-	3,858,881
Interbank deposit certificates	2,964,670	2,849,441	90,335	24,894	-	2,071,787
Investments in foreign currency - overnight	3,328,583	3,328,583	-	-	-	1,787,094
	33,110,544	32,733,817	351,833	24,894	-	23,812,327

(*) Refers basically to interbank deposits in prime banks.

The collateral received in repurchase agreements amounts to R$27,493,416 (December 31, 2013 - R$24,020,329), whereas the collateral granted amounts to R$38,055,978 (December 31, 2013 - R$31,450,133).

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	30/06/2014							31/12/2013
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Own portfolio	21,065,547	21,500,728	10,305,348	2,355,821	2,590,735	2,372,319	3,876,505	16,691,439
Federal government bonds	1,221,378	1,224,703	346,537	69,225	100,588	108,766	599,587	1,479,175
Brazilian foreign debt securities	31,205	30,520	6,115	7	-	1,086	23,312	29,084
Debentures/Eurobonds (i)	6,255,793	6,263,059	330,000	667,370	2,345,247	984,204	1,936,238	4,259,708
Bank certificates of deposit	5	5	5	-	-	-	-	10,510
Bank credit certificate	38,380	38,380	-	-	-	-	38,380	76,912
Investment fund quotes								
Shares	227,527	227,528	227,528	-	-	-	-	148,695
Multimarket	1,730,263	1,731,311	1,731,311	-	-	-	-	2,099,942
FIDC - Credit Rights	18,857	18,857	-	-	-	18,857	-	43,385
Real Estate	219,418	219,418	-	-	-	219,418	-	318,193
Equity Investment fund	1,004,504	1,004,505	-	-	-	1,004,505	-	779,126
Shares	4,970,720	5,302,076	5,302,076	-	-	-	-	4,114,471
Promissory notes	1,135,630	1,135,631	1,074,702	60,929	-	-	-	65,638
Certificate of real estate receivables	1,229,407	1,229,407	-	71,790	58,133	322	1,099,162	1,348,704
Other	196,874	196,873	948	20,163	21,737	462	153,563	154,600
Foreign government bonds								

	30/06/2014							31/12/2013
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Denmark	932,817	930,861	465,705	465,156	-	-	-	929,521
Other	1,005,632	1,005,935	-	961,644	38,534	458	5,299	585,157
Foreign private securities								
Corporate Bond	847,137	941,659	820,421	39,537	26,496	34,241	20,964	248,618
Unrestricted portfolio	204,821	206,110	-	-	-	-	206,110	964,890
Federal government bonds	204,821	206,110	-	-	-	-	206,110	964,890
Subject to repurchase agreements	9,502,231	9,475,480	74,846	1,068,150	1,315,071	776,167	6,241,246	13,178,759
Federal government bonds	5,464,615	5,455,790	39,510	553,857	476,181	161,839	4,224,403	9,246,394
Brazilian foreign debt securities	-	-	-	-	-	-	-	13,833
Shares	7,087	3,218	3,218	-	-	-	-	-
Foreign government bonds	523,365	523,458	32,118	1,236	42,656	284,033	163,415	157,394
Foreign private securities								
US Agencies	-	-	-	-	-	-	-	4,551
Other	25,917	11,767	-	-	11,767	-	-	8,561
Debentures / Eurobonds (i)	3,481,247	3,481,247	-	513,057	784,467	330,295	1,853,428	3,748,026
Subject to guarantees	2,304,367	2,272,259	327,791	143,899	1,024,471	16,867	759,231	4,582,292
Federal government bonds	1,600,389	1,588,639	97,745	139,689	575,107	16,867	759,231	3,961,304
Investment fund quotes		-						
Multimarket	38,470	38,470	38,470	-	-	-	-	31,276
Debentures / Eurobonds (i)	445,213	445,213	-	-	445,213	-	-	427,470
Shares	180,051	178,068	178,068	-	-	-	-	117,122
Foreign government bonds	-	-	-	-	-	-	-	13,351
Other	40,244	21,869	13,508	4,210	4,151	-	-	31,769
Trading securities	16,604,369	16,989,985	8,587,248	2,368,670	1,642,835	1,597,797	2,793,435	29,984,334
Available for sale securities	11,955,141	11,947,135	2,120,737	1,199,200	2,526,379	1,390,444	4,710,375	1,079,361
Held-to-maturity securities	4,517,457	4,517,457	-	-	761,063	177,112	3,579,282	4,353,685
	33,076,967	33,454,577	10,707,985	3,567,870	4,930,277	3,165,353	11,083,092	35,417,380

(i) Substantially securities issued by Brazilian companies.

b. Trading securities

	30/06/2014							31/12/2013
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	13,009,707	13,452,893	8,184,611	1,669,678	1,279,131	1,312,170	1,007,303	15,282,643
Federal government bonds	1,194,218	1,197,543	346,537	69,225	85,683	108,766	587,332	1,149,740
Brazilian foreign debt securities	31,205	30,520	6,115	7	-	1,086	23,312	29,084
Debentures/Eurobonds (i)	2,258,958	2,266,224	-	113,977	1,128,418	653,433	370,396	4,259,708
Bank certificates of deposit	5	5	5	-	-	-	-	10,510
Bank credit certificate	-	-	-	-	-	-	-	76,912
Investment fund quotes								
Shares	227,527	227,528	227,528	-	-	-	-	148,695
Multimarket	1,730,263	1,731,311	1,731,311	-	-	-	-	2,099,942
FIDC - Credit Rights	18,857	18,857	-	-	-	18,857	-	43,385
Real Estate	219,418	219,418	-	-	-	219,418	-	318,193
Equity Investment fund	267,904	275,911	-	-	-	275,911	-	355,305
Shares	4,254,707	4,586,063	4,586,063	-	-	-	-	3,458,931
Promissory notes	-	-	-	-	-	-	-	65,638
Certificate of real estate receivables	-	-	-	-	-	-	-	1,348,704
Other	21,059	21,058	926	20,132	-	-	-	154,600
Foreign government bonds								
Denmark	932,817	930,861	465,705	465,156	-	-	-	929,521
Other	1,005,632	1,005,935	-	961,644	38,534	458	5,299	585,157
Foreign private securities								
Corporate Bond	847,137	941,659	820,421	39,537	26,496	34,241	20,964	248,618
Unrestricted portfolio	204,821	206,110	-	-	-	-	206,110	964,890
Federal government bonds	204,821	206,110	-	-	-	-	206,110	964,890
Subject to repurchase agreements	2,467,613	2,440,862	74,846	555,093	254,767	284,033	1,272,123	9,806,523
Federal government bonds	1,911,244	1,902,419	39,510	553,857	200,344	-	1,108,708	5,874,158
Brazilian foreign debt securities	-	-	-	-	-	-	-	13,833
Shares	7,087	3,218	3,218	-	-	-	-	-
Foreign government bonds	523,365	523,458	32,118	1,236	42,656	284,033	163,415	157,394

(In thousands of reais)

	30/06/2014							31/12/2013
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Foreign private securities								
US Agencies	-	-	-	-	-	-	-	4,551
Other	25,917	11,767	-	-	11,767	-	-	8,561
Debentures / Eurobonds (i)	-	-	-	-	-	-	-	3,748,026
Subject to guarantees	922,228	890,120	327,791	143,899	108,937	1,594	307,899	3,930,278
Federal government bonds	663,463	651,713	97,745	139,689	104,786	1,594	307,899	3,309,290
Investment fund quotes								
Multimarket	38,470	38,470	38,470	-	-	-	-	31,276
Debentures / Eurobonds	-	-	-	-	-	-	-	427,470
Shares	180,051	178,068	178,068	-	-	-	-	117,122
Foreign government bonds	-	-	-	-	-	-	-	13,351
Other	40,244	21,869	13,508	4,210	4,151	-	-	31,769
Total	16,604,369	16,989,985	8,587,248	2,368,670	1,642,835	1,597,797	2,793,435	29,984,334

c. Available-for-sale securities

	30/06/2014							31/12/2013
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Own portfolio	8,028,681	8,020,675	2,120,737	686,143	1,296,699	1,060,149	2,856,947	1,079,361
Shares	716,013	716,013	716,013	-	-	-	-	655,540
Investment fund quotes								
Equity investment fund	736,600	728,594	-	-	-	728,594	-	423,821
Debentures	3,996,835	3,996,835	330,000	553,393	1,216,829	330,771	1,565,842	-
Bank credit certificate	38,380	38,380	-	-	-	-	38,380	-
Certificate of real estate receivables	1,229,407	1,229,407	-	71,790	58,133	322	1,099,162	-
Promissory notes	1,135,631	1,135,631	1,074,702	60,929	-	-	-	-
Other	175,815	175,815	22	31	21,737	462	153,563	-
Subject to repurchase agreements	3,481,247	3,481,247	-	513,057	784,467	330,295	1,853,428	-
Debentures	3,481,247	3,481,247	-	513,057	784,467	330,295	1,853,428	-
Subject to guarantees	445,213	445,213	-	-	445,213	-	-	-
Debentures	445,213	445,213	-	-	445,213	-	-	-
Total	11,955,141	11,947,135	2,120,737	1,199,200	2,526,379	1,390,444	4,710,375	1,079,361

d. Held-to-maturity securities

	30/06/2014						31/12/2013
	Cost	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Cost**
Own portfolio	27,160	-	-	14,905		12,255	329,435
Federal government bonds	27,160	-	-	14,905	-	12,255	329,435
Subject to re purchase	3,553,371	-	-	275,837	161,839	3,115,695	3,372,236
Federal government bonds	3,553,371	-	-	275,837	161,839	3,115,695	3,372,236
Subject to guarantees	936,926	-	-	470,321	15,273	451,332	652,014
Federal government bonds	936,926	-	-	470,321	15,273	451,332	652,014
Total	4,517,457	-	-	761,063	177,112	3,579,282	4,353,685

If measured at fair value, held-to-maturity securities would be reported as at the semester ended June 30, 2014 with a negative adjustment of R$68.628 (December 31, 2013 – R$23,447 negative).

The Bank has financial capacity to maintain such assets to maturity.

(In thousands of reais)

e. Reclassification of securities

Management classifies the securities according to its trading intention. During the semester ended at June 30, 2014 the Bank's Management reclassified R$10,502,528 from the category trading securities for available to sale securities, with no effect on current gain or loss. No reclassifications or changes in intention were made by Management during the year ended in December 31, 2013.

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 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 June 30, 2014 and 2013, the Bank does not have derivative financial instruments classified as hedge accounting.

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 3389/08, 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.

	30/06/2014				**31/12/2013**
	Up to 6 months	**6 to 12 months**	**Over 1 year**	**Total**	**Total**
Futures market					
Long position	53,285,074	33,172,628	7,216,531	93,674,233	140,851,078
Currency	257,064	100,141	48,009	405,214	10,257,178
Interest rate	41,154,675	24,676,512	4,687,260	70,518,447	122,523,979
Commodities	8,482,248	1,635,662	1,750,756	11,868,666	6,966,297
Index	3,391,087	6,299,796	730,506	10,421,389	1,095,455
Equities	-	460,517	-	460,517	8,169

(In thousands of reais)

	30/06/2014				31/12/2013
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Short position	47,905,535	41,411,333	8,476,357	97,793,225	43,642,065
Currency	4,067,265	128,738	2,957,302	7,153,305	24,629,699
Interest rate	27,564,561	38,816,546	3,128,821	69,509,928	12,348,165
Commodities	9,950,798	2,217,312	2,093,640	14,261,750	6,554,604
Index	6,306,284	1,788	296,594	6,604,666	108,043
Equities	1	246,949	-	246,950	1,554
Other	16,626	-	-	16,626	-
Swap					
Long position	53,185,651	35,698,528	104,650,689	193,534,868	100,199,005
Currency	1,733,065	219,436	2,341,039	4,293,540	3,451,502
Interest rate	43,139,001	27,188,691	88,433,967	158,761,659	91,430,656
Index	1,963,613	1,417,792	8,206,476	11,587,881	1,237,851
Equities	133,748	230,863	2,963,976	3,328,587	3,588,576
Commodities	4,010,465	5,588,853	1,652,059	11,251,377	24,961
Other	2,205,759	1,052,893	1,053,172	4,311,824	465,459
Short position	53,185,650	35,698,527	104,650,690	193,534,867	100,199,005
Currency	2,738,585	876,120	3,557,936	7,172,641	5,204,604
Interest rate	43,130,298	27,267,986	88,403,165	158,801,449	89,183,589
Index	2,114,314	881,129	5,434,514	8,429,957	3,409,703
Equities	176,264	163,491	2,998,743	3,338,498	673,938
Commodities	4,006,335	5,588,853	1,652,059	11,247,247	29,800
Other	1,019,854	920,948	2,604,273	4,545,075	1,697,371
Credit Derivatives					
Long position	-	-	281,259	281,259	228,872
Sovereign	-	-	44,050	44,050	23,426
Corporate	-	-	237,209	237,209	205,446
Short position	-	55,062	413,409	468,471	346,002
Sovereign	-	55,062	176,200	231,262	58,565
Corporate	-	-	237,209	237,209	287,437
Non-deliverable forward - NDF					
Long position	19,202,487	6,010,665	14,464,934	39,678,086	48,276,983
Currency	13,773,313	2,819,504	1,125,227	17,718,044	26,020,386
Commodities	1,331,387	1,055,726	3,800,853	6,187,966	6,003,469
Index	635,218	963,146	8,753,530	10,351,894	13,058,391
Interest rate	3,462,569	1,172,289	785,324	5,420,182	3,194,737
Short position	19,202,487	6,010,664	14,464,934	39,678,085	48,276,983
Currency	16,425,585	3,603,008	1,965,987	21,994,580	30,014,038
Commodities	1,210,990	1,331,074	9,286,446	11,828,510	8,819,461
Index	691,902	694,343	3,185,132	4,571,377	7,719,190
Interest rate	874,010	382,239	27,369	1,283,618	1,724,294
Deliverable forward - DF					
Long position	12,510,202	1,873,749	1,393,029	15,776,980	6,990,691
Commodities	8,001,405	1,031,286	52,833	9,085,524	2,911,603
Currency	4,508,797	842,463	1,340,196	6,691,456	4,079,088
Short position	12,510,202	1,873,749	1,393,029	15,776,980	6,990,691
Commodities	8,001,405	1,031,286	52,833	9,085,524	2,372,320
Interest rate	-	-	-	-	539,283
Currency	4,508,797	842,463	1,340,196	6,691,456	4,079,088
Security forwards					
Long position	1,668,690	-	-	1,668,690	542,904
Interest rate	803,601	-	-	803,601	242,021

(In thousands of reais)

	30/06/2014				31/12/2013
	Up to 6 months	**6 to 12 months**	**Over 1 year**	**Total**	**Total**
Government bonds	865,089	-	-	865,089	300,883
Short position	1,668,690	-	-	1,668,690	542,904
Interest rate	865,089	-	-	865,089	300,883
Government bonds	803,601	-	-	803,601	242,021
Options market					
Call option - long position	19,552,508	5,477,326	1,637,619	26,667,453	10,923,261
Equities	247,098	11,735	5,753	264,586	1,078,816
Commodities	3,405,344	136,100	29,932	3,571,376	787,458
Index	4,545,604	5,337	38,381	4,589,322	3,593,450
Currency	1,265,062	87,654	1,563,553	2,916,269	4,739,809
Interest rate	10,089,400	5,236,500	-	15,325,900	721,728
Other	-	-	-	-	2,000
Put option - long position	4,301,059	147,301	1,967,196	6,415,556	6,600,926
Equities	158,332	16,832	-	175,164	929,739
Commodities	2,293,333	-	-	2,293,333	1,289,194
Index	1,287,488	-	93,192	1,380,680	3,662,769
Currency	561,893	130,469	1,487,004	2,179,366	332,224
Interest rate	13	-	-	13	-
Other	-	-	387,000	387,000	387,000
Call option - short position	5,794,202	219,942	1,923,056	7,937,200	11,876,155
Equities	297,156	58,035	-	355,191	2,310,047
Commodities	2,979,584	67,957	12,052	3,059,593	862,621
Index	1,788,668	6,137	-	1,794,805	3,756,568
Currency	723,838	87,813	1,911,004	2,722,655	4,685,119
Interest rate	-	-	-	-	261,800
Other	4,956	-	-	4,956	-
Put option - short position	15,900,755	5,417,846	1,167,457	22,486,058	6,539,208
Equities	141,937	40,123	3,753	185,813	908,776
Commodities	988,206	12,851	5,616	1,006,673	1,710,413
Index	1,432,381	-	18,535	1,450,916	3,631,000
Currency	779,928	128,372	1,139,553	2,047,853	289,019
Interest rate	12,558,303	5,236,500	-	17,794,803	-

b. By cost and market value

	30/06/2014					31/12/2013
	Cost	**Market**	**Up to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Futures						
Long position	5,076	5,076	-	5,076	-	3,037
Short position	2,892	2,892	-	2,892	-	5,241
Swaps						
Long position	923,057	1,093,287	419,972	236,386	436,929	626,312
Short position	839,632	831,031	312,592	176,175	342,264	844,526
Credit derivatives						
Long position	12,930	16,724	-	-	16,724	20,615
Short position	25,092	29,092	-	380	28,712	31,494
Non-deliverable forward - NDF						
Long position	7,815,634	6,498,821	2,760,543	268,687	3,469,591	1,419,833
Short position	6,990,729	5,703,564	2,658,400	378,331	2,666,833	1,248,078
Deliverable forward - DF						

	30/06/2014					31/12/2013
	Cost	**Market**	**Up to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Long position	9,562,733	10,307,714	7,967,855	1,152,785	1,187,074	4,170,754
Short position	4,201,269	10,015,046	7,735,893	1,098,197	1,180,956	4,150,937
Security forwards						
Long position	1,156,540	1,156,540	1,156,540	-	-	542,604
Short position	1,156,169	1,156,169	1,156,169	-	-	542,423
Options market						
Long position	733,770	767,840	294,908	18,529	454,403	456,677
Short position	431,104	437,757	193,441	16,644	227,672	670,732
Long position	**20,209,740**	**19,846,002**	**12,599,818**	**1,681,463**	**5,564,721**	**7,239,832**
Short position	**13,646,887**	**18,175,551**	**12,056,495**	**1,672,619**	**4,446,437**	**7,493,431**

c. Notional by counterparty

	30/06/2014					31/12/2013
	BM&F Bovespa	**Financial Institutions (*)**	**Companies**	**Individuals**	**Total**	**Total**
Futures market						
Long position	80,614,827	13,059,406	-	-	93,674,233	140,851,078
Short position	80,226,605	17,566,620	-	-	97,793,225	43,642,065
Swap						
Long position	3,711,996	184,339,338	5,268,127	215,407	193,534,868	100,199,005
Short position	3,711,996	184,339,337	5,268,127	215,407	193,534,867	100,199,005
Credit derivatives						
Long position	-	281,259	-	-	281,259	228,872
Short position	-	468,471	-	-	468,471	346,002
Non-deliverable forward - NDF						
Long position	-	17,521,297	22,097,140	59,649	39,678,086	48,276,983
Short position	-	17,521,296	22,097,140	59,649	39,678,085	48,276,983
Deliverable forward - DF						
Long position	-	9,653,309	6,105,598	18,073	15,776,980	6,990,691
Short position	-	9,653,309	6,105,598	18,073	15,776,980	6,990,691
Security forwards						
Long position	-	1,668,690	-	-	1,668,690	542,904
Short position	-	1,668,690	-	-	1,668,690	542,904
Options market						
Long position	19,067,771	13,189,001	798,177	28,060	33,083,009	17,524,187
Short position	19,579,483	10,487,158	340,534	16,083	30,423,258	18,415,363
Long position	**103,394,594**	**239,712,300**	**34,269,042**	**321,189**	**377,697,125**	**314,613,720**
Short position	**103,518,084**	**241,704,881**	**33,811,399**	**309,212**	**379,343,576**	**218,413,013**

(*) Includes investments funds.

(In thousands of reais)

d. Credit derivatives

	30/06/2014	31/12/2013
Credit swap		
Transferred risk		
Sovereign	44,050	23,426
Corporate	237,209	205,446
Risk received		
Sovereign	(231,262)	(58,565)
Corporate	(237,209)	(287,437)
	(187,212)	(117,130)

During the semester ended on June 30, 2014 and the year ended on December 31, 2013, there were no credit events related to triggering facts provided for in agreements.

According to CMN resolution 3,490, the effect on the calculation of the required reference shareholders' equity (PRE) as at June 30, 2014 is R$9,000 (December 31, 2013 – R$8,414).

e. Guarantee margins

Guarantee margins in transactions traded on BM&FBovespa and other stock exchanges with derivatives comprises federal government and sovereign bonds totaling R$1,249,794 (December 31, 2013 – R$3,493,570) and shares in the amount of R$178,068 (December 31, 2013 – R$115,214).

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)

- 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

	30/06/2014		31/12/2013	
Type of credit	**Balance**	**Allowance**	**Balance**	**Allowance**
Loans	9,462,781	(173,481)	10,929,692	(120,413)
Financing	2,267,847	(58,954)	2,364,577	(35,782)
FINAME/BNDES	1,346,782	(11,247)	993,635	(10,046)
Securities financing	109,231	-	958,344	-
Total	13,186,641	(243,682)	15,246,248	(166,241)

ii. By risk level and maturity

	30/06/2014						31/12/2013	
		Maturity						
Risk level	**Overdue**	**Up to 6 months**	**6 to 12 months**	**Over 12 months**	**Total**	**Allowance**	**Total**	**Allowance**
AA	1,396	479,081	370,965	2,532,666	3,384,108	-	4,952,588	-
A	-	1,009,737	861,330	3,013,040	4,884,107	(24,417)	6,506,771	(32,534)
B	570	314,406	793,644	984,710	2,093,330	(20,933)	2,075,006	(20,750)
C	-	448,447	458,990	730,102	1,637,539	(51,401)	1,347,740	(43,067)
D	22,663	513,868	370,914	195,537	1,102,982	(111,181)	323,964	(41,765)
E	-	5,643	8,806	53,545	67,994	(26,716)	11,730	(3,519)
F	-	-	138	12,726	12,864	(6,432)	6,961	(3,480)
G	666	599	557	1,895	3,717	(2,602)	1,210	(847)
H	-	-	-	-	-	-	20,278	(20,279)
Total	25,295	2,771,781	2,865,344	7,524,221	13,186,641	(243,682)	15,246,248	(166,241)

iii. By activity sector

Sector	**30/06/2014**	**31/12/2013**
Commerce	13,602	1,268,104
Industry	780,059	2,433,675

(In thousands of reais)

Services	11,674,327	9,206,250
Rural	-	437,741
Individuals	718,653	1,900,478
Total	13,186,641	15,246,248

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

	30/06/2014						31/12/2013	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	1,590	9,950	115,436	91,342	218,318	-	273,699	-
A	1,611	8,862	149,323	348,609	508,405	(2,542)	223,428	(1,117)
B	65,803	85,716	7,634	26,896	186,049	(1,860)	559,643	(5,596)
C	17,247	-	-	133,369	150,616	(4,518)	42,121	(1,264)
D	-	-	-	20,752	20,752	(2,075)	19,332	(1,933)
G	39,442	-	-	-	39,442	(27,609)	13,552	(9,992)
H	-	-	-	480	480	(480)	479	(479)
Total	125,693	104,528	272,393	621,448	1,124,062	(39,084)	1,132,254	(20,381)

ii. By activity sector

Sector	30/06/2014	31/12/2013
Industry	-	175,818
Services	1,124,062	956,436
Total	1,124,062	1,132,254

c. Advances in foreign exchange contracts

i. By risk level and maturity

	30/06/2014						31/12/2013	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
A	-	37,124	177,995	-	215,119	(1,076)	108,385	(542)
B	-	-	84,141	-	84,141	(841)	34,613	(346)
C	-	49,144	109,891	-	159,035	(4,771)	172,302	(5,169)
D	-	-	-	-	-	-	143,113	(14,311)
E	91,984	-	-	-	91,984	(27,595)	-	-
F	2,747	22,471	-	-	25,218	(12,609)	31,689	(15,844)
Total	94,731	108,739	372,027	-	575,497	(46,892)	490,102	(36,212)

ii. By activity sector

Sector	30/06/2014	31/12/2013
Industry	-	145,895
Services	575,497	344,207
Total	575,497	490,102

(In thousands of reais)

d. Credit concentration

	30/06/2014	%	31/12/2013	%
Largest debtors				
10 largest debtors	5,707,665	38%	6,316,843	37%
20 following largest debtors	3,573,209	24%	4,476,739	27%
50 following largest debtors	3,303,313	22%	3,709,817	22%
100 following largest debtors	2,036,062	14%	2,098,636	12%
200 following largest debtors	265,951	2%	266,569	2%
	14,886,200	100%	16,868,604	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics in the year are as follows:

	Quarter ended:		Semester ended:	
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Opening balances	(291,487)	(215,312)	(222,834)	(191,454)
Reversal/(accrual) of allowance	(60,118)	(37,672)	(128,945)	(83,317)
Exchange rate variation	2,076	(3,935)	2,054	(3,478)
Credits written off as loss	19,871	42,802	20,067	64,132
Closing balances	(329,658)	(214,117)	(329,658)	(214,117)
Breakdown of closing balances				
Allowance for loan losses	(243,682)	(167,753)	(243,682)	(167,753)
Allowance for other receivables	(39,084)	(15,092)	(39,084)	(15,092)
Allowance for advances on foreign exchange contracts	(46,892)	(31,272)	(46,892)	(31,272)
	(329,658)	(214,117)	(329,658)	(214,117)

Changes in the allowance for other receivables without loan characteristics in the year are as follows:

	Quarter ended:		Semester ended:	
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Opening balances	(1,115,227)	(1,050,810)	(1,150,526)	(1,017,222)
Reversal/(accrual) of allowance	(1,966)	(42,692)	13,506	(76,125)
Exchange rate variation	3,435	39	3,301	(116)
Credits written off as loss	3,727	-	23,688	-
Closing balances (i)	(1,110,031)	(1,093,463)	(1,110,031)	(1,093,463)

(i) As at June 30, 2014, included R$70,477 (2013 – R$53,931) relating to provision for stand-by letters and guarantees granted, which was recorded as Other obligations – sundry (note 16(c)).

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as illustrated in item (b) of this note. Allowances for other receivables without loan characteristics (notes 12 (b)) basically refer to allowance for income receivables, other credits without loan characteristics and provision for stand-by letters and guarantees granted (note 25(b)).

(In thousands of reais)

f. Renegotiation/recovery of credits written off as loss

As at the semester ended June 30, 2014, the amount of R$161,015 were relative to renegotiation (2013 – R$ 113,643). In the semester ended June 30, 2014 there was the amount of R$8,615 relative to written off loans recuperation (2013 – R$ 4,553)

g. Transferred loan

During the semester ended June 30, 2014 and 2013, there was no credit assignment with co-obligation.

11. Other receivables/obligations

a. Foreign Exchange portfolio

	30/06/2014		31/12/2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Unsettled Exchange purchased/sold	1,562,538	6,023,675	1,738,879	11,572,648
Rights on foreign exchange sales	6,654,813	-	11,566,832	-
(-) Advances on foreign Exchange contracts (Note 10 (c))	18,219	(557,278)	19,640	(470,462)
(-) Advances in local currency received	-	-	(10,199)	-
Liability for foreign exchange purchase	(24,874)	1,706,748	-	1,681,506
	8,210,696	7,173,145	13,315,152	12,783,692
Current	8,210,696	7,173,145	13,315,152	12,783,692
Long-term	-	-	-	-

As at June 30, 2014 guarantees for foreign exchange transactions carried out through BM&F Bovespa S.A. – Securities, Commodities and Futures Exchange (BM&FBovespa), are represented by federal government bonds in the amount of R$177,698 (December 31, 2013 - R$485,976).

b. Securities trading and brokerage

	30/06/2014		31/12/2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Clearing houses	406,633	386,733	167,866	368,723
Unsettled financial assets	10,479	-	1,240	-
Debtors/creditors – pending settlement account	5,148,163	1,743,054	7,697,033	1,400,327
Creditors for gold loans	-	-	-	223,226
Creditors for stock loans	-	860,389	-	1,738,937
Other securities trading and brokerage	2,888,811	667,680	3,665,276	2,802,320
Commissions and brokerage payable	-	79	-	118
Swap brokerage	136	-	138	-
	8,454,222	3,657,935	11,531,553	6,533,651
Current	6,810,064	3,657,935	8,489,329	6,405,322
Long-term	1,644,158	-	3,042,224	128,329

"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.

(In thousands of reais)

"Other securities trading and brokerage" basically represents, in assets, swap intermediation transactions, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled.

12. Other receivables

a. Income receivable

	30/06/2014	31/12/2013
Dividends and bonus	87,630	507,688
Receivables from services rendered	437,695	420,548
Management and performance fees for investment funds and portfolio	462,827	548,556
Distribution fees	12,488	14,868
Commissions on guarantees	22,596	13,122
Other	39,232	788
	1,062,468	1,505,570
Current	1,062,468	1,505,570
Long-term	-	-

b. Sundry

	30/06/2014	31/12/2013
Deferred tax assets - IR/CS (note 18)	1,065,620	1,172,343
Deferred tax assets - Others	2,040	30,444
Judicial deposits	864,218	807,294
Taxes recoverable to offset	550,305	298,980
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (note 10 b)	1,124,062	1,132,254
Without loan characteristics (i)	1,784,373	2,021,747
Investment properties	1,258,495	1,017,664
Salaries advances	60,076	16,328
Sundry	1,224,856	499,994
Other	115,592	49,862
	8,050,954	7,048,227
Current	5,879,822	5,425,772
Long-term	2,171,132	1,622,455

(i) Refer to the acquisition of payroll loan and vehicle financing portfolios through credit rights investment funds (FIDC), which were recognized in this item, taking into consideration that: (a) the acquisition of the portfolio did not consider the individual granting criteria of each agreement, and (b) Management is performed on a portfolio basis.

(In thousands of reais)

13. Investments in associates and jointly controlled entities

	Associates and jointly-controlled entities					
	Shareholders Equity		**Net income**			
	30/06/2014	**31/12/2013**	**30/06/2014**	**30/06/2013**	**30/06/2014**	**30**
In Brazil						
Banco Pan S.A. (i)	2,156,882	2,304,860	(70,355)	12,746	(148,987)	
Warehouse 1 Empreendimentos Imobs S.A.	124,473	68,205	-	4	145	
Max Casa XIX Empreendimentos Imobs S.A.	31,644	22,920	(3,310)	1,734	(1,771)	
ACS Omicron Empreendimentos Imobs S.A.	15,572	24,307	1,992	-	1,992	
BR Properties S.A.	6,043,968	7,650,441	182,893	49,847	242,359	
Vivere Soluções e Serviços S.A.	13,941	10,875	-	-	(4,875)	
Abroad						
BTG Pactual Holding S.A.R.L.	3,502,499	3,837,971	(32,194)	-	207,870	

	Changes in investments				
	31/12/2013	**Acquisition / Increase/ (Sales)**	**Dividends paid**	**Fair value adjustment**	**Equity i earnings subsidiar**
In Brazil					
Banco Pan S.A.	785,037	-	-	341	(50
Goodwill - Banco Pan	(35,313)	-	-	-	
Warehouse 1 Empreendimentos Imobs S.A.	15,121	(1,750)	-	-	29
Max Casa XIX Empreendimentos Imobs S.A.	11,460	5,857	-	-	(1
ACS Omicron Empreendimentos Imobs S.A.	8,638	(3,272)	-	-	1
BR Properties S.A.	179,661	(171,884)	(1,641)	-	(
Vivere Soluções e Serviços S.A.	2,215	-	-	-	
	966,819	(171,049)	(1,641)	341	(21
Abroad					
BTG Pactual Holding S.A.R.L. (ii)	2,478,710	5,286	(29,888)	-	(93
	2,478,710	5,286	(29,888)	-	(93
	3,445,529	(165,763)	(31,529)	341	(115

(i) Formerly Banco Panamericano S.A.
(ii) The difference between equity pick up in subsidiaries and net income of subsidiaries refers to exchange variation

(In thousands of reais)

14. Intangible assets

	Changes in Intangible assets				
	31/12/2013	Acquisitions (net)	Amortization expenses / disposal	Exchange variation	30/06/2014
Goodwill	**662,019**	**-**	**(78,607)**	**(61,888)**	**521,524**
Cost	935,509	-	-	(83,606)	851,903
Amortization	(273,490)	-	(78,607)	21,718	(330,379)
Other intangible assets	**159,196**	**31,991**	**(19,366)**	**264**	**172,085**
Cost	215,167	31,991	(73)	(1,861)	245,224
Amortization	(55,971)	-	(19,293)	2,125	(73,139)
	821,215	31,991	(97,973)	(61,624)	693,609

The intangible assets amortization period is 5 years.

15. Fund raising and loans and onlending

a. Summary

	30/06/2014						31/12/2013
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	17,903,977	10,675,239	5,204,472	1,274,802	747,065	2,399	17,652,703
Open market funding	33,606,901	23,829,965	1,316,476	2,415,295	1,006,611	5,038,554	31,293,307
Funds from securities issued and accepted	17,506,003	2,834,499	4,912,664	5,749,673	1,838,275	2,170,892	14,896,968
Loans and onlending	5,073,972	892,005	1,770,707	1,109,871	66,338	1,235,051	5,080,466
Subordinated debts	6,966,170	-	-	1,063,739	2,174,206	3,728,225	6,748,716
	81,057,023	38,231,708	13,204,319	11,613,380	5,832,495	12,175,121	75,672,160

b. Deposits

	30/06/2014						31/12/2013
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	186,151	186,151	-	-	-	-	156,495
Interbank deposits	422,594	159,207	181,854	49,386	29,748	2,399	388,610
Time deposits	17,295,232	10,329,881	5,022,618	1,225,416	717,317	-	17,107,598
	17,903,977	10,675,239	5,204,472	1,274,802	747,065	2,399	17,652,703

c. Open market funding

Open market funding has collateral on the following securities:

(In thousands of reais)

	30/06/2014						31/12/2013
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	9,717,753	3,319,701	543,311	2,130,455	391,666	3,332,620	13,035,329
Federal government bonds	5,455,028	2,780,248	2,327	1,311,349	20,629	1,340,475	9,176,299
Corporate securities	3,758,456	35,184	540,984	819,106	371,037	1,992,145	3,709,770
Foreign government bonds	504,269	504,269	-	-	-	-	149,260
Third-party portfolio	13,335,335	13,335,335	-	-	-	-	6,864,760
Federal government bonds	12,648,699	12,648,699	-	-	-	-	6,588,080
Corporate bonds	27,537	27,537	-	-	-	-	26,950
Foreign government bonds	659,099	659,099	-	-	-	-	249,730
Unrestricted portfolio	10,553,813	7,174,929	773,165	284,840	614,945	1,705,934	11,393,218
Federal government bonds	10,553,813	7,174,929	773,165	284,840	614,945	1,705,934	11,393,218
Securities issued abroad	33,606,901	23,829,965	1,316,476	2,415,295	1,006,611	5,038,554	31,293,307

d. Funds from securities issued and accepted

	30/06/2014						31/12/2013
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	12,404,746	1,664,367	4,399,168	4,885,185	974,028	481,998	9,102,117
Financial bills	9,315,171	923,011	2,455,752	4,499,524	956,029	480,855	6,568,706
Mortgage bonds/letters of credit for agribusiness	3,064,108	715,889	1,943,416	385,661	17,999	1,143	2,533,411
Certificates of structured transactions	25,467	25,467	-	-	-	-	-
Securities – abroad	5,101,257	1,170,132	513,496	864,488	864,247	1,688,894	5,794,851
Medium term notes	3,308,792	-	-	820,276	857,806	1,630,710	3,701,800
Credit linked notes	1,792,465	1,170,132	513,496	44,212	6,441	58,184	2,093,051
	17,506,003	2,834,499	4,912,664	5,749,673	1,838,275	2,170,892	14,896,968

As at June 30, 2014, liabilities on bonds and securities in Brazil were basically indexed o interest referenced rates (CDI) between 50% and 113% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 7.8% p.a. (on December 31, 2013 – indexed to (CDI) between 40% and 116.5% or inflation indexes (IPCA and IGMP) plus 1,2% p.a. to 7,8% p.a.).

On June 30, 2014, liabilities on bonds and securities abroad have rates between 0.16% p.a. and 7% p.a. (December 31, 2013 – between 0.15% p.a. and 7% p.a.).

e. Loans and onlending

	30/06/2014						31/12/2013
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	3,220,368	891,354	1,633,562	695,452	-	-	3,628,675
Foreign currency	-	-	-	-	-	-	515,035
Loans abroad	3,220,368	891,354	1,633,562	695,452	-	-	3,113,640
Loans - Brazil	526,125	-	131,606	394,519	-	-	469,305
Loans	526,125	-	131,606	394,519	-	-	469,305
Onlending in Brazil	1,327,479	651	5,539	19,900	66,338	1,235,051	982,486
FINAME/BNDES	1,327,479	651	5,539	19,900	66,338	1,235,051	982,486
	5,073,972	892,005	1,770,707	1,109,871	66,338	1,235,051	5,080,466

(In thousands of reais)

On June 30, 2014, liabilities for loans and onlending have rates between 0.16% p.a. to 3.25% p.a. (December 31, 2013 – between 0.21% p.a. and 3.5% p.a.).

f. Subordinated debt

On June 31, 2014, the total balance on this heading was R$6,966,170 (December 31, 2013 – R$ 6,748,716) represented by (i) financial bills issued on April 15, 2011, summing R$5,230,378 (December 31, 2013 – R$4,993,635) with repayment every six months and maturity beginning October 2016 and maturing on September 15, 2021 indexed to fixed rates plus inflation; and (ii) subordinates notes issued on September 25,2012 at the amount of R$1,735,792 (December 31, 2013 – R$ 1,755,081) and latest maturity on September, 2022, indexed by 5.75% p.a.fixed rates.

16. Other obligations

a. Social and statutory

	30/06/2014	31/12/2013
Dividends and profit sharing payable	510,523	654,462
Employees' profit sharing	479,135	151,134
Other benefits	136,334	866,526
	1,125,992	1,672,122
Current	1,122,868	1,670,578
Long term	3,124	1,544

b. Tax and social security

	30/06/2014	31/12/2013
Tax and contributions to be collected	176,370	115,149
Tax and contribution payable	571,714	169,443
Deferred social contribution and income tax (Note 18)	190,580	109,488
Deferred PIS and COFINS	71,919	42,062
Suspended-payment taxes and others tax liabilities (Note 17 (c))	827,934	767,197
	1,838,517	1,203,339
Current	921,350	427,564
Long term	917,167	775,775

c. Sundry

	30/06/2014	31/12/2013
Payable for acquisition of assets and rights (i)	641,408	611,798
Accounts payable - personnel	448,775	356,986
Provision for contingent liabilities (Note 17(c))	26,631	25,290
Other creditors - Brazil	1,172,366	748,529
Allowance for guarantees (Note 10(e))	70,477	80,671
Other	3,344	535
	2,363,001	1,823,809
Current	1,602,255	1,057,913
Long term	760,746	765,896

(i) Refers to amounts payable for the acquisition of investments (substantially Pan 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 the semester ended June 30, 2014 and year ended December 31, 2013 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 unfavorable 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 other legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recorded for such proceedings as at June 30, 2014 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes in the semester are as follows:

(In thousands of reais)

	30/06/2014				30/06/2013
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the semester	767,197	16,432	8,858	792,487	673,825
Recognition	60,910	555	2,133	63,598	61,780
Write-off	(173)	-	(1,347)	(1,520)	(7,967)
Balance at the end of the semester	827,934	16,987	9,644	854,565	727,638
Suspended-payment taxes and other taxes contingencies				827,934	702,076
Provision for contingent liabilities				26,631	25,562

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

The Bank's and its subsidiaries have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by internal and external counsel are 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 June 30, 2014, Banco BTG Pactual and its subsidiaries were parties 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$1,032.4 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.

- Judicial action filed to discuss demands by the São Paulo City Hall, relative of ISS on services provided in Rio de Janeiro, as the tax authority from the city of São Paulo understands that such services were effectively rendered in São Paulo. The amount claimed is R$121.8 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 Bovespa and BM&F BOVESPA, challenging the taxation of PIS, Cofins, income tax and social contribution on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$17.5 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)

- In October 2012, we received a tax assessment, which in June 30, 2014 totaled R$2,224.4 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. 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. We have filed an appeal of this tax assessment. In February 2013 a preliminary administrative decision was issued, providing for a partial reduction of the tax assessment. 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. As a result, we do 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 for part of these losses. Accordingly, in no event do we do not to incur any material losses in connection with this matter.

ii. Provision for other contingent liabilities

As at June 30, 2014, BTG Pactual and its subsidiaries were 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:		Semester ended:	
Income tax and social contribution	**30/06/2014**	**30/06/2013**	**30/06/2014**	**30/06/2013**
Tax base	671,114	250,264	2,115,175	1,178,651
Income before taxes and profit sharing	1,192,566	651,281	2,858,801	1,854,814
Statutory profit sharing	(219,652)	(146,017)	(441,826)	(421,163)
Interest on equity	(301,800)	(255,000)	(301,800)	(255,000)
Total charge of income tax and social contribution at the current rates	(268,446)	(100,106)	(846,070)	(471,460)
Permanent (additions) / deductions in taxation calculation	140,936	254,342	53,692	180,768
Equity pick up in associated and jointly controlled companies in Brazil	(36,352)	77,210	(34,102)	27,272
Income/(loss) of foreign exchange on foreign investments	(63,286)	74,004	(167,029)	63,081
Foreign earnings	(10,463)	(1,224)	(70,803)	(1,992)
Dividends	255,322	18,571	406,652	26,325
Other Permanent (additions) / deductions	(4,285)	85,781	(81,026)	66,082
Temporary (additions) / deductions on the taxation calculation	(140,685)	(279,672)	106,763	(249,986)
Reversal of provision for goodwill on the acquisition of investments	35,380	35,380	70,761	70,761
Interest on equity	(120,720)	(102,000)	(120,720)	(102,000)
Marked-to-market evaluation of securities and derivatives	51,332	(37,615)	251,201	8,961
Allowance for loan losses	(34,972)	(1,251)	(53,267)	(14,692)

(In thousands of reais)

	Quarter ended:		Semester ended:	
Income tax and social contribution	**30/06/2014**	**30/06/2013**	**30/06/2014**	**30/06/2013**
Tax contingencies and provision for suspended-payment taxes	(8,162)	(4,901)	(13,807)	(16,377)
Non-permanent impairment of investments	(1,146)	(141,340)	24,974	(141,340)
Other provisions	(62,397)	(27,945)	(52,379)	(55,299)
Offset of tax losses carry forward - Brazil	(2,045)	2,572	(39)	60,422
Tax and social contribution expense	(270,240)	(122,864)	(685,654)	(480,256)
Temporary differences				
Recognition / (reversal) of the quarter/semester	140,685	432,462	(106,763)	402,775
Recognition / (reversal) of tax losses carry forward	2,045	(2,592)	39	(60,442)
Recognition of loss on investment abroad	150,973	(6,637)	167,247	482
	(122,242)	-	12,412	-
(Expenses) / revenues from deferred taxes	171,461	423,233	72,935	342,815
Total revenues / (expenses)	(98,779)	300,369	(612,719)	(137,441)

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	**31/12/2013**	**Recognition**	**Realization (i)**	**30/06/2014**
Tax loss carryforwards	13,878	2,860	(2,820)	13,918
Interest on equity	-	120,720	-	120,720
Provision for impairment on investments (ii)	26,120	1,146	(26,120)	1,146
Allowance for loan losses	173,095	59,555	(6,288)	226,362
Marked-to-market evaluation of securities and derivatives	261,489	560,232	(811,433)	10,288
Goodwill on the acquisition of investment	409,028	-	(70,761)	338,267
Tax contingencies and provision for suspended-payment taxes	199,328	13,807	-	213,135
Other temporary differences	89,405	57,772	(5,393)	141,784
	1,172,343	816,092	(922,815)	1,065,620

Income tax and social contribution	**31/12/2012**	**Recognition**	**Realization (i)**	**30/06/2013**
Tax loss carryforwards	59,526	-	(60,442)	(916)
Allowance for loan losses	145,680	42,316	(27,624)	160,372
Marked-to-market evaluation of securities and derivatives	167,542	508,247	(517,208)	158,581
Provision for impairment on investments (ii)	-	302,288	-	302,288
Interest on equity	-	102,000	-	102,000
Goodwill on the acquisition of investment	550,551	-	(70,761)	479,790
Tax contingencies and provision for suspended-payment taxes	170,414	16,377	-	186,791
Income tax of foreign investments	198,049	-	(187,077)	10,972
Other temporary differences	192,199	92,558	(44,936)	239,821
	1,483,961	1,063,786	(908,048)	1,639,699

(i) On December 31, 2012, the foreign income tax paid was recorded on deferred tax asset, and the amount of R$187,077 compensated in 2013 with tax on foreign gains available in Brazil. As at June 30, 2014, the amount of R$179,658 refers to compensation of taxes paid abroad.

(ii) Refers to the tax credit provision for loss on investment in the company BR Properties S.A (note 13).

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

(In thousands of reais)

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2013	289,667	155,698	445,365
2014	216,348	4	216,352
2015	210,110	-	210,110
2016	104,749	-	104,749
2017 onwards	89,044	-	89,044
Total	909,918	155,702	1,065,620
Present value	697,902	140,688	838,590

Deferred income tax and social contribution liabilities amounts to R$190,580 (December 31, 2013 - R$170,030), according to note 16(b).

19. Shareholders equity

a. Capital

As at June 30, 2014, fully subscribed and paid in capital consists of 2,714,902,212 shares (December 31, 2013 – 2,714,902,212), of which 1,390,671,404 common shares (December 31, 2013 – 1,390,671,404), 508,380,404 class A preferred shares (December 31, 2013 – 508,380,404) and 815,850,404 class B preferred shares (December 31, 2013 – 815,850,404), all no-par, registered shares.

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 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.

(In thousands of reais)

b. 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.

c. 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.

d. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

e. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income in accordance with Article 202 of Law 6404/76.

As at June 30, 2013 the Bank has accrued R$301,800 (December 31, 2013 – R$246,900), relating to Interest on equity, equivalent to R$0.11 per share (December 31, 2013 - R$0.09), which generate tax benefits of R$120,720 (December 31, 2013 – R$98,760). These amounts were approved in the Special Shareholders' Meeting held on August 05, 2014 (December 31, 2013 – March 11, 2014).

As at June 30, 2014 the Bank has accrued R$146,639 (December 31, 2013 – R$132,190), relating to intermediate dividends, equivalent to R$ 0.05 per share (December 31, 2013 – R$0.05). These amounts were approved in the Special Shareholders' Meeting held on August 05, 2014 (2013 – February 18, 2014).

f. Reconciliation of net income (loss) and shareholders equity

	Shareholders' equity		Net income			
	Semester ended:		Quarter ended:		Semester ended:	
	30/06/2014	31/12/2013	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Banco BTG Pactual S.A.	13,425,118	12,074,449	871,121	742,190	1,806,773	1,224,796
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Pan S.A.(*)	54,466	53,375	-	16,054	1,095	24,130
Others	-	-	9	389	-	389
Banco BTG Pactual S.A. Consolidated	13,479,584	12,127,824	871,130	758,633	1,807,868	1,249,315

(*) 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 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 method of accounting.

(In thousands of reais)

20. Income from services rendered

	Quarter ended:		Semester ended:	
	30/06/2014	**30/06/2013**	**30/06/2014**	**30/06/2013**
Management and performance fee from investment funds and portfolios	280,927	269,010	628,008	552,509
Brokerage	45,182	55,837	91,350	133,851
Technical services	216,272	170,353	376,995	284,369
Commission on the placement of securities	44,273	71,365	100,349	168,471
Guarantees	39,269	36,024	66,426	75,523
Other services	16,211	8,401	36,141	14,996
	642,134	610,990	1,299,269	1,229,719

21. Other operating income

	Quarter ended:		Semester ended:	
	30/06/2014	**30/06/2013**	**30/06/2014**	**30/06/2013**
Recovery of charges and expenses	22	7	2,259	255
Reversal of provision – employees' profit sharing	-	-	4,428	-
Reversal of allowances - other	9,706	1,118	9,781	5,707
Reversal of provision - contingencies	182	2,860	1,211	6,774
Adjustment to inflation of judicial deposits	14,328	11,740	36,019	24,419
Exchange gains	2,644	302	12,008	3,991
Adjustments of purchase price - Coomex	-	-	-	28,000
Fair value of investment properties	87	99,417	18,130	99,417
Adjustment of amounts payable for acquisition of investments	22,541	-	48,537	-
Other operating income	23,925	5,454	26,965	12,577
	73,435	120,898	159,338	181,140

22. Other operating expenses

	Quarter ended:		Semester ended:	
	30/06/2014	**30/06/2013**	**30/06/2014**	**30/06/2013**
Expenses with taxes adjusted for inflation	11,965	9,158	21,824	14,738
Exchange rate variation	15,254	3,700	23,699	8,850
Reimbursement of clients	808	679	2,457	853
Repayment of financial operating costs	6,376	-	6,376	-
Adjustment of amounts payable for acquisition of investments (i)	16,353	10,585	31,571	23,640
Goodwill amortization (ii)	37,506	36,174	78,607	80,759
Other	25,974	-	44,780	23,498
	114,236	60,296	209,314	152,338

(i) Refers to update of amount payable for the acquisition of investments (mainly Banco Pan S.A.).

(ii) There was basically goodwill amortization from Celfin and Bolsa y Renta.

(In thousands of reais)

23. Other administrative expenses

	Quarter ended:		Semester ended:	
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Outsourced services and consulting	111,693	59,943	210,364	166,558
Telecommunications and data processing	61,948	45,516	112,780	84,294
Leases and condominiums	24,952	21,594	50,000	44,515
Travel and lodging	19,604	16,107	37,202	27,381
Expenses of the financial system	17,899	14,145	32,695	24,742
Advertising and public relations	20,027	6,525	31,180	15,001
Depreciation and amortization	16,872	17,189	33,931	34,174
Other	23,498	23,122	39,156	36,947
	296,493	204,141	547,308	433,612

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:

			Assets/Liabilities		Revenues/Expenses	
	Relationship	Maturity	30/06/2014	31/12/2013	30/06/2014	30/06/2013
Assets						
Short-term interbank investments						
Open market investments						
- FIM B-2 (i)	Related	01/07/2014	1,244,129	1,436,052	101,235	21,286
Interbank investments deposits						
- Banco Pan S.A.	Jointly controlled	25/08/2014	2,786,458	1,308,963	21,660	46,200
Securities						
- BTG Investments LP (i)	Related	17/04/2018	156,743	38,958	-	(21,688)
- Banco Pan S.A.	Jointly controlled	23/04/2020	385,958	40,824	5,307	-
Derivative financial instruments						
- BTG Absolute Return Master Fund (i)	Related	01/07/2014	15,801	3,916	-	-
- Banco Pan S.A.	Jointly controlled	-	-	2,459	-	-
Income receivable						
- BTG Absolute Return Master Fund (i)	Related	No maturity	3,858	4,603	22,993	22,575
- BTG Absolute Return Master Fund II(i)	Related	No maturity	27,879	-	132,124	21,486
- BTG Absolute Investment Fund I LP (i)	Related	No maturity	33,208	11,547	35,152	-
Securities trading and brokerage						
- BTG Absolute Return Master Fund (i)	Related	No maturity	10,339	9,573	-	-
- BTG Pactual Holding S.A	Parent Company	No maturity	-	4,106	-	-
Sundry						
- ACS Omicron Empreendimentos imobiliários S.A.	Associate	No maturity	2,237	1,187	-	-
Liabilities						
Deposits						
Time deposits						
- BTG Pactual Alpha Participações Ltda.	Related	08/12/2014	-	(796)	-	-
- BTG Pactual Proprietary Feeder	Related	01/07/2014	(110,016)	(370,171)	-	-

(In thousands of reais)

	Relationship	Maturity	Assets/Liabilities 30/06/2014	Assets/Liabilities 31/12/2013	Revenues/Expenses 30/06/2014	Revenues/Expenses 30/06/2013
(1) Limited (i) (iii)						
- BTG Pactual Capital Participações S.A. (i)	Related	24/12/2014	(2,188)	(2,138)	-	-
- Harpia Ômega Participações S.A. (i)	Related	24/12/2014	(1,806)	(1,815)	-	-
- BTG Investments LP (i) (iii)	Related	01/07/2014	(562,717)	(323,828)	-	-
- BTG MB Investments LP (ii) (iii)	Related	01/07/2014	(22,090)	(251)	-	-
- BTG Pactual Absolute Return Master Fund (i)	Related	01/07/2014	(26,257)	(4,413)	-	-
- BTG Pactual Absolute Return Master Fund II (i)	Related	01/07/2014	(391)	(12,137)	-	-
- BTG Equity Investments LLC (i)	Related	01/07/2014	(93)	(23,243)	-	-
- BTG Pactual Reinsurance Holdings LP (i)	Related	01/07/2014	(488)	(1,044)	-	-
- BTG Alpha Investments LLC (ii)	Related	01/07/2014	(6,433)	(6,306)	-	-
- BTG Pactual Spanish Trading Holdings Ltd (i)	Related	01/07/2014	(20,752)	-	-	-
- Aigues de Catalunya Ltd (i)	Related	01/07/2014	(16,847)	(1,331)	-	-
- BTG Pactual Stigma LLC (i)	Related	01/07/2014	(278)	(2,330)	-	-
- BTG Pactual Property CO ll LLC	Related	01/07/2014	(112,868)	-	-	-
Open market funding						
Own portfolio						
- BTG Pactual Holding S.A	Parent Company	26/12/2020	(47,062)	(2,764)	-	-
- BTG Pactual Beta Participações S.A. (ii)	Related	15/03/2017	(1,579)	-	-	-
Third-party portfolio						
- Banco Pan S.A.	Jointly controlled	-	-	(49,999)	-	-
- FIM B-2 (i)	Related	01/07/2014	-	(96,769)	-	-
Funds from securities issued and accepted						
Real Estate Bills						
- Partners	Key personnel	19/02/2015	(5,186)	(14,670)	-	-
Derivative financial instruments						
- Leblon Investment Fund Ltd.	Related	02/01/2015	-	(20,978)	-	-
- Banco Pan S.A.	Jointly controlled	22/04/2020	(64,086)	(91,537)	-	(19,986)
Other obligations						
Securities trading and brokerage						
- BTG Absolute Return Master Fund (i)	Related	No maturity	(46,602)	(45,779)	-	-
- Leblon Investment Fund Ltd.	Related	No maturity	-	(40,028)	-	-

(i) Subsidiaries of BTG Pactual Participations Ltd.
(ii) Controlled by BTG MB Investments LP.
(iii) Classified as Demand deposits until December 31, 2012.

Total compensation paid to key management personnel totaling this semester *R$22,954* (December 31, 2013 – R$ *170,030*) which is considered short term benefit.

(In thousands of reais)

25. Other information

a. Cash and cash equivalents

Balances at beginning of the semester	**31/12/2013**	**31/12/2012**
Cash and cash equivalents	1,074,026	552,168
Open market investments	6,688,247	15,179,462
Interbank deposits	2,992,892	1,714,131
	10,755,165	17,445,761

Balances at beginning of the semester	**30/06/2014**	**30/06/2013**
Cash and cash equivalents	1,264,535	657,991
Open market investments	15,442,369	18,478,883
Interbank deposits	4,877,177	2,702,471
	21,584,080	21,839,345

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	30/06/2014	**31/12/2013**
Co-obligation and risks for guarantees granted	8,269,451	6,729,464
Responsibility for the management of futures and investment portfolio (i)	198,209,237	194,724,990
Securities under custody	187,703,632	262,612,455
Securities trading and brokerage	1,896,943,294	1,257,459,213
Loans contract to release	1,387,496	3,854,812

(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.

On 2013, the Bank has entered into investment opportunities in the private equity business. As of the semester ended June 30, 2014 the total commitment undrawn was approximately R$1,213 million (December 31, 2013 – R$1,197 million) and it represented substantially by the investments in private equity funds. The drawdown notice is subject to investment opportunities identified and agreed and therefore it is difficult to precisely estimate the cash outflows relating to these commitments.

26. Subsequent events

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 has agreed to acquire 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. Subsequently to the approval of the acquisition by the Brazilian and non-Brazilian regulators, including the Brazilian Central Bank approval, Ariel will be transferred to the joint venture and as a consequence our interest on it will be equivalent to 50%.

As at July 14, 2014 the Bank signed a binding agreement to acquire all of the shares of BSI SA, a Swiss private bank indirectly owned by Assicurazioni Generali S.p.A. ("Seller"). The total purchase consideration envisaged for the transaction, subject to potential adjustments in accordance with the terms of the agreement, is CHF 1.5 billion (R$ 3.7 billion) ("Consideration"), to be paid in the proportion of 80% in cash and 20% in BBTG11 Units. In order to implement such payment structure, on the closing date (i) BSI shares representing 84% of the Consideration will be directly acquired by an international subsidiary of Banco BTGP ("International Subsidiary"); and (ii) a Brazilian vehicle owned by the Seller and holding BSI shares representing 16% of the Consideration will be merged into BTG Pactual. Upon the authorization of the Brazilian Central Bank in relation to such merger, (i) the shares issued by BTG Pactual in the context of the merger shall be used by the Seller to form BBTG11 Units; and (ii) the remaining part of BSI shares owned by BTG Pactual as a result of the merger shall be contributed to the International Subsidiary, which will be the owner of the totality of BSI's share capital.

The conclusion and closing of the transaction are subject to the customary conditions for this type of transaction, including the obtaining of all necessary Brazilian and non-Brazilian regulatory approvals, including the Brazilian Central Bank approval.

In June 13, 2014, Banco Pan S.A. ("Banco Pan") approved a capital issuance in the amount of R$3.0 billion represented by (i) up to R$1.5 billion via 443,786,982 new, nominative and nonpar shares, in the same proportion as the currently existing common and preferred shares, of which up to 242,566,348 are common shares and up to 201,220,634 are preferred shares, at the issuance price of three reais and thirty eight cents (R$ 3.38) per common or preferred share, for private subscription of shares by Banco Pan's shareholders, and (ii) up to R$1.5 billion via redeemable preferred shares with a term of five (5) years which will be entitled to annual, fixed, cumulative priority dividends of 104% of the CDI over the issue price. Pre-emptive rights in the subscription of the issuances above will be in the same proportion as the existing common and preferred shares on the issue date.

Shareholders Caixapar – Caixa Participações S.A. ("Caixapar") and Banco BTG Pactual , jointly holders, on this date, of 100% of the voting stock and of seventy one and 71.1% of the Banco Pan's total capital stock, will subscribe, upon exercising their respective preemptive rights in relation to common and preferred shares increase, common and preferred shares in the minimum amount of R$ 1,066.3 million ("Minimum Subscription") of core tier I equity. Furthermore, Caixapar and Banco BTG Pactual will guarantee the subscription of the redeemable preferred shares, including those arising from the apportionment of any unsubscribed shares. Caixapar and Banco BTG currently hold 37.0% and 34.1%, respectively, of the total capital stock.

Banco Pan's objective with the capital increase is to support the growth of its activities according to the new business plan that is being implemented by the current executive board and improvement of its capital structure.

The newly issued shares will be credited to and included in the shareholders' position after the ratification by the Central Bank. If Banco Pan's minority shareholders fail to exercise their respective preemptive rights in relation to the subscription, the number of shares issued and outstanding by Banco Pan may correspond to a percentage that is lower than the minimum percentage required by the Listing Regulations of Level I Corporate Governance of BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros (Securities and Commodities Futures Exchange) ("BM&FBOVESPA") ("Regulations"). In such case, under the terms of the Regulations, Banco Pan will have a period of 6 months, as of the approval of the subscription of the common and preferred shares, to take the necessary measures to achieve the minimum 25% percent of outstanding shares.

As of July 17, 2014 the Bank has increased capital in Banco Pan in the amount of R$511 million. The ending period of the subscription rights is August 8, 2014. After this event the Bank will be able to reaccess its interest in Banco Pan.

Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

December 31, 2013

With independent auditors’ report about financial statements

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

December 31, 2013

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Condomínio São Luiz
Av. Pres. Juscelino Kubitschek, 1830
Torre I - 8º Andar - Itaim Bibi
04543-900 - São Paulo, SP, Brasil

Tel: (5511) 2573-3000
Fax: (5511) 2573-5780
www.ey.com.br

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 auditors' report

To
The Shareholders and Management of
Banco BTG Pactual S.A. and its subsidiaries
Sao Paulo - SP

We have audited the consolidated financial statements of Banco BTG Pactual S.A. and its subsidiaries ("Bank"), which comprise the consolidated balance sheet as of December 31, 2013 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Condomínio São Luiz
Av. Pres. Juscelino Kubitschek, 1830
Torre I - 8º Andar - Itaim Bibi
04543-900 - São Paulo, SP, Brasil

Tel: (5511) 2573-3000
Fax: (5511) 2573-5780
www.ey.com.br

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. and its subsidiaries as at December 31, 2013, the consolidated performance of its operations 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.

Emphasis

As of December 31, 2013, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution deferred tax assets amounting to R$ 2.8 billion, recognized substantially on the basis of financial projections reviewed on December 2013, which main assumptions used were the macroeconomics indexes for production, funding costs, a capital injection and disposal of assets. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A. Our opinion is not modified in respect of this matter.

Other matters

We have also audited the consolidated statement of value added (SVA), for the year ended December 31, 2013, prepared under the responsibility of Bank's management, the presentation of which is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under the accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil. This statement have been subject to the same audit procedures previously described, and based on our review nothing has come to our attention that causes us to believe that the statement of value added is not fairly presented, in all material respects, in relation to the overall consolidated financial statements.

São Paulo, February 18, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP 015.199/O-6

Flávio Serpejante Peppe
Accountant CRC - 1SP 172.167/O-6

Emerson Morelli
Accountant CRC - SP 249.401/O-4

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

As at December, 31
(In thousands of reais)

	Note	2013	2012
Assets			
Current assets		93,363,249	109,116,824
Cash at banks	6	1,074,026	552,168
Short-term interbank investments	7	23,761,010	23,961,103
Open market investments		19,953,446	22,051,078
Interbank deposits		3,807,564	1,910,025
Securities and derivative financial instruments		34,802,461	69,143,845
Own portfolio	8	15,938,183	29,755,046
Subject to repurchase agreements	8	9,806,523	30,586,402
Subject to unrestricted repurchase agreements	8	964,890	48,082
Subject to Central Bank	8	-	53,515
Derivative financial instruments	9	4,162,587	6,925,746
Subject to guarantees	8	3,930,278	1,775,054
Interbank transactions		238,046	473,130
Deposits in the Central Bank of Brazil		237,802	472,502
Correspondent banks		244	628
Loans	10	5,732,340	3,593,542
Loans – private sector		5,794,178	3,577,012
Transferred Loans		-	155,813
Allowance for loan losses		(61,838)	(139,283)
Other receivables		27,673,754	11,369,880
Credits for guarantees honored		51,188	178
Foreign exchange portfolio	11	13,315,152	2,126,610
Income receivable	12	1,505,570	952,641
Securities trading and brokerage	11	8,489,329	3,885,607
Sundry	12	5,425,772	5,377,431
Allowance for losses on other receivables	10	(1,113,257)	(972,587)
Other assets		81,612	23,156
Other assets		35,124	20,467
Prepaid expenses		55,341	13,369
Provision for losses		(8,853)	(10,680)
Long-term-assets		21,923,654	10,702,635
Long-term interbank investments	7	51,317	7,812
Interbank deposits		51,317	7,812
Securities and derivative financial instruments		7,854,751	5,058,842
Own portfolio	8	753,256	774,997
Derivative financial instruments	9	3,077,245	958,424
Subject to repurchase agreements	8	3,372,236	2,268,007
Subject to guarantees	8	652,014	1,057,414
Interbank transactions		1,853	1,853
Restricted credits – National Housing System		1,853	1,853
Loans	10	9,347,667	3,675,034
Loans – private sector		9,452,070	3,717,211

	Note	2013	2012
Allowance for loan losses		(104,403)	(42,177)
Other receivables		4,651,496	1,946,784
Securities trading and brokerage	11	3,042,224	134
Sundry	12	1,622,455	1,948,176
Allowance for losses on other receivables	10	(13,183)	(1,526)
Other assets		16,570	12,310
Prepaid expenses		16,570	12,310
Permanent assets		4,514,424	3,496,849
Investments		3,551,319	2,528,795
Investments in associates and jointly controlled entities - in Brazil	13	966,819	2,435,184
Investments in associates and jointly controlled entities - abroad	13	2,478,710	-
Other investments		108,712	96,598
Allowance for losses		(2,922)	(2,987)
Property and equipment in use		116,741	95,695
Property in use		11,105	8,142
Other property and equipment in use		193,424	153,907
Accumulated depreciation		(87,788)	(66,354)
Deferred charges		25,149	17,015
Amortization and expansion costs		58,188	45,546
Accumulated amortization		(33,039)	(28,531)
Intangible assets	14	821,215	855,344
Other intangible assets		1,150,676	967,960
Accumulated amortization		(329,461)	(112,616)
Total assets		119,801,327	123,316,308

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

Years and semester ended December 31
(In thousands of reais, except net income per share)

	Note	2013	2012
Liabilities			
Current liabilities		82,746,090	96,228,552
Deposits	15	15,875,602	12,869,362
Demand deposits		156,495	283,551
Interbank deposits		320,313	578,706
Time deposits		15,398,794	12,007,105
Open market funding	15	29,474,212	52,441,102
Own portfolio		11,216,234	32,017,974
Third-party portfolio		6,864,760	16,837,363
Free trading portfolio		11,393,218	3,585,765
Funds from securities issued and accepted	15	6,984,926	2,918,641
Real estate, mortgage, credit and similar notes		4,858,251	1,750,373
Securities issued abroad		2,126,675	1,168,268
Interbank transactions		2,513	389
Unsettled receipts and payments		2,513	389
Loans and onlending	15	3,365,313	1,403,295
Loans - Brazil		469,305	-
Loans abroad		2,889,466	1,394,768
Onlending in Brazil		6,542	8,527
Derivative financial instruments	9	4,695,603	7,155,827
Derivative financial instruments		4,695,603	7,155,827
Other liabilities		22,347,921	19,439,936
Collection and payments of tax and similar charges		2,852	4,757
Foreign exchange portfolio	11	12,783,692	1,588,379
Social and statutory	16	1,670,578	1,118,925
Tax and social security	16	427,564	818,519
Securities trading and brokerage	11	6,405,322	14,572,799
Sundry	16	1,057,913	1,336,557
Long-term liabilities		24,441,479	16,786,304
Deposits	15	1,777,101	1,754,645
Interbank deposits		68,297	48,372
Time deposits		1,708,804	1,706,273
Open market funding	15	1,819,095	209,565
Own portfolio		1,819,095	209,565
Funds from securities issued and accepted	15	7,912,042	5,561,448
Real estate, mortgage, credit and similar notes		4,243,866	4,055,599
Securities issued abroad		3,668,176	1,505,849
Loans and onlending	15	1,715,153	501,441
Loans abroad		739,209	-
Onlending in Brazil		975,944	501,441
Derivative financial instruments	9	2,797,828	907,855
Derivative financial instruments		2,797,828	907,855
Other liabilities		8,420,260	7,851,350
Social and statutory	16	1,544	76,675
Tax and social security	16	775,775	653,369
Securities trading and brokerage	11	128,329	2,800

	Note	2013	2012
Subordinated debt	15	6,748,716	6,246,109
Sundry	16	765,896	872,397
Deferred income		151,851	111,917
Non-controlling interest		334,083	88,068
Shareholders' equity	19	12,127,824	10,101,467
Capital - domiciled in Brazil		4,687,289	4,510,876
Capital - domiciled Abroad		1,719,574	1,843,499
Capital increase		-	52,488
Fair value adjustments		57,543	-
Income reserves		5,663,417	3,694,604
Total Liabilities and Shareholders' equity		119,801,327	123,316,308

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

Years and semester ended December 31
(In thousands of reais, except net income per share)

	Note	2013	2012
Financial income		9,583,341	8,582,858
Loans		1,811,333	1,333,628
Securities		7,639,734	6,773,173
Derivative financial instruments		-	296,432
Foreign exchange		110,671	116,469
Mandatory investments		21,603	63,156
Financial expenses		(6,686,103)	(5,277,224)
Funding operations		(4,920,536)	(4,227,677)
Borrowing and onlending		(1,146,991)	(581,250)
Derivative financial instruments		(386,576)	-
Allowance for loan losses and other receivables	10	(232,000)	(468,297)
Net financial income		2,897,238	3,305,634
Other operating income (expenses)		881,535	454,405
Income from services rendered	20	2,614,277	2,219,149
Personnel expenses		(602,852)	(605,684)
Other administrative expenses	23	(973,246)	(677,920)
Tax charges		(350,604)	(283,864)
Equity pick up in associates and jointly controlled entities	13	134,935	245,786
Other operating income	21	468,953	109,023
Other operating expenses	22	(409,928)	(552,085)
Operating income		3,778,773	3,760,039
Non-operating income	13	304,337	(12,001)
Income before taxation and profit sharing		4,083,110	3,748,038
Income tax and social contribution	18	(429,998)	(727,458)
Provision for income tax		(523,495)	(607,469)
Provision for social contribution		(215,557)	(285,694)
Deferred income tax and social contribution		309,054	165,705
Statutory profit sharing		(876,405)	(938,207)
Non-controlling interest		(107,018)	(21,136)
Net income for the year		2,669,689	2,061,237
Interest on equity	19	(501,900)	(440,000)
Weight average numbers of share outstanding		2,714,902,212	2,576,108,185
Net income per share - R$		0.98	0.80

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 and semester ended December 31
(In thousands of reais, except for dividends and interest on equity per share)

	Note	Capital	Increase in capital	Income reserves: Legal	Income reserves: Unrealized	Income reserves: Statutory	Income reserves: Total	Fa adj
Balances as at December 31, 2011		2,971,350	271,150	224,836	413,847	2,462,782	3,101,465	
Approval of capital increase	19	3,383,025	(271,150)	-	-	(650,000)	(650,000)	
Capital increase	19	-	52,488	-	-	-	-	
Intermediate dividends (R$ 0.07 per share)	19	-	-	-	-	-	-	
Intermediate interest on equity (R$ 0.09 per share)	19	-	-	-	-	-	-	
Net income for the year		-	-	-	-	-	-	
Net income allocation								
Legal reserve		-	-	101,203	877,503	231,462	1,210,168	
Interest on equity (R$0.09 per share)	19	-	-	-	-	-	-	
Dividends paid (R$ 0.07 per share)	19	-	-	-	-	-	-	
Balances as at December 31, 2012		6,354,375	52,488	326,039	1,291,350	2,044,244	3,661,633	
Balances as at December 31, 2012		6,354,375	52,488	326,039	1,291,350	2,044,244	3,661,633	
Approval of capital increase	19	52,488	(52,488)	-	-	-	-	
Changes in fair value of assets available for sale - jointly controlled	13	-	-	-	-	-	-	
Changes in fair value of assets available for sale	13	-	-	-	-	-	-	
Intermediate interest on equity (R$ 0.09 per share)	19	-	-	-	-	-	-	
Intermediate dividends (R$ 0.02 per share)	19	-	-	-	-	-	-	
Net income for the year		-	-	-	-	-	-	
Net income allocation							-	
Legal reserve		-	-	132,149	(212,758)	2,029,020	1,948,411	
Interest on equity (R$ 0.09 per share)	19	-	-	-	-	-	-	
Dividends paid (R$ 0.05 per share)	19	-	-	-	-	-	-	
Balances as at December 31, 2013		6,406,863	-	458,188	1,078,592	4,073,264	5,610,044	

Reconciliation of net income (loss) and shareholders' equity of Banco BTG Pactual S.A. and subsidiarie

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	12/31/2013	12/31/2012
Operating activities			
Net income for the year		2,669,689	2,061,237
Adjusts to net income		77,358	174,739
Equity pick up in associates and jointly controlled entities	13	(134,935)	(245,786)
Goodwill amortization	22	172,436	394,253
Depreciation and amortization	23	72,319	26,272
Goodwill exchange variation		(32,462)	-
Adjusted net income for the year		2,747,047	2,235,976
Increase/decrease in operational activities			
Short-term interbank investments		11,525,411	537,601
Securities and derivative financial instruments		32,293,914	(26,443,176)
Loans		(694,709)	(2,603,496)
Other receivables and other assets		(22,443,947)	(1,088,578)
Interbank transactions		2,108	359
Other liabilities		3,558,225	9,533,577
Deferred income		39,934	80,327
Deposits		3,028,696	412,946
Open market funding		(36,762,329)	13,567,817
Loans and onlending		3,143,629	985,020
Cash (used in)/provided by operating activities		(3,562,021)	(2,781,627)
Investing activities			
Aquisition of other investiment		(12,114)	(69,502)
Sale of investments		1,035,748	240,007
Acquisition of equity interests	13	(2,202,464)	(50,804)
Dividends received	13	280,259	27,436
Acquisition of property and deferred charges	13	(60,762)	(109,858)
Sale of property and deferred charges		901	9,180
Acquisition of intangible assets	14	(150,274)	(266,528)
Sale of investments in subsidiares		(8,459,595)	-
Business combination, net of cash		-	(943,058)
Sale of intangible assets	14	1,975	-
Cash used in investing activities		(9,566,326)	(1,163,127)
Financing activities			
Funds from securities issued and accepted		6,416,879	4,705,457
Capital increase due to share issuance		-	2,461,875
Capital increase		-	52,488
Non-controlling interest		246,015	(2,926)
Subordinated debt		502,607	2,087,814
Interest on equity	19	(475,000)	(220,000)
Dividends distributed	19	(252,750)	(181,610)
Cash provided by financing activities		6,437,751	8,903,098
Increase in cash and cash equivalents		(6,690,596)	4,958,344
Balance of cash and cash equivalents	25		
At the beginning of the year		17,445,761	12,487,417
At the end of the year		10,755,165	17,445,761
Increase in cash and cash equivalents		(6,690,596)	4,958,344
Noncash transactions		379,090	2,358,493
Capital contribution - Banco Panamericano S.A.		-	495,477
Interest on equity		246,900	220,000
Dividends distributed		132,190	192,285
Incorporation - One Properties S.A. by BR Properties S.A.		-	1,450,731

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	2013	2012
Income		12,328,919	9,878,646
Financial income		9,583,340	8,582,858
Services rendered	20	2,614,277	2,219,149
Allowance for loan losses and other receivables	10	(232,000)	(468,297)
Other		363,302	(455,064)
Expenses		(6,454,103)	(4,808,927)
Financial brokerage		(6,454,103)	(4,808,927)
Inputs acquired from third parties		(822,550)	(588,319)
Materials, energy and other		(8,942)	(67,664)
Outsourced services		(813,608)	(520,655)
Gross value added		5,052,266	4,481,400
Depreciation and amortization		(72,319)	(26,272)
Net value added produced by the entity		4,979,947	4,455,128
Value added received through transfer		134,935	245,786
Equity pick up in associates and jointly controlled entities	13	134,935	245,786
Value added to be distributed		5,114,882	4,700,914
Distribution of value added		5,114,882	4,700,914
Personnel		1,479,219	1,465,793
Direct compensation		1,368,603	1,421,215
Benefits		95,416	32,260
FGTS – government severance pay fund		15,200	12,318
Taxes, fees and contributions		780,603	1,089,420
Federal		681,834	1,014,196
Municipal		98,769	75,224
Remuneration of third party capital		78,353	63,328
Rent expenses		78,353	63,328
Remuneration of shareholders		2,776,707	2,082,373
Interest on equity	19	501,900	440,000
Dividends	19	192,655	373,895
Retained earnings		1,975,134	1,247,342
Non-controlling interest		107,018	21,136

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

1. Operations

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating jointly with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and 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.

On April 30, 2012, BTG Pactual Group completed its primary public offering (IPO), issuing 82,800,000 units at a price of R$31.25 (thirty-one reais and twenty five cents) per unit. In that transaction, the Bank issued 248,400,000 shares, representing a capital increase by R$2,070 million and generating cash net of costs of commissions, fees and taxes of R$2,018 million.

On October 10, 2013, Banco BTG Pactual S.A. and BTG Pactual Participations Ltd have completed the listing of their units on NYSE Euronext in Amsterdam. The entities have not offered or issued any new shares or units on this process. Previously, the units were admitted to listing on NYSE Alternext, also in Amsterdam. All units listed and traded in Amsterdam remained wholly interchangeable with the units in Brazil on BM&FBovespa.

The financial statements were approved by Bank's Management in February 18, 2014, and they contain a true and fair view of the development and results of the Bank.

2. Corporate reorganization and acquisitions

Corporate events

In December 2013, Banco BTG Pactual sold its interests in BTG Pactual Absolute Return Fund II, L.P ("ARF II") to an independent third party for a total consideration equal to the net asset value ("NAV") of such interests. On the same date, such third party entered into a separate binding agreement to sell such interests in ARF II to BTG Investment L.P. ("BTGI"), which is the primary investment vehicle for the principal investments business unit of the BTG Pactual Group.

The legal title to the interests in ARF II will be transferred from Banco BTG Pactual to the third party (and from the third party to BTGI) only upon payment of the total consideration for the transaction. However, in December 2013 the transaction was considered for all relevant purposes to represent the immediate transfer of the risk, rewards and control from Banco BTG Pactual to the third party (and from the third party to BTGI).

As a result of the transactions above, Banco BTG Pactual will continue to manage ARF II through its asset management unit and receive fees for such services. However, Banco BTG Pactual will no longer present the assets, liabilities and capital gains (or losses, if any) of ARF II on its consolidated financial statements. However, while this is true with respect to Banco BTG Pactual, as a result of the transaction with BTGI, the overall exposure of the BTG Pactual Group to the assets, liabilities and results of operations of ARF II will remain unchanged. On November 30, 2013 ARF II represented R$782 million in revenues at Banco BTG Pactual (including an estimate R$198 million of implied management and performance fees that would have been earned even if the transaction had occurred as of January 1, 2013), and R$54.2 billion in total assets as of such date.

The sale of ARF II has been presented as sale of investments in subsidiaries in the statements of cash flows and it has reduced significantly the balance sheet lines short-term interbank investments, open market funding, securities and derivative financial instruments and loans. The changes in assets and liabilities, mostly considered operational activities, of ARF II have been eliminated on a line by line basis from the statement of cash flows.

On April 22, 2013 the Central Bank of Brazil approved the formation of Banco BTG Pactual Chile in Santiago (Chile), with initial capital of US$50 million. This transaction remains subject to the approval of the Chilean authorities.

At the same date, the Central Bank of Brazil also approved the allocation of resources totaling US$300 million, with the purpose of investment in the new established companies in connection with our commodities business.

On February 26, 2013, BTG Pactual RE Holding SA, a subsidiary of Banco BTG Pactual, received authorization from SUSEP to offer reinsurance products in Brazil.

On December 31, 2012, BTG Pactual Gestora de Recursos Ltda ("BTG Pactual Gestora"), subsidiary of BTG Pactual Asset Management S.A. DTVM, merged with Brazilian Capital Companhia de Gestão de Investimentos ("Brazilian Capital"). As a consequence, BTG Pactual Gestora amortized the remaining goodwill in the amount of R$112,000 and increased its shareholders' equity in the amount of R$84,247 due to the deferred income tax asset recognized on the goodwill amortization.

On December 20, 2012, the subsidiary BTG Pactual SEG Holding SA received authorization from SUSEP to offer insurance products in Brazil.

On March 29, 2012, Saíra Diamante Empreendimentos Imobiliários S.A. ("Saíra"), Wtorre Empreendimentos Imobiliários S.A. ("Wtorre") and BR Properties S.A. ("BR Properties") approved the transaction involving successive mergers of Saíra and its jointly controlled investee with Wtorre, One Properties S.A. ("One Properties"), into BR Properties. After the closing of the transaction the Bank held interest on BR Properties equity and accounts for this investment by the equity method (see note 13).

Acquisitions

On July 26, 2013 the Bank concluded the acquisition process of 94.34% of TTG Brasil Investimentos Florestais Ltda. ("TTG Brasil") for a total amount of R$20.2 million. TTG Brasil is one of the largest timberland asset management companies in Latin America and has offices in Brazil and New York City. This acquisition was approved on June 24, 2013 by the Central Bank of Brazil. For accounting purposes, the acquisition date of TTG was July 01, 2013 and the goodwill recorded in the transaction was R$0.7 million. In addition, on September 6, 2013 and through its subsidiary BTG Pactual Timberland Investments Group LLC, the Bank acquired timberland management contracts from Regions Timberland Group ("RTG"), a division of Regions Bank. This acquisition, which expands BTG Pactual's current timberland investment platform, establishes the Bank as the largest independent timberland manager in Latin America and one of the largest worldwide, with committed and invested assets of nearly US$3 billion and a portfolio of over 1.77 million acres (716,000 hectares) diversified across the USA, Latin America, Europe and South Africa.

On June 14, 2013 the Bank and Petróleo Brasileiro S.A. - Petrobras ("Petrobras"), through its subsidiary Petrobras International Braspetro B.V. ("PIBBV"), established a joint venture for oil and gas exploration and production in Africa. The joint venture was established upon the acquisition by BTG Pactual and its clients, acting through BTG Pactual E&P Empreendimentos e Participações S.A., of 50% of the shares issued by Petrobras Oil & Gas B.V. ("PO&G"). The price for such shares, which were previously fully owned by PIBBV, was US$1.525 billion. As of December 31, 2013 Banco BTG Pactual had approximately 33% indirect economic interest in PO&G after the sale of the economic interest to its clients. The joint venture involves PO&G's E&P operations located in Angola, Benin, Gabon, Namibia, and Tanzania. Banco BTG Pactual recognized gains of R$193.8 million from equity pickup in PIBBV since its acquisition to September 30, 2012.

On January 30, 2013, the Bank signed definitive agreements related to its acquisition of certain credits and rights held by Fundo Garantidor de Créditos ("FGC") against Banco Bamerindus do Brasil S/A ("Bamerindus"), in Extrajudicial Liquidation (the "Institution"), and other companies in the Institution's economic group ("Transaction"). In connection with the Transaction, BTG Pactual will pay approximately R$418 million to the FGC in five installments, the first of which will be paid at the closing of the Transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted. Consummation of the Transaction is subject the termination of the process complete the extrajudicial liquidation of the Institution and its subsidiaries, and the settlement of certain of their financial obligations, resulting in positive shareholders' equity. The Institution's assets do not include the Bamerindus brand.

The transaction remains subject to the satisfaction of several typical closing conditions, including the receipt of all required regulatory approvals, the completion of the extrajudicial liquidation of Bamerindus and its subsidiaries, and the settlement of certain of their financial obligations in order for Bamerindus to have positive shareholders' equity. In October 2013, we signed an amendment to the agreement extending the period that the parties had to satisfy the typical closing conditions. We expect the transaction to close in 2014, although there can be no assurance that the transaction will be concluded.

This transaction will result in BTG Pactual acquiring (i) control of the Institution and its subsidiaries, (ii) an interest in the Institution greater than ninety-eight percent 98% of its total and voting capital, and (iii) the receivables and assets held by the Institution, which will be used in BTG Pactual credit operations context. The consummation of the Transaction is subject to certain conditions, including obtaining all required regulatory approvals.

On December 20, 2012 the Bank concluded the purchase of all outstanding shares of Bolsa y Renta for a total consideration of US$ 58.4 million (approximately R$120.5 million). The former owners of Bolsa y Renta acquired equity interest in Banco BTG Pactual for U$ 25.4 million (R$52.5 million), representing approximately 0.25% of the capital stock in the Bank. For accounting purposes, the acquisition date of Bolsa y Renta was December 31, 2012 and the goodwill recorded in the transaction was US$ 22.7 million (R$47.1 million), based on expected future profitability.

On February 8, 2012, the Bank announced the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital (Celfin), operating in Chile, Peru and Colombia. On November 13, 2012 the Bank paid to the owners of Celfin US$451 million (approximately R$930 million) in cash, of which US$ 190 million (approximately R$392 million) were used to purchase shareholding interest of the Bank by Celfin's shareholders, representing 2.2% of the capital. In the transaction, goodwill of US$ 352 million (approximately R$726 million) was recorded, based on expected future profitability.

On January 31, 2012, the Bank and Banco Panamericano entered into a definitive agreement to purchase 100% of the shares of Brazilian Finance & Real Estate S.A. (BFRE), for approximately R$1.2 billion, of which R$940 million was paid by Banco Panamericano and R$270 million was paid by the Bank. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The company acquired by the Bank, the Brazilian Capital Companhia de Gestão de Investimentos, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In this transaction the Bank recorded goodwill of R$248 million, based on expected future profitability. Additionally, the Bank acquired quotes of Real Estate Funds owned by BFRE, in the amount of R$335 million.

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 National Monetary Council (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.

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:

(In thousands of reais)

		Equity interest - %	
	Country	**12/31/2013**	**12/31/2012**
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 Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	99.90	99.90
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Global Ltd.	Cayman	100.00	100.00
BW Properties S.A.	Brazil	67.49	67.49
BTG Pactual Commodities S.A.	Brazil	99.99	99.99
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.99	99.99
Recovery do Brasil Consultoria S.A.	Brazil	50.24	50.24
BTG Pactual Chile International Ltd.	Cayman	100.00	100.00
BTG Pactual TTG Participações S.A.	Brazil	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 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 Seguradora S.A.	Brazil	99.99	99.99
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Chile Capital S.A. (iii)	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa (iii)	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A (iii)	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos (iii)	Chile	100.00	100.00
BTG Pactual Chile Inversiones Limitada (iii)	Chile	100.00	100.00
BTG Pactual Chile Servicios Financieros S.A. (iii)	Chile	100.00	100.00
BTG Pactual Chile Proyectos y Rentas S.A. (iii)	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada (iii)	Chile	100.00	100.00
BTG Pactual Chile Finanzas y Servicios S.A. (iii)	Chile	100.00	100.00
BTG Pactual Chile Servicios Empresariales Limitada (iii)	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos (iii)	Chile	100.00	100.00
BTG Pactual Chile International Corp. (iii)	Chile	100.00	100.00
BTG Pactual Chile Securities LLC (iii)	Chile	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa (iii)	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion (iii)	Peru	100.00	100.00
BTG Pactual Perú S.A.C. (iii)	Peru	100.00	100.00
BTG Pactual S.A. Sociedad Comissionista de Bolsa (iv)	Colombia	100.00	100.00
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTGP Corp SAS	Colombia	100.00	100.00
BTG Pactual Commodities Absolute Return Ltd.	Cayman	100.00	-
BTG Pactual E&P Empreendimentos e Participações S.A. (i)	Brazil	100.00	-
BTG Pactual E&P S.a.r.l. (i)	Luxembourg	100.00	-
BTG Pactual Oil & Gas S.a.r.l. (i)	Luxembourg	100.00	-
BTG Pactual Commodities Holding (UK) Limited	UK	100.00	-
BTG Pactual Commodities (UK) LLP	UK	100.00	-
BTG Pactual Commodities (Singapore) PLC	Singapore	100.00	-
BTG Pactual Commodities (Switzerland) SA	Switzerland	100.00	-
BTG Pactual Commodities Holding (US) LLC	USA	100.00	-
BTG Pactual Commodities (US) LLC	USA	100.00	-

(In thousands of reais)

	Equity interest - %		
	Country	**12/31/2013**	**12/31/2012**
BTG Pactual Commodities (South Africa) (Pty) Ltd	South Africa	100.00	-
TTG Brasil Investimentos Florestais Ltda.	Brazil	94.34	-
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP (ii)	Cayman	-	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	70.75	70.75
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	95.67	95.67
Nala Fundo de Investimento em Participações	Brazil	100.00	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	100.00
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	100.00	100.00
Fundo de Investimento em Participações Quartzo	Brazil	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP (i)	Brazil	100.00	-
BTG Pactual E&P FIP (i)	Brazil	100.00	-
BTG Pactual Mall Fundo de investimento imobiliário	Brazil	100.00	-
Fundo de investimento imobiliário BTG Pactual Shopping	Brazil	100.00	-
Fundo de investimento imobiliário Onix	Brazil	100.00	-
CCF Ltd	Cayman	100.00	-
CCMF Ltd	Cayman	100.00	-

(i) Companies incorporated in the joint venture with Petrobrás (Note 2).

(ii) See note 2.

(iii) BTG Pactual Chile/Peru companies were previously named CELFIN

(iv) BTG Pactual S.A.Sociedad Comissionista de Bolsa was previously named Bolsa y Renta.

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 generally US dollar, 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.

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) for the year. 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) for the year.

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:

Fair value 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) for the year; 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 income (loss) for the year.

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-delivery 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

Until December 31, 2011, no specific accounting pronouncement addressed the recording of transfers of financial assets pursuant to Brazilian GAAP, except for when such a transfer involved a special purpose entity that is in substance controlled by the reporting entity. In addition, the sale or transfer of financial assets was derecognized from the balance sheet when the transferor retained all or substantially all of the risks and benefits relating to the ownership of such transferred asset. Commencing on January 1, 2012, 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 term 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 measured initially at cost and subsequently using the fair value model. Subsequent changes in fair value are recognized on other operating income.

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 and negative 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, and (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

Whenever there is clear evidence that the assets are measured at an unrecoverable amount, it is recorded as loss in the results for the year. 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 15% 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.

r. Earnings per share

Calculated based on weighted average shares outstanding for the years.

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) ALM (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.

(In thousands of reais)

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 believe 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.

a. Operating limits

	2013
Reference Shareholders' Equity	10,966,010
Tier I	11,375,535
Common Equity	11,375,535
Tier II	5,113,625
Reference Shareholders' Equity (PR) - (a)	16,489,160
Required Reference Shareholders' Equity (PRE)	10,201,774
Total exposure risk-weighted - (b)	10,202,073
Credit risk	6,309,435
Operational risk	398,908
Market risk	3,493,730
Basel ratio - (a/b*11%)	17.8%
Tier I capital	12.3%
Tier II capital	5.5%
Fixed assets ratio	
Fixed assets to equity capital ratio	8,237,556
Status for fixed assets to equity capital ratio	6,062,576
Amount of margin or insufficient	2,174,979

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 Circulars-Letters 3.310/08 and 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13 and Circular-Letter 3.625/13.

The minimum requirements for Reference Shareholders' Equity (PR), Level I and Main Capital, Additional for the Main Capital, Fixed assets to equity capital ratio, Market, Credit and Operational risk were calculated based on resolutions and circulars issued by CMN and BACEN. In addition, the Bank has chosen the basic indicator approach to measure operating risk.

The Bank has chosen the basic indicator approach to measure operating risk.

As at December 31, 2012, the calculation of the Capital adequacy ratio and Fixed assets to equity capital ratio were based on financial statements prepared on a consolidated basis covering all subsidiaries (Financial and Economic Consolidated). As at December 31, 2013 the ratios were calculated based on the Financial Consolidated which includes only financial companies and comparable as per BACEN's definition. As a result of these significant changes, the Bank is not presenting comparative information for December 31, 2012.

As at December 31, 2013 and 2012 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 and its subsidiaries' daily average VaR for the years ended:

In millions of R$	2013	2012	2011
Daily average VaR	52.5	60.5	28.4

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 extremely 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.

(In thousands of reais)

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.

7. Interbank investments

	2013					2012
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	19,953,446	19,925,345	28,101	-	-	22,051,078
Own portfolio	2,243,260	2,221,694	21,566	-	-	1,863,861
Federal government bonds	1,803,487	1,781,921	21,566	-	-	1,401,050
Foreign bonds	-	-	-	-	-	14,613
Corporate bonds	186,695	186,695	-	-	-	113,134
Federal foreign government bonds	253,078	253,078	-	-	-	335,064
Third-party portfolio	13,882,393	13,875,858	6,535	-	-	18,308,250
Federal government bonds	13,882,393	13,875,858	6,535	-	-	17,181,233
Corporate bonds	-	-	-	-	-	36,070
Federal foreign government bonds	-	-	-	-	-	1,090,947
Short position	3,827,793	3,827,793	-	-	-	1,878,967
Federal government bonds	3,827,793	3,827,793	-	-	-	1,443,511
Foreign bonds	-	-	-	-	-	67,624
Federal foreign government bonds	-	-	-	-	-	367,832
Interbank investments	3,858,881	3,206,020	601,544	51,317	-	1,917,837
Interbank deposit certificates	2,071,787	1,418,926	601,544	51,317	-	1,406,962
Investments in foreign currency - overnight	1,787,094	1,787,094	-	-	-	510,875
	23,812,327	23,131,365	629,645	51,317	-	23,968,915

(*) Refers basically to interbank deposits in prime banks.

As at December 31, 2012 the balances above are reported net of corresponding liabilities in the amount of R$9,201,258, according note 4(f).

The collateral received in repurchase agreements amounts to R$ 24,020,329 (December 31, 2012 - R$31,050,116), whereas the collateral granted amounts to R$ 31,450,133 (December 31, 2012 - R$62,749,389).

(In thousands of reais)

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	2013							2012
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Own portfolio	16,684,199	16,691,439	6,619,810	2,731,883	660,866	3,479,260	3,199,620	30,530,043
Federal government bonds	1,485,718	1,479,175	169,641	552,054	75,036	119,340	563,104	2,557,416
Brazilian foreign debt securities	30,469	29,084	-	1,747	-	6,012	21,325	20,724
Debentures/Eurobonds (i)	4,236,866	4,259,708	22,256	460,807	330,125	2,146,568	1,299,952	6,794,454
Bank certificates of deposit	10,510	10,510	10,510	-	-	-	-	117,895
Bank credit certificate	76,596	76,912	-	10,917	-	27,671	38,324	44,921
Investment fund quotes								
Shares	148,695	148,695	148,695	-	-	-	-	106,354
Multimarket	2,077,935	2,099,942	2,099,942	-	-	-	-	1,863,610
FIDC - Credit Rights	43,385	43,385	-	-	-	43,385	-	223,338
Real Estate	318,193	318,193	-	-	-	318,193	-	629,708
Equity Investment fund	716,036	779,126	-	-	-	779,126	-	622,918
Shares	4,184,927	4,114,471	4,114,471	-	-	-	-	3,016,600
Promissory notes	65,152	65,638	-	65,638	-	-	-	2,003,745
Certificate of real estate receivables	1,367,346	1,348,704	-	74,077	169,023	-	1,105,604	883,452
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	754,080
United Kingdom	-	-	-	-	-	-	-	39,910
Germany	-	-	-	-	-	-	-	401,967
Denmark	932,817	929,521	-	929,521	-	-	-	-
Other	585,269	585,157	18,786	555,882	360	1,604	8,525	382,067
Foreign private securities	240,518	248,618	35,509	81,219	86,193	36,896	8,801	2,568,894
US Agencies	-	-	-	-	-	-	-	7,269,239
Financial bills	-	-	-	-	-	-	-	28,511
Other	163,767	154,600	-	21	129	465	153,985	200,240
Subjected to unrestricted repurchase agreement	970,258	964,890	-	292,907	53,870	4,811	613,302	48,082
Federal government bonds	970,258	964,890	-	292,907	53,870	4,811	613,302	48,082
Subject to Central Bank - Brazil	-	-	-	-	-	-	-	53,515
Federal government bonds	-	-	-	-	-	-	-	53,515
Subject to repurchase agreements	13,273,245	13,178,759	4,727	1,215,668	3,516,507	1,017,154	7,424,703	32,854,409
Federal government bonds	9,338,519	9,246,394	-	906,603	2,823,492	421,174	5,095,125	8,926,665
Brazilian foreign debt securities	14,635	13,833	-	-	-	-	13,833	-
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	5,859,109
United Kingdom	-	-	-	-	-	-	-	2,257,062
Germany	-	-	-	-	-	-	-	1,049,942
Other	157,395	157,394	-	26,090	123,670	2,703	4,931	1,750,739
Foreign private securities	8,738	8,561	176	2,652	5,570	111	52	3,944,085
Shares	4,551	4,551	4,551	-	-	-	-	-
US Agencies	-	-	-	-	-	-	-	6,644,552
Debentures / Eurobonds (i)	3,749,407	3,748,026	-	280,323	563,775	593,166	2,310,762	2,422,255
Subject to guarantees	4,642,973	4,582,292	150,753	874,024	2,481,116	180,855	895,544	2,832,468
Federal government bonds	4,004,610	3,961,304	-	868,023	2,016,882	180,855	895,544	2,008,825
Investment fund quotes								
Multimarket	31,276	31,276	31,276	-	-	-	-	373
Debentures/Eurobonds (i)	431,514	427,470	-	-	427,470	-	-	-
Shares	130,453	117,122	117,122	-	-	-	-	466,248
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	342,866
Other	13,351	13,351	-	6,001	7,350	-	-	14,156
Foreign private securities	625	625	-	-	625	-	-	-
Other	31,144	31,144	2,355	-	28,789	-	-	-
Trading securities	30,200,719	29,984,334	6,119,750	5,114,482	5,971,539	4,087,413	8,691,150	62,218,099

(In thousands of reais)

	2013							2012
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Available for sale securities	1,016,271	1,079,361	655,540	-	-	423,821	-	-
Held-to-maturity securities	4,353,685	4,353,685	-	-	740,820	170,846	3,442,019	4,100,418
	35,570,675	35,417,380	6,775,290	5,114,482	6,712,359	4,682,080	12,133,169	66,318,517

(i) Substantially securities issued by Brazilian companies.

b. Trading securities

	2013							2012
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	15,338,493	15,282,643	5,964,270	2,731,883	660,637	3,055,439	2,870,414	29,755,046
Federal government bonds	1,156,283	1,149,740	169,641	552,054	74,807	119,340	233,898	1,782,419
Brazilian foreign debt securities	30,469	29,084	-	1,747	-	6,012	21,325	20,724
Debentures/Eurobonds (i)	4,236,866	4,259,708	22,256	460,807	330,125	2,146,568	1,299,952	6,794,454
Bank certificates of deposit	10,510	10,510	10,510	-	-	-	-	117,895
Bank credit certificate	76,596	76,912	-	10,917	-	27,671	38,324	44,921
Investment fund quotes								
Shares	148,695	148,695	148,695	-	-	-	-	106,354
Multimarket	2,077,935	2,099,942	2,099,942	-	-	-	-	1,863,610
FIDC - Credit Rights	43,385	43,385	-	-	-	43,385	-	223,338
Real Estate	318,193	318,193	-	-	-	318,193	-	629,708
Equity Investment fund	355,305	355,305	-	-	-	355,305	-	622,918
Shares	3,529,387	3,458,931	3,458,931	-	-	-	-	3,016,600
Promissory notes	65,152	65,638	-	65,638	-	-	-	2,003,745
Certificate of real estate receivables	1,367,346	1,348,704	-	74,077	169,023	-	1,105,604	883,452
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	754,080
United Kingdom	-	-	-	-	-	-	-	39,910
Germany	-	-	-	-	-	-	-	401,967
Denmark	932,817	929,521	-	929,521	-	-	-	-
Other	585,269	585,157	18,786	555,882	360	1,604	8,525	382,067
Foreign private securities	240,518	248,618	35,509	81,219	86,193	36,896	8,801	2,568,894
US Agencies	-	-	-	-	-	-	-	7,269,239
Other	163,767	154,600	-	21	129	465	153,985	28,511
Other	-	-	-	-	-	-	-	200,240
Subjected to unrestricted repurchase agreement	970,258	964,890	-	292,907	53,870	4,811	613,302	48,082
Federal government bonds	970,258	964,890	-	292,907	53,870	4,811	613,302	48,082
Subject to Central Bank - Brazil	-	-	-	-	-	-	-	53,515
Federal government bonds	-	-	-	-	-	-	-	53,515
Subject to repurchase agreements	9,901,009	9,806,523	4,727	1,215,668	3,123,174	876,342	4,586,612	30,586,402
Federal government bonds	5,966,283	5,874,158	-	906,603	2,430,159	280,362	2,257,034	6,658,658
Brazilian foreign debt securities	14,635	13,833	-	-	-	-	13,833	-
Foreign private securities								
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	5,859,109
United Kingdom	-	-	-	-	-	-	-	2,257,062
Germany	-	-	-	-	-	-	-	1,049,942
Other	157,395	157,394	-	26,090	123,670	2,703	4,931	1,750,739
Foreign private securities	8738	8561	176	2652	5570	111	52	3944085
Shares	4,551	4,551	4,551	-	-	-	-	-
US Agencies	-	-	-	-	-	-	-	6,644,552
Debentures / Eurobonds (i)	3,749,407	3,748,026	-	280,323	563,775	593,166	2,310,762	2,422,255
Subject to guarantees	3,990,959	3,930,278	150,753	874,024	2,133,858	150,821	620,822	1,775,054
Federal government bonds	3,352,596	3,309,290	-	868,023	1,669,624	150,821	620,822	951,411
Investment fund quotes								
Multimarket	31,276	31,276	31,276	-	-	-	-	373
Debentures/Eurobonds (i)	431,514	427,470	-	-	427,470	-	-	-
Shares	130,453	117,122	117,122	-	-	-	-	466,248
Federal foreign government bonds								
United States	-	-	-	-	-	-	-	342,866

(In thousands of reais)

	2013							2012
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Other	13,351	13,351	-	6,001	7,350	-	-	14,156
Foreign private securities	625	625	-	-	625	-	-	-
Other	31,144	31,144	2,355	-	28,789	-	-	-
Total	30,200,719	29,984,334	6,119,750	5,114,482	5,971,539	4,087,413	8,691,150	62,218,099

c. Available-for-sale securities

	2013							2012
	Cost	**Cost**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Cost**
Own portfolio	1,016,271	1,079,361	655,540	-	-	423,821	-	-
Shares	655,540	655,540	655,540	-	-	-	-	-
Investment fund quotes								
Equity investment fund	360,731	423,821	-	-	-	423,821	-	-

d. Held-to-maturity securities

	2013						2012
	Cost	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Cost**
Own portfolio	329,435	-	-	229	-	329,206	774,997
Federal government bonds	329,435	-	-	229	-	329,206	774,997
Subject to repurchase agreements	3,372,236	-	-	393,333	140,812	2,838,091	2,268,007
Federal government bonds	3,372,236	-	-	393,333	140,812	2,838,091	2,268,007
Subject to guarantees	652,014	-	-	347,258	30,034	274,722	1,057,414
Federal government bonds	652,014	-	-	347,258	30,034	274,722	1,057,414

If measured at fair value, held-to-maturity securities would be reported as at December 31, 2013 with a negative adjustment of R$ 23,447 (December 31, 2012 – R$781,708).

The Bank has financial capacity to maintain such assets to maturity.

e. Reclassification of securities

Management classifies securities according to its trading intention. During the year ended on December 31, 2013 and year ended on December 31, 2012, no reclassifications or changes in intention were made by Management.

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)

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 December 31, 2013 and 2012, the Bank does not have derivative financial instruments classified as hedge accounting.

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 3389/08, 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.

	2013				2012
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	72,702,779	46,691,270	21,457,029	140,851,078	104,828,570
Currency	5,631,286	2,282,619	2,343,273	10,257,178	4,442,407
Interest rate	62,268,871	41,718,086	18,537,022	122,523,979	99,179,298
Commodities	3,715,765	2,673,798	576,734	6,966,297	466,066
Index	1,078,688	16,767	-	1,095,455	688,991
Equities	8,169	-	-	8,169	51,808
Short position	18,740,091	19,030,243	5,871,731	43,642,065	24,126,235
Currency	13,293,818	10,415,947	919,934	24,629,699	7,528,052
Interest rate	1,351,251	6,464,633	4,532,281	12,348,165	14,322,163
Commodities	3,985,425	2,149,663	419,516	6,554,604	542,863
Index	108,043	-	-	108,043	1,656,482
Equities	1,554	-	-	1,554	76,675
Swap					
Long position	48,701,829	18,417,785	33,079,391	100,199,005	119,478,796
Currency	1,035,825	26,033	2,389,644	3,451,502	3,612,317
Interest rate	45,955,159	17,728,242	27,747,255	91,430,656	111,973,463
Index	296,586	270,311	670,954	1,237,851	2,021,936
Equities	1,033,265	288,692	2,266,619	3,588,576	1,174,851
Commodities	15,005	9,956	-	24,961	75,342
Other	365,989	94,551	4,919	465,459	620,887
Short position	48,701,829	18,417,785	33,079,391	100,199,005	119,478,796
Currency	2,194,828	501,181	2,508,595	5,204,604	6,969,545
Interest rate	43,717,520	17,067,353	28,398,716	89,183,589	107,532,821
Index	973,314	796,848	1,639,541	3,409,703	3,443,128
Equities	671,433	2,505	-	673,938	586,262
Commodities	22,900	6,900	-	29,800	41,151
Other	1,121,834	42,998	532,539	1,697,371	905,889
Credit Derivatives					
Long position	-	-	228,872	228,872	1,146,618
Sovereign	-	-	23,426	23,426	565,424
Corporate	-	-	205,446	205,446	581,194
Short position	58,565	-	287,437	346,002	3,973,222
Sovereign	58,565	-	-	58,565	1,164,284
Corporate	-	-	287,437	287,437	2,808,938

BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements
December 31, 2013
(In thousands of reais)

	2013				2012
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Non-deliverable forward - NDF					
Long position	29,725,518	6,265,920	12,285,545	48,276,983	34,267,103
Currency	19,277,449	5,165,886	1,577,051	26,020,386	28,409,800
Commodities	369,857	344,679	5,288,933	6,003,469	2,674,466
Index	8,246,813	388,050	4,423,528	13,058,391	2,159,835
Interest rate	1,831,399	367,305	996,033	3,194,737	1,023,002
Short position	29,725,518	6,265,920	12,285,545	48,276,983	34,267,103
Currency	22,547,460	4,638,152	2,828,426	30,014,038	27,530,158
Commodities	3,531,971	382,269	4,905,221	8,819,461	2,837,995
Index	2,476,163	967,046	4,275,981	7,719,190	2,245,949
Interest rate	1,169,924	278,453	275,917	1,724,294	1,653,001
Deliverable forward - DF					
Long position	4,054,724	1,284,331	1,651,636	6,990,691	5,361,664
Currency	1,858,199	569,253	1,651,636	4,079,088	204,696
Commodities	2,196,525	715,078	-	2,911,603	5,156,968
Short position	4,054,724	1,284,331	1,651,636	6,990,691	5,361,664
Commodities	1,809,602	562,718	-	2,372,320	-
Interest rate	386,923	152,360	-	539,283	-
Currency	1,858,199	569,253	1,651,636	4,079,088	5,361,664
Security forwards					
Long position	542,904	-	-	542,904	3,075,709
Interest rate	242,021	-	-	242,021	1,503,668
Equities	-	-	-	-	101,497
Government bonds	300,883	-	-	300,883	1,470,544
Short position	542,904	-	-	542,904	3,075,709
Interest rate	300,883	-	-	300,883	1,572,041
Government bonds	242,021	-	-	242,021	1,503,668
Options market					
Long position					
Call option	7,568,526	2,924,362	430,373	10,923,261	27,735,790
Equities	1,055,658	4,785	18,373	1,078,816	2,461,720
Commodities	684,732	102,726	-	787,458	537,032
Index	1,116,950	2,476,500	-	3,593,450	12,616,992
Currency	3,987,458	340,351	412,000	4,739,809	568,405
Interest rate	721,728	-	-	721,728	11,549,641
Other	2,000	-	-	2,000	2,000
Put option	5,936,393	277,533	387,000	6,600,926	51,065,297
Equities	919,787	9,952	-	929,739	1,863,025
Commodities	1,044,252	244,942	-	1,289,194	82,966
Index	3,662,769	-	-	3,662,769	7,889,426
Currency	309,585	22,639	-	332,224	867,131
Interest rate	-	-	-	-	36,949,213
Other	-	-	387,000	387,000	3,413,536
Short position					
Call option	8,437,993	3,026,162	412,000	11,876,155	35,578,820
Equities	2,296,695	13,352	-	2,310,047	1,544,827
Commodities	679,224	183,397	-	862,621	637,725
Index	1,281,568	2,475,000	-	3,756,568	17,926,344
Currency	3,918,706	354,413	412,000	4,685,119	980,194
Interest rate	261,800	-	-	261,800	-
Other	-	-	-	-	14,489,730
Put option	6,311,637	203,698	23,873	6,539,208	49,603,531
Equities	872,271	12,632	23,873	908,776	1,016,625
Commodities	1,539,134	171,279	-	1,710,413	98,284
Index	3,631,000	-	-	3,631,000	16,258,598
Currency	269,232	19,787	-	289,019	673,974
Other	-	-	-	-	31,556,050

(In thousands of reais)

b. By cost and market value

	2013					2012
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	2,889	3,037	3,037	-	-	21,980
Short position	2,704	5,241	2,704	-	2,537	37,354
Swaps						
Long position	333,940	626,312	122,296	107,688	396,328	479,957
Short position	798,637	844,526	191,311	232,604	420,611	584,632
Credit derivatives						
Long position	13,692	20,615	158	-	20,457	63,881
Short position	12,559	31,494	-	-	31,494	48,595
Non-deliverable forward - NDF						
Long position	1,633,575	1,419,833	229,190	84,776	1,105,867	815,616
Short position	1,473,352	1,248,078	340,478	93,634	813,966	641,503
Deliverable forward - DF						
Long position	4,172,276	4,170,754	2,086,705	630,546	1,453,503	2,880,141
Short position	4,157,709	4,150,937	2,088,202	629,497	1,433,238	2,890,434
Security forwards						
Long position	542,604	542,604	542,604	-	-	2,980,219
Short position	542,423	542,423	542,423	-	-	2,974,830
Options market						
Long position	335,289	456,677	313,019	42,568	101,090	642,376
Short position	415,740	670,732	546,315	28,435	95,982	886,334
Long position	**7,034,265**	**7,239,832**	**3,297,009**	**865,578**	**3,077,245**	**7,884,170**
Short position	**7,403,124**	**7,493,431**	**3,711,433**	**984,170**	**2,797,828**	**8,063,682**

c. Notional by counterparty

	2013					2012
	BM&FBovespa	Financial Institutions (*)	Companies	Individuals	Total	Total
Futures market						
Long position	133,602,628	7,248,450	-	-	140,851,078	104,828,570
Short position	36,921,056	6,721,009	-	-	43,642,065	24,126,235
Swap						
Long position	23,735,157	61,519,759	14,944,089	-	100,199,005	119,478,796
Short position	23,735,154	61,519,762	14,944,089	-	100,199,005	119,478,796
Credit derivatives						
Long position	-	228,872	-	-	228,872	1,146,618
Short position	-	346,002	-	-	346,002	3,973,222
Non-deliverable forward - NDF						
Long position	-	30,687,633	17,225,282	364,068	48,276,983	34,267,103
Short position	-	30,687,633	17,225,282	364,068	48,276,983	34,267,103
Deliverable forward - DF						
Long position	-	4,012,511	2,703,650	274,530	6,990,691	5,361,664
Short position	-	4,012,511	2,703,650	274,530	6,990,691	5,361,664
Security forwards						
Long position	-	542,904	-	-	542,904	3,075,709
Short position	-	542,904	-	-	542,904	3,075,709
Options market						
Long position	9,763,999	6,839,778	878,249	42,161	17,524,187	78,801,087
Short position	10,051,672	7,607,530	733,418	22,743	18,415,363	85,182,351
Long position	**167,101,784**	**111,079,907**	**35,751,270**	**680,759**	**314,613,720**	**346,959,547**
Short position	**70,707,882**	**111,437,351**	**35,606,439**	**661,341**	**218,413,013**	**275,465,080**

(*) Includes investments funds.

(In thousands of reais)

d. Credit derivatives

	2013	2012
Credit swap		
Transferred risk		
Sovereign	23,426	565,424
Corporate	205,446	581,194
Risk received		
Sovereign	(58,565)	(1,164,284)
Corporate	(287,437)	(2,808,938)
	(117,130)	(2,826,604)

During the year ended on December 31, 2013 and year ended on December 31, 2012, there were no credit events related to triggering facts provided for in agreements.

According to CMN resolution 3,490, the effect on the calculation of the required reference shareholders' equity (PRE) as at December 31, 2013 is R$ 8,414 (December 31, 2012 – R$41,213).

e. Guarantee margins

Guarantee margins in transactions traded on BM&FBovespa and other stock exchanges with derivatives comprises federal government and sovereign bonds totaling R$ 3,493,570 (December 31, 2012 – R$1,846,983) and shares in the amount of R$ 115,214 (December 31, 2012 – R$465,756).

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)

- 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

	2013		2012	
Type of credit	**Balance**	**Allowance**	**Balance**	**Allowance**
Loans	10,929,692	(120,413)	5,141,670	(135,702)
Financing	2,364,577	(35,782)	1,586,294	(41,338)
FINAME/BNDES	993,635	(10,046)	45,214	(3,641)
Securities financing	958,344	-	521,045	-
Total	15,246,248	(166,241)	7,294,223	(180,681)

ii. By risk level and maturity

	2013						2012	
		Maturity						
Risk level	**Overdue**	**Up to 6 months**	**6 to 12 months**	**Over 12 months**	**Total**	**Allowance**	**Total**	**Allowance**
AA	4,686	1,827,929	247,124	2,872,849	4,952,588	-	2,356,761	-
A	-	885,995	1,252,472	4,368,304	6,506,771	(32,534)	2,414,432	(12,072)
B	394	351,234	707,999	1,015,379	2,075,006	(20,750)	1,921,289	(19,215)
C	30,775	113,364	291,079	912,522	1,347,740	(43,067)	254,168	(9,784)
D	12,284	25,391	18,075	268,214	323,964	(41,765)	171,542	(17,154)
E	312	3,737	614	7,067	11,730	(3,519)	55,982	(16,795)
F	1	2,316	1,533	3,111	6,961	(3,480)	11,458	(5,729)
G	1,210	-	-	-	1,210	(847)	28,861	(20,203)
H	14,940	-	714	4,624	20,278	(20,279)	79,730	(79,729)
Total	64,602	3,209,966	2,519,610	9,452,070	15,246,248	(166,241)	7,294,223	(180,681)

(In thousands of reais)

iii. By activity sector

Sector	2013	2012
Commerce	1,268,104	97,780
Industry	2,433,675	2,070,372
Services	9,206,250	3,992,435
Rural	437,741	463,259
Individuals	1,900,478	670,377
Total	15,246,248	7,294,223

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

	2013						2012	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	1,160	33,638	-	238,901	273,699	-	586,275	-
A	241	11,236	9,967	201,984	223,428	(1,117)	515,415	(2,577)
B	43,898	75,829	95,349	344,567	559,643	(5,596)	321,911	(3,219)
C	-	42,121	-	-	42,121	(1,264)	-	-
D	-	-	-	19,332	19,332	(1,933)	479	(48)
F	-	-	-	-	-	-	196	(98)
G	5,252	-	-	8,300	13,552	(9,992)	-	-
H	-	-	-	479	479	(479)	-	-
Total	50,551	162,824	105,316	813,563	1,132,254	(20,381)	1,424,276	(5,942)
Securities and credits receivable					1,132,254	(20,381)	1,268,463	(5,163)
Transferred Loans					-	-	155,813	(779)

ii. By activity sector

Sector	2013	2012
Individuals	175,818	187,881
Industry	-	77,770
Services	956,436	1,158,625
Total	1,132,254	1,424,276

c. Advances in foreign exchange contracts

i. By risk level and maturity

	2013						2012	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	-	-	-	-	-	38,722	-
A	-	62,637	45,748	-	108,385	(542)	338,424	(1,692)
B	-	34,613	-	-	34,613	(346)	71,198	(712)
C	-	101,701	70,601	-	172,302	(5,169)	63,199	(2,427)
D	-	108,867	34,246	-	143,113	(14,311)	-	-
F	-	-	31,689	-	31,689	(15,844)	-	-
Total	-	307,818	182,284	-	490,102	(36,212)	511,543	(4,831)

(In thousands of reais)

ii. By activity sector

Sector	2013	2012
Industry	145,895	175,617
Services	344,207	335,926
Total	490,102	511,543

d. Credit concentration

	2013	%	2012	%
Largest debtors				
10 largest debtors	6,316,843	37%	3,398,275	37%
20 following largest debtors	4,476,739	27%	2,599,354	28%
50 following largest debtors	3,709,817	22%	2,393,146	26%
100 following largest debtors	2,098,636	12%	800,248	9%
200 following largest debtors	266,569	2%	39,019	0%
	16,868,604	100%	9,230,042	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics in the year are as follows:

	2013	2012
Opening balances	(191,454)	(85,898)
Reversal/(accrual) of allowance	(105,656)	(112,768)
Exchange rate variation	(5,483)	(1,213)
Credits written off as losses	79,759	8,425
Closing balances	(222,834)	(191,454)
Breakdown of closing balances		
Allowance for loan losses	(166,241)	(180,681)
Allowance for transferred loans	-	(779)
Allowance for other receivables	(20,381)	(5,163)
Allowance for advances on foreign exchange contracts	(36,212)	(4,831)
	(222,834)	(191,454)

Changes in the allowance for other receivables without loan characteristics in the year are as follows:

	2013	2012
Opening balances	(1,017,222)	(659,581)
Reversal/(accrual) of allowance	(126,344)	(355,529)
Exchange rate variation	(6,960)	(2,112)
Closing balances (i)	(1,150,526)	(1,017,222)

(i) As at December 31, 2013, included R$ 80,671 (2012 – R$ 53,103) relating to provision for stand-by letters and guarantees granted, which was recorded as Other obligations – sundry (note 16(c)).

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as illustrated in item (b) of this note. Allowances for other receivables without loan characteristics (notes 12 (b)) basically refer to allowance for income receivables, other credits without loan characteristics and provision for stand-by letters and guarantees granted (note 25(b)).

(In thousands of reais)

f. Renegotiation/recovery of credits written off as loss

In the year ended December 31, 2013, the Bank renegotiated credit loans in the amount of R$113,643 (2012 – R$108,890) and recovered amounts relating to credit written off in previous periods in the amount of R$4,553 (2012 – R$1,740).

g. Transferred loan

In the year ended December 31, 2013, the Bank did not transfer loans and retained substantially all the risks and benefits (2012 – R$342,657). As of December 31, 2012, the total amount outstanding of these loans is R$155,813.

11. Other receivables/obligations

a. Foreign Exchange portfolio

	2013		2012	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Unsettled exchange purchased/sold	1,738,879	11,572,648	964,100	1,130,928
Rights on foreign exchange sales	11,566,832	-	1,151,522	-
(-) Advances on foreign exchange contracts	19,640	(470,462)	14,336	(497,207)
(-) Advances on foreign currency received	-	-	(3,120)	-
(-) Advances in local currency received	(10,199)	-	(228)	-
Liability for foreign exchange purchase	-	1,681,506	-	954,658
	13,315,152	12,783,692	2,126,610	1,588,379
Current	13,315,152	12,783,692	2,126,610	1,588,379
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through BM&F Bovespa S.A. – Securities, Commodities and Futures Exchange (BM&FBovespa), are represented by federal government bonds in the amount of R$ 485,976 (December 31, 2012 - R$519,729).

b. Securities trading and brokerage

	2013		2012	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Clearing houses	167,866	368,723	304,421	60,681
Unsettled financial assets	1,240	-	-	-
Debtors/creditors – pending settlement account	7,697,033	1,400,327	3,575,231	6,418,284
Creditors for gold loans	-	223,226	-	201,734
Creditors for stock loans	-	1,738,937	-	1,423,925
Other securities trading and brokerage	3,665,276	2,802,320	6,089	6,470,975
Commissions and brokerage payable	-	118	-	-
Swap brokerage	138	-	-	-
	11,531,553	6,533,651	3,885,741	14,575,599
Current	8,489,329	6,405,322	3,885,607	14,572,799
Long-term	3,042,224	128,329	134	2,800

"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.

(In thousands of reais)

"Other securities trading and brokerage" basically represents, in assets, swap intermediation transactions, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled.

12. Other receivables

a. Income receivable

	2013	2012
Dividends and bonus	507,688	16,834
Receivables from services rendered	420,548	353,141
Management and performance fees for investment funds and portfolios	548,556	559,476
Distribution fees	14,868	14,732
Commissions on guarantees	13,122	8,233
Other	788	225
	1,505,570	952,641
Current	1,505,570	952,641
Long-term	-	-

b. Sundry

	2013	2012
Deferred tax assets - IR/CS (note 18)	1,172,343	1,483,961
Deferred tax assets - Others	30,444	-
Judicial deposits	807,294	654,997
Taxes recoverable to offset	298,980	260,914
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (note 10 b)	1,132,254	1,268,463
Without loan characteristics (i)	2,021,747	2,537,090
Investment properties	1,017,664	627,076
Salaries advances	16,328	-
Sundry - Brazil	499,994	304,842
Other	49,862	186,947
	7,048,227	7,325,607
Current	5,425,772	5,377,431
Long-term	1,622,455	1,948,176

(i) Refer to the acquisition of payroll loan and vehicle financing portfolios through credit rights investment funds (FIDC), which were recognized in this item, taking into consideration that: (a) the acquisition of the portfolio did not consider the individual granting criteria of each agreement, and (b) Management is performed on a portfolio basis.

(In thousands of reais)

13. Investments in associates and jointly controlled entities

	Associates and jointly controlled e			
	Shareholders Equity		Net income	
	2013	2012	2013	2012
In Brazil				
Banco Panamericano S.A.	2,304,860	2,471,895	(151,727)	(495,96
Warehouse 1 Empreendimentos Imobs S.A.	68,205	70,307	4	28,9
Max Casa XIX Empreendimentos Imobs S.A.	22,920	17,615	5,512	3,2
ACS Omicron Empreendimentos Imobs S.A.	24,307	20,034	4,492	1,6
BR Properties S.A. (i)	7,650,441	7,943,692	81,162	1,216,3
Vivere Soluções e Serviços S.A.	10,875	12,799	(20,133)	(16
Abroad				
BTG Pactual Holding S.A.R.L.	3,837,971	-	483,300	

	Changes in investments					
	2012	Aquisition / Increase/ (Sales)	Prior year adjustments	Dividends paid	Fair value adjustment	Eq pic 2
In Brazil						
Banco Panamericano S.A.	847,861	-	(5,932)	-	(5,547)	
Goodwill - Banco Panamericano	(35,313)	-	-	-	-	
Warehouse 1 Empreendimentos Imobs S.A.	24,607	(8,750)	432	-	-	
Goodwill - Warehouse Empreendimentos Imobs S.A.	-	-	-	-	-	
Max Casa XIX Empreendimentos Imobs S.A.	8,808	-	-	-	-	
ACS Omicron Empreendimentos Imobs S.A.	8,964	-	-	(2,237)	-	
Goodwill -	-	-	-	-	-	
BR Properties S.A. (i)	1,576,467	(1,025,261)	-	(39,263)	-	(3
One Properties S.A. (i)	-	-	-	-	-	
Vivere Soluções e Serviços S.A.	3,790	(1,737)	-	-	-	
	2,435,184	(1,035,748)	(5,500)	(41,500)	(5,547)	(3
Abroad						
BTG Pactual Holding S.A.R.L.	-	2,202,464	-	(238,759)	-	
	-	2,202,464	-	(238,759)	-	
	2,435,184	1,166,716	(5,500)	(280,259)	(5,547)	

(i) According to note 2.

(In thousands of reais)

BR Properties

On November 21, 2013, in a transaction executed on the Brazilian Stock Exchange (BM&FBOVESPA) the Bank sold to Harpia Ômega Participações S.A., controlled investee by BTG Investments LP, 21.42% of interest in BR Properties S.A. from the total of 24.53%, based on the opening price of that day.

During the year ended 2013, the Bank recognized equity loss negative of R$332 (December 31, 2012 – 383 million) net of allowance for non-permanent impairment negative of R$401 (December 31, 2012 – 402 million). As at 2013 the non-permanent impairment negative balance was R$65 million (December 31, 2012 – R$ 402 million).

The equity pickup was measured based on equity of the associate at December 31, 2013, less impairment recorded based on Resolution No. 3566 of the Central Bank (CPC 01 - Reduction in Recoverable Value of Assets) to reflect the realizable value of the shares of the affiliate.

The gain on sale totaling R$271 million recorded on “non-operating income” refers to the difference between equity investment value, net of allowance and sale price.

14. Intangible assets

	Changes in Intangible assets				
	2012	**Acquisitions**	**Amortization expenses / disposal**	**Exchange variation**	**2013**
Goodwill (note 2)	**750,412**	**53,321**	**(172,436)**	**30,722**	**662,019**
Cost	850,353	53,321	-	31,835	935,509
Amortization	(99,941)	-	(172,436)	(1,113)	(273,490)
Other intangible assets	**104,932**	**96,953**	**(44,428)**	**1,739**	**159,196**
Cost	117,607	96,953	(1,975)	2,582	215,167
Amortization	(12,675)	-	(42,453)	(843)	(55,971)
	855,344	150,274	(216,864)	32,461	821,215

The intangible assets amortization periods are 5 years.

15. Fund raising and loans and onlending

a. Summary

	2013						2012
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Deposits	17,652,703	10,602,464	5,273,138	863,052	912,068	1,981	14,624,007
Open market funding	31,293,307	26,027,511	3,446,701	1,028,483	-	790,612	52,650,667
Funds from securities issued and accepted	14,896,968	2,765,047	4,219,879	3,948,074	1,496,641	2,467,327	8,480,089
Loans and onlending	5,080,466	917,204	2,448,109	749,702	36,276	929,175	1,904,736

(In thousands of reais)

Subordinated debts	6,748,716	-	-	539,949	1,904,112	4,304,655	6,246,109
	75,672,160	40,312,226	15,387,827	7,129,260	4,349,097	8,493,750	83,905,608

b. Deposits

	2013						2012
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	156,495	156,495	-	-	-	-	283,551
Interbank deposits	388,610	104,363	215,950	39,698	26,618	1,981	627,078
Time deposits	17,107,598	10,341,606	5,057,188	823,354	885,450	-	13,713,378
	17,652,703	10,602,464	5,273,138	863,052	912,068	1,981	14,624,007

c. Open market funding

Open market funding has collateral on the following securities:

	2013						2012
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	13,035,329	7,899,515	3,316,719	1,028,483	-	790,612	32,227,539
Federal government bonds	9,176,299	5,693,520	1,877,155	815,012	-	790,612	9,195,438
Corporate securities	3,709,770	2,056,735	1,439,564	213,471	-	-	2,369,990
Securities issued abroad	-	-	-	-	-	-	9,557,551
Federal foreign government bonds	149,260	149,260	-	-	-	-	11,104,560
Third-party portfolio	6,864,760	6,864,760	-	-	-	-	16,837,363
Federal government bonds	6,588,080	6,588,080	-	-	-	-	15,723,705
Corporate bonds	26,950	26,950	-	-	-	-	31,984
Federal foreign government bonds	249,730	249,730	-	-	-	-	1,081,674
Unrestricted portfolio	11,393,218	11,263,236	129,982	-	-	-	3,585,765
Federal government bonds	11,393,218	11,263,236	129,982	-	-	-	3,218,478
Securities issued abroad	-	-	-	-	-	-	367,287
Securities issued abroad	31,293,307	26,027,511	3,446,701	1,028,483	-	790,612	52,650,667

As at December 31, 2012 the balances above are reported net of corresponding liabilities in the amount of R$9,201,258, according note 4(f).

d. Funds from securities issued and accepted

	2013						2012
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	9,102,117	1,048,112	3,810,139	3,093,108	618,762	531,996	5,805,972
Financial bills	6,568,706	364,454	2,153,803	2,918,478	601,059	530,912	1,827,801
Mortgage bonds/letters of credit for agribusiness	2,533,411	683,658	1,656,336	174,630	17,703	1,084	3,978,171
Securities – abroad	5,794,851	1,716,935	409,740	854,966	877,879	1,935,331	2,674,117
Medium term notes	3,701,800	39,512	-	849,880	877,077	1,935,331	1,556,650
Fixed rate notes and others	2,093,051	1,677,423	409,740	5,086	802	-	1,117,467
	14,896,968	2,765,047	4,219,879	3,948,074	1,496,641	2,467,327	8,480,089

As at December 31, 2013 securities issued in Brazil are basically indexed to Interbank Deposit Rates (CDI) between 40% and 116.55% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 7.8% p.a. (December 31, 2012 - indexed to (CDI) between 35% and 109.25% or inflation indexes (IPCA e IGPM) plus 1.2% p.a. to 7.9% p.a.).

(In thousands of reais)

As at December 31, 2013 securities abroad have rates between 0.15% p.a. and 7% p.a. (December 21, 2012 – between 0.9% p.a. to 19.3% p.a.).

e. Loans and onlending

	2013						2012
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Loans abroad	3,628,675	446,161	2,443,305	738,012	1,197	-	1,394,768
Foreign currency	515,035	83,161	431,874	-	-	-	695,251
Loans abroad	3,113,640	363,000	2,011,431	738,012	1,197	-	699,517
Loans - Brazil	469,305	469,305	-	-	-	-	-
Loans	469,305	469,305	-	-	-	-	-
Onlending in Brazil – official institution	982,486	1,738	4,804	11,690	35,079	929,175	509,968
FINAME/BNDES	982,486	1,738	4,804	11,690	35,079	929,175	509,968
	5,080,466	917,204	2,448,109	749,702	36,276	929,175	1,904,736

As at December 31, 2013 borrowing and transfers have rates between 0.21% p.a. and 3.5% p.a. (December 31, 2012 - between 0.9% p.a. to 8.58% p.a.).

f. Subordinated debt

As at December 31, 2013, the outstanding balance was R$6,748,716 (December 31, 2012 – R$6,246,109), represented by (i) R$4,993,635 (December 31, 2012 – R$4,652,973) from financial bills issued on April 15, 2011 with repayment every six months and maturity beginning October 2016 and ending April 15, 2021, indexed to fixed rates plus inflation; and (ii) R$1,755,081 from subordinated notes issued on September 25, 2012 and due September 2022, which bear interest at 5.75% p.a. (December 31, 2012 – R$1,593,136).

16. Other obligations

a. Social and statutory

	2013	**2012**
Dividends and profit sharing payable	654,462	382,340
Employees' profit sharing	151,134	186,514
Other benefits	866,526	626,746
	1,672,122	1,195,600
Current	1,670,578	1,118,925
Long term	1,544	76,675

b. Tax and social security

	2013	**2012**
Tax and contributions to be collected	115,149	151,079
Tax and contribution payable	169,443	610,777
Deferred social contribution and income tax (Note 18)	109,488	65,330
Deferred PIS and COFINS	42,062	-
Suspended-payment taxes and others tax liabilities (Note 17 (c))	767,197	644,702
	1,203,339	1,471,888
Current	427,564	818,519
Long term	775,775	653,369

(In thousands of reais)

c. Sundry

	2013	2012
Payable for acquisition of assets and rights (i)	611,798	574,451
Accounts payable	356,986	614,292
Provision for contingent liabilities (Note 17(c))	25,290	29,123
Other creditors - Brazil	748,529	583,063
Other creditors - abroad	-	65,312
Obligations related to transferred loans	-	120,442
Allowance for guarantees	80,871	56,169
Other	335	166,102
	1,823,809	2,208,954
Current	1,057,913	1,336,557
Long term	765,896	872,397

(i) Refers to amounts payable for the acquisition of investments (substantially Panamericano and COOMEX).

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, 2013 and 2012 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 unfavorable 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.

(In thousands of reais)

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 other legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recorded for such proceedings as at December 31, 2013 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes in the year are as follows:

	2013				21012
	Tax	**Civil**	**Labor**	**Total**	**Total**
Balance at the beginning of the year	644,703	19,139	9,984	673,826	539,140
Recognition	199,854	8,018	5,302	213,174	142,362
Write-off	(77,360)	(10,725)	(6,428)	(94,513)	(7,677)
Balance at the end of the year	767,197	16,432	8,858	792,487	673,825
Suspended-payment taxes and other taxes contingencies				767,197	644,702
Provision for contingent liabilities				25,290	29,123

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

The Bank's and its subsidiaries have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by internal and external counsel are 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, 2013, Banco BTG Pactual and its subsidiaries were parties 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$ 961 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.

- Judicial action filed to discuss demands by the São Paulo Local Government, relative of ISS on services provided in Rio de Janeiro, as the tax authority from the city of São Paulo understands that such services were effectively rendered in São Paulo. The amount claimed is R$ 113 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)

- Lawsuits relating to the demutualization and IPO of Bovespa and BM&F BOVESPA, challenging the taxation of PIS, Cofins, income tax and social contribution on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$ 17 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, 2013 totaled R$ 2.129 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. 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. We have filed an appeal of this tax assessment. In February 2013 a preliminary administrative decision was issued, providing for a partial reduction of the tax assessment. 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. As a result, we do 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 for part of these losses. Accordingly, in no event do we do not to incur any material losses in connection with this matter.

ii. Provision for other contingent liabilities

As at December 31, 2013, BTG Pactual and its subsidiaries were part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions. In addition, there is a challenge of Central Bank of Brazil related to day-trade derivatives transactions, from 2002 to 2004 that potentially favored foreign investor over the bank. The value concerning the results of operations on claimed is US$ 189 million.

iii. Fiscal Refinancing Program (REFIS)

In December 2013, Banco BTG Pactual and its subsidiaries applied to the Fiscal Refinancing Program (REFIS), established by Law n° 12,865. REFIS allow settlement of tax debt in installments or in one single installment as well as reduce penalties and interest. The application to the REFIS has resulted in a loss effect after tax of R$32,242 thousand during the year ended December 31, 2013.

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:

	2013	2012
Income tax and social contribution		
Tax base	2,704,805	2,369,831

(In thousands of reais)

Income before taxes and profit sharing	4,083,110	3,748,038
Statutory profit sharing	(876,405)	(938,207)
Interest on equity	(501,900)	(440,000)
Total charge of income tax and social contribution at the current rates	(1,081,922)	(947,932)
Permanent (additions) / deductions in taxation calculation	84,206	(24,589)
Equity pick up associates and jointly controlled entities in Brazil	8,327	98,314
Income/(loss) of foreign exchange on foreign investments	185,586	35,768
Foreign earnings	(216,480)	(83,197)
Dividends	45,119	25,237
Other permanent (additions) / deductions	61,654	(100,711)
Temporary (additions) / deductions on the taxation calculation	196,032	(124,384)
Reversal of provision for goodwill on the acquisition of investments	141,523	119,633
Fair value investment of securities and derivatives	(96,574)	(163,966)
Allowance for loan losses	(25,969)	(69,647)
Tax contingencies and provision for suspended-payment taxes	(28,914)	(41,365)
Reversal of non-permanent impairment on investments	134,828	-
Offset of tax losses carry forward - Abroad	-	88,504
Other provisions	71,138	(57,543)
Offset of tax losses carry forward - Brazil	62,632	203,742
Tax and social contribution expense	(739,052)	(893,163)
Temporary differences		
Recognition / (reversal) of the year	(52,733)	175,655
Recognition / (reversal) of tax losses carry forward	(62,632)	(292,246)
Recognition / (reversal) of goodwill	-	84,247
Recognition on foreign companies tax losses carry forward	8,876	-
Recognition of loss on investment abroad	415,543	198,049
(Expenses) / revenues from deferred taxes	309,054	165,705
Total revenues / (expenses)	(429,998)	(727,458)

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	**2012**	**Recognition**	**Realization (i)**	**2013**
Tax loss carryforward	59,526	11,134	(56,782)	13,878
Impairment on investments (ii)	-	327,978	(301,858)	26,120
Allowance for loan losses	145,680	79,075	(51,660)	173,095
Fair value investment of securities and derivatives	167,542	1,083,761	(989,814)	261,489
Goodwill on the acquisition of investment	550,551	-	(141,523)	409,028
Tax contingencies and provision for suspended-payment taxes	170,414	30,370	(1,456)	199,328
Income tax of foreign investments (i)	198,049	-	(198,049)	-
Other temporary differences	192,199	60,968	(163,762)	89,405
	1,483,961	1,593,286	(1,904,904)	1,172,343
Income tax and social contribution	**2011**	**Recognition**	**Realization**	**2012**
Tax loss carryforward	351,772	10,393	(302,639)	59,526
Allowance for loan losses	76,033	104,358	(34,711)	145,680
Fair value investments of securities and derivatives	3,576	938,452	(774,486)	167,542
Income tax of foreign investments (i)	-	198,049	-	198,049
Goodwill on the acquisition of investment	620,412	84,247	(154,108)	550,551
Tax contingencies and provision for suspended-payment taxes	129,049	41,365	-	170,414
Other temporary differences	137,414	144,745	(89,960)	192,199
	1,318,256	1,521,609	(1,355,904)	1,483,961

(i) On December 31, 2012, the foreign income tax paid was recorded on deferred tax asset, and the amount of R$198,049 compensated in 2013 with tax on foreign gains available in Brazil, and R$415,543 refers to compensation of taxes paid abroad, in the current year.

(ii) Refers to the tax credit provision for loss on investment in the company BR Properties S.A (note 13).

(In thousands of reais)

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**
2013	477,493	103,283	580,776
2014	202,933	-	202,933
2015	196,695	-	196,695
2016	91,334	-	91,334
2017 onwards	100,605	-	100,605
Total	1,069,060	103,283	1,172,343
Present value	845,356	93,324	938,680

Deferred income tax and social contribution liabilities amounts to R$109,488 (December 31, 2012 - R$65,330), according to note 16(b).

19. Shareholders equity

a. Capital

As at December 31, 2013, fully subscribed and paid in capital consists of 2,714,902,212 shares (December 31, 2012 – 2,714,902,212), of which 1,390,671,404 common shares (December 31, 2012 – 1,390,671,404), 508,380,404 class A preferred shares (December 31, 2012 – 508,380,404) and 815,850,404 class B preferred shares (December 31, 2012 – 815,850,404), all no-par, registered shares.

In the meeting of the Board of Directors held on November 13, 2012 approved the capital increase of R$ 391,875, through the issuance of 19,865,336 common shares and 39,730,672 preferred class A shares. This decision was approved by the Brazilian Central Bank on December 17, 2012.

In the meeting of the Board of Directors held on December 20, 2012, approved a capital increase of R$52,488, through the issuance of 2,302,068 common shares and 4,604,136 preferred shares class A. This decision was approved by the Central Bank in January 22, 2013.

In the special shareholders meeting held on April 2, 2012 the capital increase was approved without an issuance of shares in the total amount of R$650,000 through the incorporation of the statutory reserve.

In the board of directors meeting held on April 24, 2012 was approved (i) the capital increase of R$2,070,000 was approved through the issuance of 82,800,000 common shares and 165,600,000 preferred shares class A and (ii) conversion of 85,544,000 Class B preferred shares into common shares. These decisions were approved by the Brazilian Central Bank on June 29, 2012.

In the Special Shareholders Meeting held on December 31, 2011 approved the capital increase of R$ 271,150 without issuing shares. This decision was approved by BACEN on April 16, 2012.

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 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. 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.

c. 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.

d. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

e. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income in accordance with Article 202 of Law 6404/76.

As at December 31, 2013 the Bank has accrued R$ 132,190 (December 31, 2012 – R$192,285), relating to dividends on profits of the year, equivalent to R$ 0,05 per share. These amounts were approved in the Special Shareholders’ Meeting held on February 18, 2014 (2012 – on February 19, 2013) and paid on March 11, 2014 (2012 – on March 05, 2013).

At the same date, the Bank has accrued R$246,900 (December 31, 2012 – R$220,000) related to interest on equity, equivalent to R$0.09 per share, which generated R$ 98,760 (2012 - R$88,000) of tax benefit. These amounts were approved in the Special Shareholders’ Meeting held on December 17, 2013 (2012 – on December 19, 2012) and paid on March 11, 2014 (2012 – on March 05, 2013).

On June 30, 2013 the Bank has accrued R$ 60,466 (June 30, 2012 – R$181,610) as to dividends on profits of the six-month period then ended, equivalent to R$0.02 per share, and R$ 255,000 (June 30, 2012 – R$220,000), related to interest on equity, equivalent to R$0.09 per share, which generated R$ 102,000 (2012 - R$88,000) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on August 6, 2013 (2012 – on August 8, 2012) and paid on August 20, 2013 (2012 – on August 22, 2012).

(In thousands of reais)

f. Reconciliation of net income (loss) and shareholders equity

	Shareholders' equity		Net Income	
	2013	2012	2013	2012
Banco BTG Pactual S.A.	12,074,449	10,068,496	2,642,965	2,024,063
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Panamericano S.A.(*)	53,375	32,971	26,334	37,174
Other	-	-	390	-
Banco BTG Pactual S.A. Consolidated	12,127,824	10,101,467	2,669,689	2,061,237

(*) The consolidated information reported by Banco Panamericano 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 Panamericano 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 Panamericano through the equity method of accounting.

20. Income from services rendered

	2013	2012
Management and performance fee from investment funds and portfolios	1,341,074	1,329,355
Brokerage	226,743	167,980
Technical services	572,964	485,523
Commission on the placement of securities	279,392	98,582
Guarantees	171,771	116,158
Other services	22,333	21,551
	2,614,277	2,219,149

21. Other operating income

	2013	2012
Recovery of charges and expenses	4,820	3,739
Reverse of allowance - participation of employees on earnings	-	9,376
Reversal of allowances - other	7,795	10,592
Indemnities	-	6,242
Reversal of provision - contingencies	9,940	6,896
Adjustment to inflation of judicial deposits	79,546	52,047
Certificates of potential additional construction ("CEPAC")	3,709	-
Reversal update of payables for goods and rights	28,000	-
Exchange gains	6,057	9,642
Fair value of investment properties	305,186	-
Other operating income	23,900	10,489
	468,953	109,023

22. Other operating expenses

	2013	2012
Other operating provisions expenses (reversals)	-	10,680
Expenses with taxes adjusted for inflation	28,915	1,351

(In thousands of reais)

Exchange rate variation	12,601	13,799
Provision of other payables	81,991	-
Reimbursement of clients	2,171	1,063
Repayment of financial operating costs	-	14,830
Adjustment of amounts payable for acquisition of investments(i)	50,705	54,121
Goodwill amortization (ii)	172,436	394,253
Other	61,109	61,988
	409,928	552,085

(i) Refers to update of amount payable for the acquisition of investments (Basically Panamericano and Coomex).

(ii) On December 31, 2013 there was basically goodwill amortization from Celfin and Bolsa y Renta. On December 31, 2012 there was fully goodwill amortization of investments in subsidiaries based on (a) realization of future profitability in Coomex (R$69,509),); (b) impairment on other goodwill and amortization(R$ 76,958 – see Note 13) and (c) profitability and recognition of deferred income tax asset due to corporate restructure of BFRE (R$ 247,786).

23. Other administrative expenses

	2013	2012
Outsourced services and consulting	391,173	339,769
Telecommunications and data processing	194,991	114,342
Leases and condominiums	90,517	60,756
Travel and lodging	66,086	48,004
Expenses of the financial system	53,855	39,603
Advertising and public relations	37,909	30,466
Depreciation and amortization	72,319	26,272
Other	66,396	18,708
	973,246	677,920

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:

			Assets/Liabilities		Revenues/Expenses	
	Relationship	**Maturity**	**2013**	**2012**	**2013**	**2012**
Assets						
Short-term interbank investments						
Open market investments						
- FIM B-2 (i)	Ligada	1/2/2014	1,436,052	-	77,628	-
Interbank investments deposits						
- Banco Panamericano S.A.	Controlada em conjunto	2/24/2014	1,308,963	1,203,256	49,247	25,184
Securities						
- BTG Investments LP (i)	Ligada	4/17/2018	38,958	-	-	-
- Banco Panamericano S.A.	Controlada em conjunto	4/23/2020	40,824	-	-	-
Derivative financial instruments						
- BTG Investments LP (i)	Ligada	-	-	284,323	(64,094)	-
- BTG Absolute Return Master Fund (i)	Ligada	6/25/2014	3,916	37,363	-	-
- Banco Panamericano S.A.	Controlada em conjunto	9/6/2017	2,459	-	-	-
Income receivable						
- BTG Absolute Return Master Fund (i)	Ligada	Sem prazo	4,603	37,363	48,738	217,837
- BTG Pactual Brazil Investment Fund I LP (i)	Ligada	Sem prazo	11,547	-	45,811	39,493

(In thousands of reais)

			Assets/Liabilities		Revenues/Expenses	
	Relationship	**Maturity**	**2013**	**2012**	**2013**	**2012**
- BTG Pactual Brazil Infrastructure Fund II LP (i)	Ligada	Sem prazo	-	485	1,640	-
Securities trading and brokerage						
- BTG Absolute Return Master Fund (i)	Ligada	Sem prazo	9,573	35,017	-	-
- BTG Pactual Holding S.A	Controladora	Sem prazo	4,106	-	-	-
Sundry						
- Max Casa XIX Empreendimentos Imobiliários S.A.	Coligada	-	-	5,453	-	-
- ACS Omicron Empreendimentos imobiliários S.A.	Coligada	Sem prazo	1,187	1,187	-	-
- Warehouse 1 Empreendimentos imobiliários S.A.	Coligada	-	-	432	-	-
- BTG Investments LP (i)	Ligada	-	-	35,017	-	-
Liabilities						
Deposits						
Demand deposits						
- BTG Pactual Holding S.A	Controladora	Sem prazo	(64)	(137)	-	-
- BTG Pactual Mining S.A. (i)	Ligada	-	-	(100)	-	-
- BTG Pactual Reinsurance Holdings LP (i)	Ligada	-	-	(961)	-	-
- Aigues de Catalunya Ltd (i)	Ligada	-	-	(54)	-	-
- BTG Pactual Spanish Trading Holdings Ltd (i)	Ligada	-	-	(135)	-	-
Time deposits						
- BTG Holding S.A.	Controladora	-	-	(24,240)	-	-
- BTG Pactual Alpha Participações Ltda.	Ligada	12/8/2014	(796)	-	-	-
- BTG Pactual Capital Participações S.A. (i)	Ligada	12/24/2014	(2,138)	-	-	-
- BTG Pactual Proprietary Feeder (1) Limited (i) (iii)	Ligada	1/2/2014	(370,171)	(2,768)	-	-
- BTG Investments LP (i) (iii)	Ligada	1/2/2014	(323,828)	(10,869)	-	-
- BTG MB Investments LP (ii) (iii)	Ligada	1/2/2014	(251)	(2,130)	-	-
- BTG Pactual Absolute Master Fund (i)	Ligada	1/2/2014	(4,413)	(2,821)	-	-
- BTG Pactual Absolute Return Master Fund II (i)	Ligada	1/2/2014	(12,137)	-	-	-
- Harpia Ômega Participações S.A. (i)	Ligada	12/24/2014	(1,815)	-	(107)	-
- BTG Equity Investments LLC (i)	Ligada	1/2/2014	(23,243)	(6,615)	-	-
- BTG Pactual Reinsurance Holdings LP (i)	Ligada	1/2/2014	(1,044)	-	-	-
- BTG Alpha Investments LLC (ii)	Ligada	1/2/2014	(6,306)	(1,499)	-	-
- Aigues de Catalunya Ltd (i)	Ligada	1/2/2014	(1,331)	-	-	-
- BTG Pactual Stigma Participações S.A.	Ligada	1/2/2014	(2,330)	(704)	-	-
- BTG Pactual Beta Participações S.A. (ii)	Ligada	-	-	(1,979)	-	-
- BTG Pactual Pharma Participações S.A. (ii)	Ligada	-	-	(388)	-	-
Open market funding						
Own portfolio						
- BTG Holding S.A.	Controladora	6/25/2014	(2,764)	-	-	-
Third-party portfolio						
- Banco Panamericano S.A.	Controlada em conjunto	2/24/2014	(49,999)	(6,002)	(6,950)	-
- FIM B-2 (i)	Ligada	2/28/2014	(96,769)	-	-	-
Funds from securities issued and accepted						
Real Estate Bills						
- Partners	Sócios	2/28/2014	(14,670)	(30,711)	-	-
Securities issued abroad						
- Global Ltd.	Controlada	Sem prazo	(575,686)	-	(292)	-
Derivative financial instruments						
- Leblon Investment Fund Ltd.	Ligada	1/2/2015	(20,978)	(22,325)	-	-
- Banco Panamericano S.A.	Controlada em conjunto	4/22/2020	(91,537)	(101,783)	(8,837)	-
Other obligations						
Securities trading and brokerage						
- BTG Absolute Return Master Fund (i)	Ligada	Sem prazo	(45,779)	(38,644)	-	-
- Leblon Investment Fund Ltd.	Ligada	Sem prazo	(40,028)	-	-	-
Sundry						

(i) Subisidiaries of BTG Pactual Participations Ltd.
(ii) Controlled by BTG MB Investments LP.
(iii) Classified as Demand deposits until December 31, 2012.

(In thousands of reais)

Total compensation paid to key management personnel totaling this year R$170,030 (December 31, 2012 – R$ 86.854) which is considered short term benefit.

25. Other information

a. Cash and cash equivalents

	2013	2012
Balances as at beginning of the year		
Cash and cash equivalents	552,168	517,305
Open market investments	15,179,462	11,424,916
Interbank deposits	1,714,131	545,196
	17,445,761	12,487,417
	2013	**2012**
Balances as at end of the year		
Cash and cash equivalents	1,074,026	552,168
Open market investments	6,688,247	15,179,462
Interbank deposits	2,992,892	1,714,131
	10,755,165	17,445,761

b. Commitments and responsibilities

The Bank's and its subsidiaries' main commitments and responsibilities are as follows:

	2013	2012
Co-obligation and risks for guarantees granted	6,729,464	7,422,378
Responsibility for the management of futures and investment portfolio (i)	194,724,990	167,250,732
Securities under custody	262,612,455	291,395,585
Securities trading and brokerage	1,257,459,213	2,255,008,913
Loans contract to release	3,854,812	2,681,347

(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.

On December, 2013, the Bank has entered into investment opportunities in the private equity business. As of December 31, 2013 the total commitment undrawn was approximately R$1,197 million and it represented substantially by the investments in private equity funds. The drawdown notice is subject to investment opportunities identified and agreed and therefore it is difficult to precisely estimate the cash outflows relating to these commitments.

26. Subsequent events

On January 24, 2014 Banco BTG Pactual received its banking licenses from the Luxembourg Ministry of Finance, formalizing both the Bank's new offshore branch as well as its local subsidiary. Further infrastructure and operational processes are being implemented with the objective to initiate the business activities in the second quarter of 2014.

Consolidated Financial Statements

Banco BTG Pactual S.A. and subsidiaries

December 31, 2012

With independent auditors' review report

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements

December 31, 2012

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Condomínio São Luiz
Av. Pres. Juscelino Kubitschek, 1830
Torre I - 8º Andar - Itaim Bibi
04543-900 - São Paulo, SP, Brasil

Tel: (5511) 2573-3000
Fax: (5511) 2573-5780
www.ey.com.br

A free-translation from Portuguese into English of auditors' report issued on consolidated financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and in Reais.

Independent auditors' report on financial statements

To the
Board of Directors and Shareholders of
Banco BTG Pactual S.A.
São Paulo - SP

We have audited the accompanying consolidated financial statements of Banco BTG Pactual S.A., which comprise the consolidated balance sheet as at December 31, 2012 and the related consolidated statements of income, changes in shareholders' equity and consolidated cash flows for the year then ended, and a summary of significant accounting practices and other explanatory notes to financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting practices adopted in Brazil applicable to institutions accredited 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Bank's consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. as at December 31, 2012, the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil.

Emphasis

As of December 31, 2012, jointly controlled subsidiary Banco Panamericano S.A. has income and social contribution deferred tax assets amounting to R$ 3,014 million, recognized substantially on the basis of financial projections and business plan reviewed on December 31, 2012 and approved by its Board of Directors. The realization of these tax credits depends on delivery of these projections and business plan as approved by the management bodies of Banco Panamericano S.A.

Other matters

We also have audited the Bank's consolidated statement of value added (SVA), for the year ended December 31, 2012, prepared under the responsibility of Bank's management, the presentation of which is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under the accounting practices applicable to institutions accredited authorized to operate by the Central Bank of Brazil. This statement have been subject to the same audit procedures previously described, and in our opinion, is fairly presented, in all material respects, in relation to the overall consolidated financial statements.

São Paulo, February 19, 2013

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6

Flávio Serpejante Peppe
Partner

A free-translation from Portuguese into English of the consolidated financial statements prepared in accordance with accounting practices adopted in Brazil applicable to institutions accredited by the Central Bank of Brazil and in Reais.

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets

December, 31
(In thousands of reais)

	Note	2012	2011
Assets			
Current assets		109,116,824	72,109,850
Cash at banks	6	552,168	517,305
Short-term interbank investments	7	23,961,103	19,568,249
Open market investments		22,051,078	18,624,436
Interbank deposits		1,910,025	943,813
Securities and derivative financial instruments		69,143,845	38,630,309
Own portfolio	8	29,755,046	14,157,694
Subject to repurchase agreements	8	30,586,402	21,055,304
Subject to unrestricted repurchase agreements	8	48,082	12,560
Subject to Central Bank	8	53,515	-
Derivative financial instruments	9	6,925,746	2,582,253
Subject to guarantees	8	1,775,054	822,498
Interbank transactions		473,130	874,879
Deposits in the Central Bank of Brazil		472,502	874,053
Correspondent banks		628	826
Loans	10	3,593,542	2,972,442
Loans – private sector		3,577,012	3,014,674
Transferred Loans		155,813	-
Allowance for loan losses		(139,283)	(42,232)
Other receivables		11,369,880	9,521,541
Credits for guarantees honored	11	178	-
Foreign exchange portfolio	11	2,126,610	145,565
Income receivable	12	952,641	356,677
Securities trading and brokerage	11	3,885,607	4,402,981
Sundry	12	5,377,431	5,240,085
Allowance for losses on other receivables	10	(972,587)	(623,767)
Other assets		23,156	25,125
Other assets		20,467	18,591
Prepaid expenses		13,369	6,534
Provision for losses		(10,680)	-
Long-term-assets		10,702,635	8,496,825
Long-term interbank investments	7	7,812	14,787
Interbank deposits		7,812	14,787
Securities and derivative financial instruments		5,058,842	4,263,594
Own portfolio	8	774,997	2,375,915
Derivative financial instruments	9	958,424	475,107
Subject to repurchase agreements	8	2,268,007	-
Subject to guarantees	8	1,057,414	1,412,572
Interbank transactions		1,853	1,853
Restricted credits – National Housing System		1,853	1,853
Loans	10	3,675,034	1,692,638
Loans – private sector		3,717,211	1,732,754
Allowance for loan losses		(42,177)	(40,116)
Other receivables		1,946,784	2,523,953
Foreign exchange portfolio	11	-	630,610
Income receivable	12	-	34,805
Securities trading and brokerage	11	134	781
Sundry	12	1,948,176	1,897,121
Allowance for losses on other receivables	10	(1,526)	(39,364)
Other assets		12,310	-
Prepaid expenses	11	12,310	-
Permanent assets		3,496,849	1,405,334

	Note	2012	2011
Investments		2,528,795	1,131,018
Investments in associates and jointly controlled entities	13	2,435,184	1,125,292
Other investments		96,598	8,713
Allowance for losses		(2,987)	(2,987)
Property and equipment in use		95,695	58,403
Property in use		8,142	-
Other property and equipment in use		153,907	100,539
Accumulated depreciation		(66,354)	(42,136)
Deferred charges		17,015	12,371
Amortization and expansion costs		45,546	28,801
Accumulated amortization		(28,531)	(16,430)
Intangible assets	14	855,344	203,542
Other intangible assets		967,960	208,940
Accumulated amortization		(112,616)	(5,398)
Total assets		123,316,308	82,012,009

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets
December, 31
(In thousands of reais)

	Note	2012	2011
Liabilities			
Current liabilities		96,228,552	64,936,753
Deposits	15	12,869,362	11,512,454
Demand deposits		283,551	1,574,208
Interbank deposits		578,706	572,761
Time deposits		12,007,105	9,365,485
Open market funding	15	52,441,102	39,060,989
Own portfolio		32,017,974	22,838,450
Third-party portfolio		16,837,363	13,692,426
Free trading portfolio		3,585,765	2,530,113
Funds from securities issued and accepted	15	2,918,641	1,703,462
Real estate, mortgage, credit and similar notes		1,750,373	1,518,581
Securities issued abroad		1,168,268	184,881
Interbank transactions		389	30
Unsettled receipts and payments		389	30
Loans and onlending	15	1,403,295	916,591
Loans abroad		1,394,768	875,094
Onlending in Brazil		8,527	41,497
Derivative financial instruments	9	7,155,827	2,523,524
Derivative financial instruments		7,155,827	2,523,524
Other liabilities		19,439,936	9,219,703
Collection and payments of tax and similar charges		4,757	2,666
Foreign exchange portfolio	11	1,588,379	224,381
Social and statutory	16	1,118,925	552,761
Tax and social security	16	818,519	238,783
Securities trading and brokerage	11	14,572,799	7,921,906
Sundry	16	1,336,557	279,206
Long-term liabilities		16,786,304	10,491,697
Deposits	15	1,754,645	2,698,606
Interbank deposits		48,372	3,644
Time deposits		1,706,273	2,694,962
Open market funding	15	209,565	-
Own portfolio		209,565	-
Funds from securities issued and accepted	15	5,561,448	2,071,169
Real estate, mortgage, credit and similar notes		4,055,599	1,106,410
Securities issued abroad		1,505,849	964,759
Loans and onlending	15	501,441	3,125
Onlending in Brazil		501,441	3,125
Derivative financial instruments	9	907,855	430,265
Derivative financial instruments		907,855	430,265
Other liabilities		7,851,350	5,288,532
Social and statutory	16	76,675	445
Tax and social security	16	653,369	521,157
Securities trading and brokerage	11	2,800	8,128
Subordinated debt	15	6,246,109	4,158,295
Sundry	16	872,397	600,507
Deferred income		111,917	31,590
Non-controlling interest		88,068	212,207
Shareholders' equity	19	10,101,467	6,339,762
Capital - domiciled in Brazil		4,510,876	2,132,664
Capital - domiciled Abroad		1,843,499	838,686
Capital increase		52,488	271,150
Income reserves		3,694,604	3,097,262
Total Liabilities and Shareholders' equity		123,316,308	82,012,009

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income

December 31
(In thousands of reais)

	Note	2012	2011
Financial income		8,582,858	6,050,154
Loans		1,333,628	945,572
Securities		6,773,173	4,589,133
Derivative financial instruments		296,432	225,031
Foreign Exchange		116,469	249,322
Mandatory investments		63,156	41,096
Financial expenses		(5,277,224)	(4,549,660)
Funding operations		(4,227,677)	(4,002,023)
Borrowing and onlending		(581,250)	(517,615)
Allowance for loan losses and other receivables		(468,297)	(30,022)
Net financial income		3,305,634	1,500,494
Other operating income (expenses)		454,405	174,399
Income from services rendered	20	2,219,149	1,107,568
Personnel expenses		(605,684)	(359,663)
Other administrative expenses	23	(677,920)	(355,462)
Tax charges		(283,864)	(286,040)
Equity in the earnings of associates and jointly controlled entities	13	245,786	(3,531)
Other operating income	21	109,023	158,100
Other operating expenses	22	(552,085)	(86,573)
Operating income		3,760,039	1,674,893
Non-operating income		(12,001)	9,217
Income before taxation and profit sharing		3,748,038	1,684,110
Income tax and social contribution	18	(727,458)	199,099
Provision for income tax		(607,469)	(116,641)
Provision for social contribution		(285,694)	(54,625)
Deferred income tax and social contribution		165,705	370,365
Statutory profit sharing		(938,207)	(401,229)
Non-controlling interest		(21,136)	(4,960)
Net income for the year		2,061,237	1,477,020
Interest on equity	19	(440,000)	(319,000)
Weighted average numbers of share outstanding		2,576,108,185	2,400,000,000
Net income per share - R$		0.80	0.63

The accompanying notes are an integral part of the 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 per share)

				Income reserves		
	Note	Capital	Increase in capital	Legal	Unrealized	Statutory
Balances as at December 31, 2010		2,971,350	-	150,775	470,339	2,010,129
Capital increase	19	-	271,150	-	-	-
Reserve reversion		-	-	-	(56,492)	-
Dividends paid (R$ 0.23 per share)	19	-	-	-	-	-
Net income for the period		-	-	-	-	-
Net income allocation						
Legal Reserve		-	-	74,061	-	-
Statutory Reserve		-	-	-	-	452,653
Interest on equity (R$ 0.13 per share)		-	-	-	-	-
Intermediate dividends paid (R$ 0.06 per share)		-	-	-	-	-
Balances as at December 31, 2011		2,971,350	271,150	224,836	413,847	2,462,782
Balances as at December 31, 2011		2,971,350	271,150	224,836	413,847	2,462,782
Approval of capital increase	19	3,383,025	(271,150)	-	-	(650,000)
Capital increase	19	-	52,488	-	-	-
Intermediate dividends paid (R$ 0.07 per share)	19	-	-	-	-	-
Intermediate interest on equity (R$ 0.09 per share)	19	-	-	-	-	-
Net income for the period		-	-	-	-	-
Net income allocation						
Legal Reserve		-	-	101,203	877,503	231,462
Interest on equity (R$ 0.09 per share)	19	-	-	-	-	-
Dividends paid (R$ 0.07 per share)	19	-	-	-	-	-
Balances as at December 31, 2012		6,354,375	52,488	326,039	1,291,350	2,044,244

Reconciliation of net income (loss) and shareholders equity of Banco BTG Pactual S.A. and subsidiaries is p

The accompanying notes are an integral part of the financial statements

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows

Years ended December 31

(In thousands of reais, except for dividends per share)

	Note	2012	2011
Operating activities			
Net income for the year		2,061,237	1,477,020
Adjusts to net income		174,739	22,221
Equity in the (earnings)/losses of associates and jointly controlled entities	13	(245,786)	3,531
Goodwill amortization	22	394,253	-
Depreciation and amortization	23	26,272	18,690
Adjusted net income for the year		2,235,976	1,499,241
Increase/decrease in operational assets and liabilities			
Short-term interbank investments		537,601	969,309
Securities and derivative financial instruments		(26,443,176)	(6,044,000)
Loans		(2,603,496)	(963,406)
Other receivables and other assets		(1,088,578)	(6,186,598)
Interbank transactions		359	(742,557)
Other liabilities		9,533,577	2,617,126
Deferred income		80,327	7,300
Deposits		412,946	3,637,516
Open market funding		13,567,817	(2,127,930)
Loans and onlending		985,020	764,455
Cash provided by operating activities		(2,781,627)	(6,569,544)
Investing activities			
Acquisition of other investment		(69,502)	(1,094)
Sale of investments		240,007	296
Acquisition of equity interests		(50,804)	(1,128,823)
Dividends received		27,436	-
Acquisition of property and deferred charges		(109,858)	(122,918)
Sale of property and deferred charges		9,180	250,022
Acquisition/sale of intangible assets		(266,528)	(31,908)
Business acquisition, net cash		(943,058)	-
Cash (used in) investing activities		(1,163,127)	(1,034,425)
Financing activities			
Funds from securities issued and accepted		4,705,457	2,469,133
Capital increase due to share issuance		2,461,875	-
Capital increase		52,488	271,150
Non-controlling interest		(2,926)	212,207
Interest on equity	19	(220,000)	(319,000)
Subordinated debt		2,087,814	-
Dividends distributed	19	(181,610)	(692,000)
Cash provided by financing activities		8,903,098	1,941,490
Increase in cash and cash equivalents		4,958,344	(5,662,479)
Balance of cash and cash equivalents	25		
At the beginning of the year		12,487,417	18,149,896
At the end of the year		17,445,761	12,487,417
Increase in cash and cash equivalents		4,958,344	(5,662,479)
Noncash transactions		2,358,493	-
Interest on equity		220,000	-
Dividends distributed		192,285	-
Capital contribution - Banco Panamericano S.A.		495,477	-
Incorporation - One Properties S.A. by BR Properties S.A.		1,450,731	-

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of value added
Years ended December 31
(In thousands of reais)

Income	9,878,646	7,238,467
Financial brokerage	8,582,858	5,836,108
Services rendered	2,219,149	1,107,568
Allowance for loan losses and other receivables	(468,297)	294,791
Other	(455,064)	-
Expenses	(4,808,927)	(4,549,660)
Financial brokerage	(4,808,927)	(4,549,660)
Inputs acquired from third parties	(588,319)	(313,446)
Materials, energy and other	(67,664)	(8,386)
Outsourced services	(520,655)	(305,060)
Gross value added	4,481,400	2,375,361
Depreciation and amortization	(26,272)	(18,690)
Net value added produced by the entity	4,455,128	2,356,671
Value added received through transfer	245,786	(3,531)
Equity in the earnings of associated companies and jointly controlled entities	245,786	(3,531)
Value added to be distributed	4,700,914	2,353,140
Distribution of value added	(4,700,914)	(2,353,140)
Personnel	(1,465,793)	(760,892)
Direct compensation	(1,421,215)	(727,028)
Benefits	(32,260)	(22,414)
FGTS – government severance pay fund	(12,318)	(11,450)
Taxes, fees and contributions	(1,089,420)	(86,933)
Federal	(1,014,196)	(46,969)
Municipal	(75,224)	(39,964)
Remuneration of third party capital	(63,328)	(23,336)
Rent expenses	(63,328)	(23,336)
Remuneration of shareholders	(2,082,373)	(1,481,979)
Interest on equity	(440,000)	(319,000)
Dividends	(373,895)	(692,000)
Retained earnings	(1,247,342)	(466,019)
Non-controlling interest	(21,136)	(4,960)

The accompanying notes are an integral part of the financial statements

1. Operations

Banco BTG Pactual S.A. (Bank) is incorporated as a multiple bank, operating jointly with its subsidiaries (the Group), offering financial products and services relating to commercial, including exchange, and 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.

On April 30, 2012, BTG Pactual Group completed its primary public offering (IPO), issuing 82,800,000 units at a price of R$ 31.25 (thirty-one reais and twenty five cents) per unit. In that transaction, the Bank issued 248,400,000 shares, representing a capital increase by R$ 2,070 million and generating cash net of costs of commissions, fees and taxes of R$ 2,018 million.

The financial statements were approved by Bank's Management in February 19, 2013.

2. Corporate reorganization

Corporate reorganization

On December 31, 2012, BTG Pactual Gestora de Recursos Ltda ("BTG Pactual Gestora"), subsidiary of BTG Pactual Asset Management S.A. DTVM, merged Brazilian Capital with the objective to simplify the corporate structure and consequently reduce financial and operational costs. As a consequence, BTG Pactual Gestora amortized the remaining goodwill in the amount of R$ 112,000 and increased its shareholders' equity in the amount of R$ 84,247 due to the deferred income tax asset recognized on the goodwill amortization.

On December 20, 2012, the subsidiary BTG Pactual SA SEG Holding SUSEP received authorization to offer insurance products in Brazil.

On March 29, 2012, Saíra Diamante Empreendimentos Imobiliários S.A. ("Saíra"), Wtorre Empreendimentos Imobiliários S.A. ("Wtorre") and BR Properties S.A. ("BR Properties") approved the operation involving successive mergers of Saíra and its jointly-controlled investee with Wtorre, One Properties S.A., into BR Properties. After the closing of the transaction the Bank held 28% of interest on BR Properties equity and accounts for this investment by the equity method (see note 13).

On December 31, 2011, following with BTG Group's restructuring process, the Bank proceeded with the merger of its controlling company Copacabana Prince Participações S.A. As a result of such transaction, R$ 481,369 were accounted relating to the tax benefit relating to goodwill originally registered at Copa Prince.

On December 14, 2011 the merger of BTG Pactual Participações II S.A. by the Bank approved, without resulting in the capital increase of the Bank.

On July 27, 2011, the Central Bank of Brazil (Banco Central do Brasil, Bacen) approved the indirect acquisition by the Bank of the shares representing the total capital of (i) BTG Pactual Asset Management Corp USA, established in New York, USA; (ii) BTG Pactual Asia Ltd, domiciled in Hong Kong, China; (iii) BTG Pactual Capital Corp USA, incorporated in Delaware, USA; (iv) BTG Pactual Global Asset Management Ltd, domiciled in Bermuda; (v) BTG Pactual Carry LP, domiciled in George Town, Ilhas Cayman, (vi) and of 99.3% of shares representing the capital BTG Pactual Europe LLP, domiciled in London, England. These transactions were approved in the Ordinary General Shareholders Meeting held on August 31, 2011, Previously, the controlling company of such companies was BTG Investments LP. As they are companies belonging to the same economic group, no premium or discount was verified in these transactions.

On June 15, 2011, the subsidiary of BTG Pactual Banking Limited, located in the Cayman Islands, was transformed into the Bank's branch.

Acquisitions

On December 20, 2012 the Bank concluded the purchase of all of the outstanding shares of Bolsa y Renta for a total consideration of US$ 58.4 million (approximately R$ 120.5 million). The former owners of Bolsa y Renta acquired equity interest in Banco BTG Pactual for U$ 25.4 million (R$ 52.5 million), representing approximately 0.25% of the capital stock in the Bank. For accounting purposes, the acquisition date of Bolsa y Renta was December 31, 2012 and the goodwill recorded in the transaction was US$ 22.7 million (R$ 47.1 million), based on expected future profitability.

On February 8, 2012, the Bank announced the agreement for the acquisition of 100% of the outstanding shares of Celfin Capital (Celfin), operating in Chile, Peru and Colombia. On November 13, 2012 the Bank paid to the owners of Celfin US$451 million (approximately R$ 930 million) in cash, of which US$ 190 million (approximately R$ 392 million) were used to purchase shareholding interest of the Bank by Celfin's shareholders, representing 2.2% of the capital. In the transaction, goodwill of US$ 352 (approximately R$ 726 milion) was recorded, based on expected future profitability.

On January 31, 2012, the Bank and Banco Panamericano entered into a definitive agreement to purchase 100% of the shares of Brazilian Finance & Real Estate S.A. (BFRE), for approximately R$1.2 billion, of which R$ 940 million was paid by Banco Panamericano and R$ 270 million was paid by the Bank. Prior to the closing of the transaction on July 19, 2012, BFRE was divided into two companies by means of a spin-off. The company acquired by the Bank, the Brazilian Capital Companhia de Gestão de Investimentos, retained the rights to advise, manage and/or administer certain real estate and equity investment funds. In this transaction the Bank recorded goodwill of R$ 248 million, based on expected future profitability, which was amortized in R$ 136 million until December 31, 2012 due to profitability recognized. Additionally, the Bank acquired quotes of Real State Funds owned by BFRE, in the amount of R$ 335 million.

On November 22, the agreement between the Bank and WTorre Properties S.A. ("WTorre") was concluded. Due to this agreement, the Bank now holds, indirectly through its subsidiary Saíra Diamante S.A., 49,99% of the corporate interest in One Properties S.A. (previously referred to as WTorre). In this transaction, Saíra contributed R$ 627,452 in assets, originally held by the Bank. In this transaction, the Bank recorded a goodwill of R$ 320,956, based on expected future profitability.

On September 2011, the full subsidiary, Coomex proceeded with the reverse merged of its controlled company BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Group recorded a tax benefit of R$ 54,813.

On June 17, 2011, Banco BTG Pactual S.A. presented to the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários, CVM), a request for registration of tender offer of preferred shares issued by Panamericano to the remaining shareholders, for the same price paid for the share to the previous controlling shareholder. As the necessary adhesion did not occur, the program was terminated.

On May 27, 2011, the Bank acquired all shares of Silvio Santos Group in Banco Panamericano S.A. (Panamericano), representing 37.64% of the retail institution, resulting from an interest of 51% in ordinary shares and 21.97% in preferred shares, Upon conclusion of this transaction and the corresponding BACEN approval, the Bank and the Caixa Econômica Federal (CEF), now hold a shared control over Panamericano, as defined by shareholders agreement.

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 National Monetary Council (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 and the provision for contingent liabilities. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inaccuracies inherent in determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

a. Consolidated financial statements

In the process consolidated financial statements were eliminating the intercompany balances of assets and liabilities, revenues, expenses and unrealized profit, and includes the portions of net income (loss) and shareholders' equity relating to non-controlling interest.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill is recognized in deferred income. Goodwill calculated on the acquisition of joint controlled subsidiaries is recognized in investments.

Jointly-controlled investments are recognized by the equity method of accounting.

(In thousands of reais)

The subsidiaries consolidated and investment funds on the Bank's financial statements, are as follows:

		Equity interest - %	
	Country	12/31/2012	12/31/2011
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 Corretora de Mercadorias Ltda.	Brazil	99.99	99.99
BTG Pactual Securitizadora S.A.	Brazil	99.99	99.99
BTG Pactual Comercializadora de Energia Ltda.	Brazil	99.90	99.99
BTG Pactual Holding International S.A.	Brazil	99.99	99.99
BTGP Recovery Holdings S.A. (i)	Brazil	-	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Saíra Diamante Empreendimento e Participações S.A. (Nota 2)	Brazil	-	92.00
BTG Pactual Vivere Participações S.A. (v)		-	100.00
Vivere Soluções e Serviços S.A. (v)		30.00	-
Global Ltd.	Cayman	100.00	100.00
BW Properties S.A.	Brazil	67.49	67.49
G.U.A.S.P.E S.A (ii)	Brazil	99.99	-
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	-
BTG Pactual Chile SPA (iii)	Chile	100.00	-
Bolsa y Renta S.A. (iv)	Colombia	99.99	-
Recovery do Brasil Consultoria S.A. (i)	Brazil	50.24	-
Celfin International Ltd. (iii)	Cayman	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 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	England	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	England	100.00	100.00
Recovery do Brasil Consultoria S.A. (i)	Brazil	-	50.24
FC DAS S.A. (i)	Uruguay	-	100.00
BTG Pactual SEG Holding S.A.	Brazil	100.00	-
BTG Pactual RE Holding S.A.	Brazil	100.00	-
Celfin Capital S.A. (iii)	Chile	100.00	-
Celfin Capital S.A. Corredores de Bolsa (iii)	Chile	100.00	-
Celfin Capital Administradora de Fondos de Capital Extranjero S.A (iii)	Chile	100.00	-
Celfin Capital S.A. Administradora General de Fondos (iii)	Chile	100.00	-
Celfin Capital S.A. Sociedad Agente de Bolsa (iii)	Peru	100.00	-
Celfin Capital S.A. Sociedad Administradora de Fondos Inversion (iii)	Peru	100.00	-
Celfin Capital S.A. Sociedad Comissionista de Bolsa (iii)	Colombia	100.00	-
Laurel Sociedad Gestora Profissional S.A.S (iv)	Colombia	100.00	-
Investment funds			
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Port Fund SPC - CLASS C	Cayman	100.00	99.83
Fundo de Investimento em Direitos Creditórios Não Padronizados Precatórios Selecionados I	Brazil	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados NPL I	Brazil	70.75	100.00
BTG Pactual Saúde Fundo de Investimento em Participações	Brazil	95.67	100.00
Nala Fundo de Investimento em Participações		Brazil	
BTG Pactual Global Fund	Cayman	100.00	100.00
Fundo de Investimento em Direitos Creditórios Não Padronizados Caixa BTG Pactual Multisegmentos	Brazil	100.00	100.00

(In thousands of reais)

		Equity interest - %	
	Country	**12/31/2012**	**12/31/2011**
BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado	Brazil	100.00	100.00
Fundo de Investimento em Participações Quartzo	Brazil	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00

(i) In 2012, BTGP Recovery Holdings S.A. and FC DAS S.A. were merged by Recovery do Brasil Consultoria S.A.
(ii) Non-operational company.
(iii) Companies acquired on Celfin's transaction (Note 2).
(iv) Companies acquired on Bolsa y Renta's transaction (Note 2).
(v) In 2012, BTG Pactual Vivere Participações S.A. were merged by Vivere Soluções e Serviços S.A.

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 at the rate prevailing at the reporting date, while income and expense accounts were translated at the average rate of the month.

The financial statements of the companies abroad, originally stated in their functional currencies were translated into reais at the foreign exchange rates generally US dollar 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 flow, cash and cash equivalents include, pursuant to CMN Resolution 3604/08, cash, bank deposits and highly-liquid short-term investments redeemable in 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, remunerated 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:

iv. Trading securities

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

v. 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, plus income earned, with a corresponding entry to income (loss), and subsequently adjusted to fair value, with a corresponding entry to a separate account under shareholders' equity, net of tax effects, which will only be recognized in income (loss) after the effective realization.

vi. 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) for the year. 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 recognized 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 will be conducted to hedge against risk or not.

The transactions using financial instruments performed on their own, 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 not realized, recognized directly in income (loss) for the period.

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:

Fair value 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) for the period; 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 recognized in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recognized in income (loss) 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. Therefore, at the time of financial settlement of these transactions, results may differ from the estimates. 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 duration of their agreements.

Assets and liabilities resulting from swap and currency forward transactions of non-delivery forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, adjusted at fair value, with a corresponding entry to income (loss).

The notional amount of the agreements is recognized in off-balance sheet 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

As of 2012, the transactions of sale or transfer of financial assets when the entity has retained substantially all the risks and benefits of operations, remains registered in their respective categories of assets, with a liability relating to obligation.

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 recorded before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in income 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 recognized 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 term exceeding 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. Investments

Jointly-controlled subsidiaries and associated entities are accounted for under the equity method of accounting. Other investments in permanent assets are stated at cost, less allowance for losses, when applicable.

k. Goodwill and negative goodwill

Goodwill or negative goodwill is calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill, based on the basis of expected future results of the acquired subsidiaries, is amortized in line with the 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 companies, and in deferred income to subsidiaries, until the investment is realized.

l. Property plant 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 method over the estimated period of usage and/or lease.

m. 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. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

n. Impairment

Whenever there is clear evidence that the assets are valued at an unrecoverable amount, it is recorded as loss in the results for the year. 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 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.

o. Income tax and social contribution

The provisions for income tax and social contribution are recognized 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 15% for social contribution of financial institutions and 9% for non-financial institutions.

p. 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 an 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 liabilities – 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.

q. Earnings per share

Calculated based on weighted average shares for the periods.

r. Revenue recognition

Revenues and expenses are determined under the accrual method.

s. Reclassification of prior period statements

The Bank has evaluated the presentation of the results with energy trading generated by our subsidiary Coomex and has changed the accounting policies and reclassifed these results in comparative financial statements. The reclassification aims to present the results from energy derivatives from Coomex and the Bank in a single line in our income statement. As a result, R$ 214,046 has been reclassified from “Income from energy trading”, presented in “Other operating income" to "Derivatives financial instruments" in the income statement for the year ended December 31, 2011.

(In thousands of reais)

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) ALM (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. We believe 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.

a. Operating limits

According to the recommendations of the New Capital Accord (Basel II), BACEN disclosed the methodology to calculate the Reference Shareholders' Equity (PR) and the Required Reference Shareholders' Equity (PRE), as of July 1, 2008, through CMN Resolutions 3444/07 and 3490/07. In addition, BACEN Circular Letters 3360/07, 3361/07 to 3366/07, 3368/07, 3383/08, 3388/08 and 3389/08 established the guidelines to determine credit, market and operating risks.

The Basel ratio was calculated based on the financial statements, on a consolidated basis, including all the subsidiaries.

	2012	**2011**
Reference Shareholders' Equity (PR)	14,593,354	8,430,976
Shareholders' equity – Tier 1	10,249,644	6,331,062
Shareholders' equity – Tier 2	5,124,822	3,165,531
Deductions from the Reference Shareholders' Equity	(781,112)	(1,065,617)
Required Reference Shareholders' Equity (PRE)	9,273,372	5,250,915
Credit risk	5,606,749	3,416,049
Market risk	3,440,807	1,553,458
Operating risk	225,816	281,408
Exceeding Required Reference Equity: (PR-PRE)	5,319,982	3,180,061
Capital adequacy ratio (based index): (PRx100)/PRE/0.11)	17.31%	17.66%

Management elected the basic indicator approach to measure operating risk.

The fixed assets to equity capital ratio, as determined by CMN Resolution 2283/96, amended by Resolution 2669/99 and with the wording of Resolutions 2743/00 and 3426/06, are also calculated on a consolidated basis considering all subsidiaries:

	2012	2011
Reference Shareholders' Equity (PR)	14,593,354	8,430,976
Equity securities	(17,374)	(6)
Reference Shareholders' Equity for fixed assets to equity capital ratio (PR_LI)	14,575,980	8,430,970
Fixed assets to equity capital ratio (50%)	7,287,990	4,215,485
Status for fixed assets to equity capital ratio	5,883,100	3,034,871
Permanent assets	3,463,787	1,409,501
Deferred permanent assets	(6,586)	(8,772)
Equity securities	(17,374)	(6)
Investments in subsidiaries authorized to operate by the Central Bank	(779,577)	(427,132)
Variable income securities recognized in current assets	3,222,850	2,061,280
Margin	1,404,890	1,180,614

As at December 31, 2012 and 2011, all operating limits are duly complied with.

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, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 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 a stress test models as a complement to VaR method for its daily risk activities.

The table below contains the Bank's and its subsidiaries' daily average VaR for the years ended:

In millions of R$	2012	2011	2010
Daily average VaR	60.5	28.4	21.5

(In thousands of reais)

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 extremely 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.

7. Interbank investments

	2112					2011
	Total	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**Over 3 years**	**Total**
Open market investments	22,051,078	19,829,803	2,221,275	-	-	18,624,436
Own portfolio	1,863,861	1,412,559	451,302	-	-	4,121,337
Federal government bonds	1,401,050	964,062	436,988	-	-	1,572,128

(In thousands of reais)

Foreign bonds	14,613	14,613	-	-	-	-
Corporate bonds	113,134	98,820	14,314	-	-	290,066
Foreign government bonds	335,064	335,064	-	-	-	2,259,143
Third-party portfolio	18,308,250	16,997,604	1,310,646	-	-	13,153,965
Federal government bonds	17,181,233	15,870,587	1,310,646	-	-	11,026,064
Corporate bonds	36,070	36,070	-	-	-	-
Foreign government bonds	1,090,947	1,090,947	-	-	-	2,127,901
Short position	1,878,967	1,419,640	459,327	-	-	1,349,134
Federal government bonds	1,443,511	984,184	459,327	-	-	1,056,754
Foreign bonds	67,624	67,624	-	-	-	-
Foreign government bonds	367,832	367,832	-	-	-	292,380
Interbank investments (*)	1,917,837	1,853,762	56,263	7,812	-	958,600
Interbank deposit certificates	1,406,962	1,342,887	56,263	7,812	-	916,457
Investments in foreign currency - overnight	510,875	510,875	-	-	-	42,143
	23,968,915	21,683,565	2,277,538	7,812	-	19,583,036

(*) Refers basically to interbank deposits in prime banks.

As at December 31, 2012 and 2011 the balances above are reported net of corresponding liabilities in the amount of R$ 9,201,258 and R$ 6,681,113, according note 4(f).

The collateral received in repurchase agreements amounts to R$ 31,050,116 (2011 - R$ 26,884,577), whereas the collateral granted amounts to R$ 62,749,389 (2011 - R$ 52,525,794).

8. Securities

a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio is as follows:

	2012							2011
	Cost	**Market**	**Up to 90 days**	**90 to 365 days**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Market**
Own portfolio	30,874,258	30,530,043	7,325,636	3,150,945	4,174,108	2,772,715	13,106,639	16,533,609
Federal government bonds	2,568,557	2,557,416	219,285	140,005	286,423	1,113,630	798,073	2,922,738
Brazilian foreign debt securities	20,911	20,724	-	8,125	3,074	-	9,525	-
Debentures/Eurobonds (i)	6,769,826	6,794,454	24,607	1,288,195	1,116,465	1,212,967	3,152,220	4,293,557
Bank certificates of deposit	117,895	117,895	-	64,330	53,565	-	-	-
Bank credit certificate	48,913	44,921	-	6,255	10,924	-	27,742	100,425
Investment fund quotes								
Shares	106,354	106,354	106,354	-	-	-	-	118,511
Multimarket	1,804,331	1,863,610	1,863,610	-	-	-	-	943,038
FIDC - Credit Rights	223,338	223,338	-	-	223,338	-	-	449,263
Real Estate	629,708	629,708	-	-	629,708	-	-	-
Equity Investment fund	622,918	622,918	-	-	622,918	-	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	3,562,263	3,016,600	3,016,600	-	-	-	-	3,584,455
Promissory notes	2,003,746	2,003,745	1,028,475	975,270	-	-	-	956,853
Certificate of real estate receivables	896,031	883,452	848	1,941	96,830	50,977	732,856	748,165
Foreign government bonds								
United States	756,706	754,080	-	53,977	245,755	37,403	416,945	421,831
United Kingdom	39,519	39,910	-	-	-	-	39,910	-
Mexico	408,480	401,967	401,967	-	-	-	-	-
Other	351,215	382,067	10,680	1,772	24,189	401	345,025	55,648
Foreign private securities	2,426,290	2,568,894	653,210	586,202	814,180	357,337	157,965	809,162
US Agencies	7,277,546	7,269,239	-	-	-	-	7,269,239	100,630
Financial bills	28,739	28,511	-	24,873	3,638	-	-	-
Other	210,972	200,240	-	-	43,101	-	157,139	188,809

(In thousands of reais)

Unrestricted portfolio	50,126	48,082	-	-	46,618	-	1,464	12,560
Federal government bonds	50,126	48,082	-	-	46,618	-	1,464	12,560
Subject to Central Bank - Brazil	52,503	53,515	-	-	-	-	53,515	-
Federal government bonds	52,503	53,515	-	-	-	-	53,515	-
Subject to repurchase agreements	33,119,071	32,854,409	5	1,200,807	8,595,139	5,441,818	17,616,640	21,055,304
Federal government bonds	9,273,954	8,926,665	5	-	2,955,360	2,207,566	3,763,734	5,876,773
Foreign government bonds								
United States	5,884,470	5,859,109	-	447,447	655,241	648,273	4,108,148	3,795,158
United Kingdom	2,235,010	2,257,062	-	-	1,442,257	-	814,805	1,181,677
Germany	1,027,380	1,049,942	-	-	402,200	115,562	532,180	275,426
Other	1,723,810	1,750,739	-	309,077	285,789	380,489	775,384	218,324
US Agencies	6,658,931	6,644,552	-	151,699	1,250,758	1,141,367	4,100,728	8,078,497
Debentures / Eurobonds (i)	2,427,488	2,422,255	-	180,911	1,293,080	441,033	507,231	888,799
Foreign private securities	3,888,028	3,944,085	-	111,673	310,454	507,528	3,014,430	740,650
Subject to guarantees	2,839,670	2,832,468	466,621	303,196	490,893	681,088	890,670	2,235,070
Federal government bonds	2,016,097	2,008,825	-	-	437,067	681,088	890,670	2,148,776
Investment fund quotes								
Multimarket	373	373	373	-	-	-	-	-
Shares	466,248	466,248	466,248	-	-	-	-	86,294
Foreign government bonds								
United States	342,763	342,866	-	303,196	39,670	-	-	-
Other	14,189	14,156	-	-	14,156	-	-	-
Trading securities	62,835,210	62,218,099	7,792,262	4,654,948	13,306,758	8,206,011	28,258,120	36,048,056
Held-to-maturity securities	4,100,418	4,100,418	-	-	-	689,610	3,410,808	3,788,487
	66,935,628	66,318,517	7,792,262	4,654,948	13,306,758	8,895,621	31,668,928	39,836,543

(ii) Substantially securities issued by Brazilian companies.

b. Trading securities

	2012							2011
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	30,099,261	29,755,046	7,325,636	3,150,945	4,174,108	2,592,957	12,511,400	14,157,694
Federal government bonds	1,793,560	1,782,419	219,285	140,005	286,423	933,872	202,834	546,823
Brazilian foreign debt securities	20,911	20,724	-	8,125	3,074	-	9,525	-
Debentures/Eurobonds (i)	6,769,826	6,794,454	24,607	1,288,195	1,116,465	1,212,967	3,152,220	4,293,557
Bank certificates of deposit	117,895	117,895	-	64,330	53,565	-	-	-
Bank credit certificate	48,913	44,921	-	6,255	10,924	-	27,742	100,425
Investment fund quotes								
Shares	106,354	106,354	106,354	-	-	-	-	118,511
Multimarket	1,804,331	1,863,610	1,863,610	-	-	-	-	943,038
FIDC - Credit Rights	223,338	223,338	-	-	223,338	-	-	449,263
Real Estate	629,708	629,708	-	-	629,708	-	-	-
Equity Investment fund	622,918	622,918	-	-	622,918	-	-	838,674
Other	-	-	-	-	-	-	-	1,850
Shares	3,562,263	3,016,600	3,016,600	-	-	-	-	3,584,455
Promissory notes	2,003,746	2,003,745	1,028,475	975,270	-	-	-	956,853
Certificate of real estate receivables	896,031	883,452	848	1,941	96,830	50,977	732,856	748,165
Foreign government bonds								
United States	756,706	754,080	-	53,977	245,755	37,403	416,945	421,831
United Kingdom	39,519	39,910	-	-	-	-	39,910	-
Italy	408,480	401,967	401,967	-	-	-	-	-
Other	351,215	382,067	10,680	1,772	24,189	401	345,025	55,648
Foreign private securities	2,426,290	2,568,894	653,210	586,202	814,180	357,337	157,965	809,162
US Agencies	7,277,546	7,269,239	-	-	-	-	7,269,239	100,630
Financial bills	28,739	28,511	-	24,873	3,638	-	-	-
Other	210,972	200,240	-	-	43,101	-	157,139	188,809
Unrestricted portfolio	50,126	48,082	-	-	46,618	-	1,464	12,560
Federal government bonds	50,126	48,082	-	-	46,618	-	1,464	12,560
Subject to Central Bank - Brazil	52,503	53,515	-	-	-	-	53,515	-
Federal government bonds	52,503	53,515	-	-	-	-	53,515	-
Subject to repurchase agreements	30,851,064	30,586,402	5	1,200,807	8,595,139	5,441,818	15,348,633	21,055,304

(In thousands of reais)

Federal government bonds	7,005,947	6,658,658	5	-	2,955,360	2,207,566	1,495,727	5,876,773
Foreign government bonds								
United States	5,884,470	5,859,109	-	447,447	655,241	648,273	4,108,148	3,795,158
United Kingdom	2,235,010	2,257,062	-	-	1,442,257	-	814,805	1,181,677
Germany	1,027,380	1,049,942	-	-	402,200	115,562	532,180	275,426
Other	1,723,810	1,750,739	-	309,077	285,789	380,489	775,384	218,324
US Agencies	6,658,931	6,644,552	-	151,699	1,250,758	1,141,367	4,100,728	8,078,497
Debentures / Eurobonds (i)	2,427,488	2,422,255	-	180,911	1,293,080	441,033	507,231	888,799
Foreign private securities	3,888,028	3,944,085	-	111,673	310,454	507,528	3,014,430	740,650
Subject to guarantees	1,782,256	1,775,054	466,621	303,196	490,893	171,236	343,108	822,498
Federal government bonds	958,683	951,411	-	-	437,067	171,236	343,108	736,204
Investment fund quotes								
Multimarket	373	373	373	-	-	-	-	-
Shares	466,248	466,248	466,248	-	-	-	-	86,294
Foreign government bonds								
United States	342,763	342,866	-	303,196	39,670	-	-	-
Other	14,189	14,156	-	-	14,156	-	-	-

c. Held-to-maturity securities

	2012						2011
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Own portfolio	774,997	-	-	-	179,758	595,239	2,375,915
Federal government bonds	774,997	-	-	-	179,758	595,239	2,375,915
Subject to re purchase	2,268,007	-	-	-	-	2,268,007	-
Federal government bonds	2,268,007	-	-	-	-	2,268,007	-
Subject to guarantees	1,057,414	-	-	-	509,852	547,562	1,412,572
Federal government bonds	1,057,414	-	-	-	509,852	547,562	1,412,572

If measured at fair value, held-to-maturity securities would be reported with a positive adjustment of R$ 751,708 (2011 – R$ 38,503).

The Bank has financial capacity for maintaining such assets to maturity.

d. Reclassification of securities

Management classifies securities according to its trading intention. No reclassifications or changes in intention were made by Management during the period.

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)

Transactions conducted in Brazil are traded, registered or held in custody by BM&F BOVESPA and CETIP S.A. – OTC Clearing House; 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 December 31, 2012 and 2011, the Bank does not have derivative financial instruments classified as hedge accounting.

a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in off balance accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, consider the provisions of BACEN Circular Letter 3389/08, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with term in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, NDF and DF derivatives in the table below.

	2012				2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Futures market					
Long position	44,675,094	51,523,060	8,630,416	104,828,570	151,410,113
Currency	2,067,595	13,347	2,361,465	4,442,407	4,175,540
Interest rate	41,866,075	51,159,505	6,153,718	99,179,298	146,119,068
Commodities	272,868	190,802	2,396	466,066	262,961
Index	432,437	144,856	111,698	688,991	840,022
Equities	36,119	14,550	1,139	51,808	12,522
Short position	13,243,067	1,190,696	9,692,472	24,126,235	15,556,377
Currency	3,821,804	197,283	3,508,965	7,528,052	4,781,697
Interest rate	7,286,092	923,881	6,112,190	14,322,163	7,613,219
Commodities	538,557	4,306	-	542,863	246,924
Index	1,521,090	64,075	71,317	1,656,482	680,824
Equities	75,524	1,151	-	76,675	2,233,713
Swap					
Long position	81,447,265	29,571,224	8,460,307	119,478,796	43,380,473
Currency	2,108,230	292,853	1,211,234	3,612,317	1,580,973
Interest rate	77,160,969	28,538,751	6,273,743	111,973,463	33,077,864
Index	481,403	653,822	886,711	2,021,936	6,674,627
Equities	1,003,806	82,426	88,619	1,174,851	1,102,414
Commodities	75,342	-	-	75,342	18,817
Other	617,515	3,372	-	620,887	925,778
Short position	81,447,265	29,571,224	8,460,307	119,478,796	43,380,473
Currency	3,775,284	814,042	2,380,219	6,969,545	4,434,708
Interest rate	75,162,295	27,759,915	4,610,611	107,532,821	2,088,538
Index	1,206,662	868,433	1,368,033	3,443,128	35,221,673
Equities	486,712	95,463	4,087	586,262	181,420
Commodities	7,780	33,371	-	41,151	3,837
Other	808,532	-	97,357	905,889	1,450,297
Credit Derivatives					
Long position	40,870	-	1,105,748	1,146,618	1,305,128
Sovereign	40,870	-	524,554	565,424	1,185,894
Corporate	-	-	581,194	581,194	119,234

(In thousands of reais)

	2012				2011
	Up to 6 months	**6 to 12 months**	**Over 1 year**	**Total**	**Total**
Short position	490,440	599,256	2,883,526	3,973,222	3,138,689
Sovereign	265,655	497,081	401,548	1,164,284	2,441,152
Corporate	224,785	102,175	2,481,978	2,808,938	697,537
Non-deliverable forward - NDF					
Long position	24,740,767	3,364,368	6,161,968	34,267,103	16,727,162
Currency	24,133,111	3,049,686	1,227,003	28,409,800	4,290,638
Commodities	326,017	103,257	2,245,192	2,674,466	-
Index	7,051	3,943	2,148,841	2,159,835	-
Interest rate	274,588	207,482	540,932	1,023,002	12,436,524
Short position	24,740,766	3,364,368	6,161,969	34,267,103	16,727,162
Currency	24,016,133	2,514,226	999,799	27,530,158	15,639,514
Commodities	31,302	27,096	2,779,597	2,837,995	-
Index	240,862	60,561	1,944,526	2,245,949	1,601
Interest rate	452,469	762,485	438,047	1,653,001	797,836
Equities	-	-	-	-	227,455
Other	-	-	-	-	60,756
Deliverable forward - DF					
Long position	5,123,339	219,311	19,014	5,361,664	2,054,980
Currency	204,696	-	-	204,696	2,054,980
Commodities	4,918,643	219,311	19,014	5,156,968	-
Short position	5,123,340	219,311	19,013	5,361,664	2,054,980
Currency	5,123,340	219,311	19,013	5,361,664	2,054,980
Security forwards					
Long position	3,075,709	-	-	3,075,709	1,479,074
Interest rate	1,503,668	-	-	1,503,668	739,537
Equities	101,497	-	-	101,497	-
Government bonds	1,470,544	-	-	1,470,544	739,537
Short position	3,075,709	-	-	3,075,709	1,479,074
Interest rate	1,572,041	-	-	1,572,041	739,537
Government bonds	1,503,668	-	-	1,503,668	739,537
Options market					
Call option	24,594,498	3,046,010	95,282	27,735,790	39,988,360
Equities	2,199,762	187,238	74,720	2,461,720	4,268,996
Commodities	537,032	-	-	537,032	24,386
Index	10,253,577	2,363,415	-	12,616,992	946,381
Currency	412,321	156,084	-	568,405	19,349,960
Interest rate	11,189,806	339,273	20,562	11,549,641	15,396,308
Other	2,000	-	-	2,000	2,330
Put option	43,616,509	1,561,290	5,887,498	51,065,297	39,381,862
Equities	1,434,084	407,484	21,457	1,863,025	539,837
Commodities	82,966	-	-	82,966	66,361
Index	1,651,126	922,300	5,316,000	7,889,426	313,270
Currency	500,770	223,511	142,850	867,131	18,926,304
Interest rate	36,921,027	7,995	20,191	36,949,213	18,024,844
Other	3,026,536	-	387,000	3,413,536	1,511,245
Call option	32,182,342	3,166,641	229,837	35,578,820	42,873,761
Equities	1,337,696	178,941	28,190	1,544,827	302,027
Commodities	637,725	-	-	637,725	24,376
Index	16,207,153	1,661,864	57,327	17,926,344	6,187,006
Currency	513,639	323,705	142,850	980,194	25,561,644
Interest rate	13,486,129	1,002,131	1,470	14,489,730	10,798,707

(In thousands of reais)

	2012				2011
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Put option	42,818,985	1,280,690	5,503,856	49,603,531	29,114,425
Equities	950,940	56,780	8,905	1,016,625	233,026
Commodities	98,284	-	-	98,284	64,843
Index	10,601,378	319,553	5,337,667	16,258,598	969,037
Currency	283,400	234,623	155,951	673,974	19,523,114
Interest rate	30,884,983	669,734	1,333	31,556,050	8,324,405

b. By cost and market value

	2012					2011
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	21,979	21,980	18,627	1,912	1,441	22,517
Short position	37,353	37,354	30,084	4,100	3,170	15,900
Swaps						
Long position	337,365	479,957	160,989	108,038	210,930	267,019
Short position	398,323	584,632	256,702	50,097	277,833	466,791
Credit derivatives						
Long position	82,032	63,881	434	2,740	60,707	151,046
Short position	43,100	48,595	493	-	48,102	128,264
Non-deliverable forward - NDF						
Long position	805,377	815,616	79,187	117,631	618,798	266,937
Short position	637,391	641,503	88,670	42,939	509,894	74,379
Deliverable forward - DF						
Long position	2,872,949	2,880,141	2,757,581	103,546	19,014	491,985
Short position	2,890,757	2,890,434	2,766,635	103,208	20,591	491,120
Security forwards						
Long position	2,878,723	2,980,219	2,980,219	-	-	1,479,073
Short position	2,873,648	2,974,830	2,974,830	-	-	1,479,073
Options market						
Long position	350,209	642,376	411,806	183,036	47,534	378,783
Short position	422,509	886,334	643,203	194,866	48,265	298,262
	7,348,634	**7,884,170**	**6,408,843**	**516,903**	**958,424**	**3,057,360**
	7,303,081	**8,063,682**	**6,760,617**	**395,210**	**907,855**	**2,953,789**

c. Notional by counterparty

	2012					2011
	BM&F Bovespa	Financial Institutions (*)	Companies	Individuals	Total	Total
Futures market						
Long position	99,006,168	5,822,402	-	-	104,828,570	151,410,113
Short position	15,493,774	8,632,461	-	-	24,126,235	15,556,377
Swap						
Long position	4,953,746	106,386,330	8,138,720	-	119,478,796	43,380,473
Short position	4,953,746	106,386,330	8,138,720	-	119,478,796	43,380,473
Credit derivatives						
Long position	-	1,146,618	-	-	1,146,618	1,305,128
Short position	-	3,973,222	-	-	3,973,222	3,138,689

(In thousands of reais)

	2012					2011
	BM&F Bovespa	**Financial Institutions (*)**	**Companies**	**Individuals**	**Total**	**Total**
Non-deliverable forward - NDF						
Long position	-	26,061,494	8,205,609	-	34,267,103	16,727,162
Short position	-	26,061,494	8,205,609	-	34,267,103	16,727,162
Deliverable forward - DF						
Long position	-	5,259,129	102,535	-	5,361,664	2,054,980
Short position	-	5,259,129	102,535	-	5,361,664	2,054,980
Security forwards						
Long position	101,497	2,974,212	-	-	3,075,709	1,479,074
Short position	101,497	2,974,212	-	-	3,075,709	1,479,074
Options market						
Long position	62,643,876	15,474,035	648,227	34,949	78,801,087	79,370,222
Short position	66,111,294	16,508,310	2,522,512	40,235	85,182,351	71,988,186
	166,705,287	**163,124,220**	**17,095,091**	**34,949**	**346,959,547**	**295,727,152**
	86,660,311	**169,795,158**	**18,969,376**	**40,235**	**275,465,080**	**154,324,941**

(*) Includes investments funds.

d. Credit derivatives

	2012	2011
Credit swap		
Transferred risk		
Sovereign	565,424	1,185,894
Corporate	581,194	119,234
Risk received		
Sovereign	(1,164,284)	(2,441,152)
Corporate	(2,808,938)	(697,537)
	(2,826,604)	(1,833,561)

During the period, there were no credit events related to triggering facts provided for in agreements.

According to CMN Resolution 3490, the effect on the calculation of the Required Reference Shareholders' Equity (PRE) as at December 31, 2012 is R$ 41,213 (2011 – R$ 72,129).

e. Guarantee margins

Guarantee margins in transactions traded on BM&FBOVESPA with derivatives comprises federal government and sovereign bonds totaling R$ 1,846,983 (2011 – R$ 2,187,464) and shares in the amount of R$ 465,756 (2011 – R$ 86,294).

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, Brazilian government bonds traded on the secondary or derivative market and securities traded abroad.

(In thousands of reais)

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. This data is 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. This data is 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 BOVESPA. Fund quotas are valued based on quota prices disclosed by the custodian.

- Financial assets at fair value through profit (loss): The Company 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 said Resolution.

Loans and other operations with credit characteristics are as follows:

a. Loans

i. By type of credit

	2012		2011	
Type of credit	**Balance**	**Allowance**	**Balance**	**Allowance**
Loans	5,141,670	(135,702)	2,987,490	(77,428)
Financing	1,586,294	(41,338)	1,399,992	(4,873)
FINAME/BNDES	45,214	(3,641)	44,647	(47)
Securities financing	521,045	-	315,299	-
Total	7,294,223	(180,681)	4,747,428	(82,348)

(In thousands of reais)

ii. By risk level and maturity

		2012					2011	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	1,107,057	254,323	995,381	2,356,761	-	2,448,139	-
A	-	674,927	424,556	1,314,949	2,414,432	(12,072)	1,494,473	(10,136)
B	1,140	480,128	238,030	1,201,991	1,921,289	(19,215)	536,161	(5,362)
C	8,485	119,702	34,359	91,622	254,168	(9,784)	56,095	(1,683)
D	-	50,379	46,077	75,086	171,542	(17,154)	138,256	(13,826)
	10,227	3,804	3,804	38,147	55,982	(16,795)	-	-
F	-	11,458	-	-	11,458	(5,729)	24,212	(12,106)
G	19,255	5,796	3,810	-	28,861	(20,203)	36,190	(25,333)
H	51,803	14,193	13,699	35	79,730	(79,729)	13,902	(13,902)
Total	90,910	2,467,444	1,018,658	3,717,211	7,294,223	(180,681)	4,747,428	(82,348)

iii. By activity sector

Sector	2012	2011
Commerce	97,780	31,908
Industry	2,070,372	872,011
Services	3,992,435	3,174,487
Rural	463,259	313,494
Individuals	670,377	355,528
Total	7,294,223	4,747,428

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

		2012					2011	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	82,587	300,709	202,979	586,275	-	635,547	-
A	-	314,634	-	200,781	515,415	(2,577)	-	-
B	-	111,488	158,196	52,227	321,911	(3,219)	26,061	(261)
C	-	-	-	-	-	-	175	(5)
D	9	466	4	-	479	(48)	-	-
F	196	-	-	-	196	(98)	-	-
Total	205	509,175	458,909	455,987	1,424,276	(5,942)	661,783	(266)
Securities and credits receivable				1,268,463	(5,163)	661,783	(266)	
Transferred Loans					155,813	(779)	-	-

ii. By activity sector

Sector	2012	2011
Commerce	187,881	-
Industry	77,770	42,641
Services	1,158,625	619,142
Total	1,424,276	661,783

(In thousands of reais)

c. Advances in foreign exchange contracts

i. By risk level and maturity

		30/06/2014					31/12/2013	
		Maturity						
Risk level	Overdue	Up to 6 months	6 to 12 months	Over 12 months	Total	Allowance	Total	Allowance
AA	-	38,722	-	-	38,722	-	97,578	-
A	-	205,239	133,185	-	338,424	(1,692)	276,881	(1,384)
B	-	71,198	-	-	71,198	(712)	190,037	(1,900)
C	-	31,721	31,478	-	63,199	(2,427)	-	-
Total	-	346,880	164,663	-	511,543	(4,831)	564,496	(3,284)

ii. By activity sector

Sector	2012	2011
Commerce	-	5,885
Industry	175,617	32,954
Services	335,926	525,657
Total	511,543	564,496

d. Credit concentration

	2012	%	2011	%
Largest debtors				
10 largest debtors	3.398.275	37%	2.541.989	43%
20 following largest debtors	2.599.354	28%	1.829.425	31%
50 following largest debtors	2.393.146	26%	1.187.123	20%
100 following largest debtors	800.248	9%	415.170	6%
200 following largest debtors	39.019	0%	-	0%
	9,230,042	100%	5,973,707	100%

e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics in the periods were as follows:

	2012	2011
Opening balances	(85,898)	(81,580)
Reversal/(accrual) of allowance	(112,768)	(18,190)
Exchange rate variation	(1,213)	(417)
Credits written off as loss	8,425	14,289
Closing balances	(191,454)	(85,898)
Breakdown of closing balances		
Allowance for loan losses	(180,681)	(82,348)
Allowance for transferred loans	(779)	-
Allowance for other receivables	(5,163)	(266)
Allowance for advances on foreign exchange contracts	(4,831)	(3,284)
	(191,454)	(85,898)

(In thousands of reais)

Changes in the allowance for other receivables without loan characteristics in the periods were as follows:

	2012	2011
Opening balances	(659,581)	(30,253)
Reversal/(accrual) of allowance	(355,529)	(11,832)
	-	(617,496)
Exchange rate variation	(2,112)	-
Closing balances (i)	(1,017,222)	(659,581)

(ii) Included R $ 53,103 relating to provision for stand-by letters and guarantees granted, which was recorded as a liability

Allowances for other receivables with loan characteristics refer to the acquisition of credit rights, as illustrated in item (b) of this note. Allowances for other receivables without loan characteristics (note 12(b)) basically refer to provision for stand-by letters and guarantees granted (note 25(b)).

f. Renegotiation/recovery of credits written off as loss

In the year ended December 31, 2012, the Bank renegotiated credit loans in the amount of R$ 108,890 (2011 - R$ 88,718); and recovered amounts relating to credit written off in previous period in the amount of R$ 1,740 (2011 – R$ 19,566).

g. Transferred loan

In year ended December 31, 2012, the Bank transferred loans and retained substantially all the risks and benefits in the amount of R$ 342,657 (2011 – R$ 295,783). As of December 31, 2012, the total amount outstanding of these loans is R$ 155,813 (2011 – zero).

11. Other receivables/obligations

a. Foreign Exchange portfolio

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Unsettled Exchange purchased/sold	964,100	1,130,928	753,727	101,311
Rights on foreign exchange sales	1,151,522	-	101,485	-
(-) Advances on foreign Exchange contracts (Note 10 (c))	14,336	(497,207)	19,037	(545,459)
(-) Advances on foreign currency received	(3,120)	-	(94,335)	-
(-) Advances in local currency received	(228)	-	(3,739)	-
Liability for foreign exchange purchase	-	954,658	-	668,529
	2,126,610	1,588,379	776,175	224,381
Current	2,126,610	1,588,379	145,565	224,381
Long-term	-	-	630,610	-

Guarantees for foreign exchange transactions carried out through BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange (BM&FBOVESPA), are represented by federal government bonds in the amount of R$ 519,729 (2011 - R$ 18,422).

b. Securities trading and brokerage

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Clearing houses	304,421	60,681	30,809	99,295

(In thousands of reais)

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Debtors/creditors – pending settlement account	3,575,231	6,418,284	4,372,440	3,727,062
Creditors for gold loans	-	201,734	-	-
Creditors for stock loans	-	1,423,925	-	1,613,269
Securities trading and brokerage	6,089	6,470,975	513	2,490,408
	3,885,741	14,575,599	4,403,762	7,930,034
Current	3,885,607	14,572,799	4,402,981	7,921,906
Long-term	134	2,800	781	8,128

The item "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&FBOVESPA, and abroad through prime brokers, on the Bank's behalf or on behalf of third parties.

The item "Securities trading and brokerage" basically represents, in assets, swap intermediation transactions, and in liabilities, it refers basically to the sale of shares to be settled.

12. Other receivables

a. Income receivable

	2012	2011
Dividends and bonus	16,834	12,083
Receivables from services rendered	353,141	208,608
Management and performance fees for investment funds and portfolio	559,476	145,974
Distribution fees	14,732	12,753
Commissions on guarantees	8,233	2,450
Other	225	9,614
	952,641	391,482
Current	952,641	356,677
Long-term	-	34,805

b. Sundry

	2012	2011
Deferred tax assets (Note 18)	1,483,961	1,318,256
Judicial deposits	654,997	530,668
Taxes to offset	260,914	220,499
Tax incentive options	1,317	1,317
Securities and credits receivable		
With loan characteristics (Note 10(b))	1,268,463	661,783
Without loan characteristics (i)	2,537,090	3,090,260
Sundry - Brazil	931,918	1,312,799
Other	186,947	1,624
	7,325,607	7,137,206
Current	5,377,431	5,240,085
Long-term	1,948,176	1,897,121

(i) Refer to the acquisition of payroll loan and vehicle financing portfolios through credit rights investment funds (FIDC), which were recognized in this item, taking into consideration that: (a) the acquisition of the portfolio did not consider the individual granting criteria of each agreement, and (b) Portfolio management is performed on a consolidated basis.

BANCO BTG PACTUAL S.A. and subsidiaries
Notes to the consolidated financial statements
Years ended December 31
(In thousands of reais)

13. Investments in associates and jointly-controlled entities

	Associates and jointly controlled e			
	Shareholders Equity		Net income	
	2012	2011	2012	2011
In Brazil				
Banco Panamericano S.A.	2,489,312	1,398,350	(495,961)	11,1
Warehouse 1 Empreendimentos Imobs S.A.	70,307	40,089	28,986	(3,23
Max Casa XIX Empreendimentos Imobs S.A.	17,615	14,358	3,258	(2,17
ACS Omicron Empreendimentos Imobs S.A.	20,034	18,414	1,620	3,8
BR Properties S.A. (i) (iii)	7,943,692	-	1,227,428	
Vivere Soluções e Serviços S.A. (iv)	12,799	29,997	(169)	5,0
One Properties S.A. (i)	-	658,287	-	(200,44

	Changes in investments				
	2011	Aquisition / Increase/ (Sales)	Dividends paid	Equity in earnings of subsidiaries	Incorp c inves
In Brazil					
Banco Panamericano S.A.	461,953	546,281	-	(160,373)	
Goodwill - Banco Panamericano. (iii)	(39,024)	-	-	3,711	
Warehouse 1 Empreendimentos Imobs S.A.	14,031	-	(10,500)	21,076	
Ágio - Warehouse 1 Empreendimentos Imobs S.A.	14,136	-	-	(14,136)	
Max Casa XIX Empreendimentos Imobs S.A.	7,179	-	-	1,629	
ACS Omicron Empreendimentos Imobs S.A.	8,239	-	-	725	
Goodwill - ACS Omicron Empreendimentos Imobs S.A.	6	-	-	(6)	
BR Properties S.A. (i) (ii)	-	(240,007)	(16,936)	382,679	1,
One Properties S.A. (i)	329,078	-	-	15,429	(3
Goodwill - One Properties S.A.	320,956	-	-	-	(3
Vivere Soluções e Serviços S.A. (iv)	8,738	-	-	(4,948)	
	1,125,292	306,274	(27,436)	245,786	

(ii) See corporate restructuring described in Note 2;
(iii) As described in Note 2, the investment in the consolidated subsidiary Saira and its corresponding goodwill totaling R$ 1,436 million at into equity investment in BR Properties. During the period, the Bank recognized equity earnings of R$ 383 million net of allowance for R$ 402 million. The impairment was recorded based on Resolution No. 3566 of the Central Bank (CPC 01 - Reduction in Recoverable statement as equity in the earnings of associates, to reflect the probable realizable value of the shares of the affiliate;
(iv) Realization of negative goodwill of R$ 3,711 in the period, related to the dilution of interest on the investment in Banco Panamericano
(v) In 2012, BTG Pactual Vivere Participações S.A. were merged by Vivere Soluções e Serviços S.A.

(In thousands of reais)

a. Banco Panamericano S.A

On January 31, 2012 the Bank contributed capital increase to Panamericano S.A. in the amount of R$ 495,477. This capital increase was made by conversion of advances for capital increase into capital stock, realized previously on December 11, 2011.

The subscription rights of non-controlling shareholder's was exercised on May 10, 2012 and the Bank additionally contributed with R$ 50,804 that refers to the acquisition of preferred shares. After this event the Bank holds 34.06% of interest in Panamericano S.A.

14. Intangible assets

	Changes in Intangible assets					
	2011	Acquisitions (net)	Amortization expenses / derecognition	Exchange variation	Transfer (i)	2012
Goodwill	**173,570**	**1,022,426**	**(445,584)**	**-**	**-**	**750,412**
Cost	173,570	1,022,426	(345,643)	-	-	850,353
Amortization	-	-	(99,941)	-	-	(99,941)
Other intangible assets	**29,972**	**40,837**	**(30,429)**	**484**	**64,068**	**104,932**
Cost	35,370	40,837	(22,095)	(573)	64,068	117,607
Amortization	(5,398)	-	(8,334)	1,057	-	(12,675)
	203,542	1,063,263	(476,013)	484	64,068	855,344

(i) Refers to the transfer of "leasehold improvements – in progress" registered in property assets to "leasehold improvements "in the other intangible assets.

"Other intangible assets "refer basically software and leasehold improvements. The other intangible assets amortization periods are 5 years.

Amortization / derecognition of goodwill relate basically to: (i) R$ 394,253 described in note 22 (ii) R$ 51,331 relating to merge of investment.

The acquisitions of goodwill are disclosed in note 2.

(In thousands of reais)

15. Fund raising and loans and onlending

a. Summary

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	14,624,007	7,660,175	5,209,187	606,154	1,146,098	2,393	14,211,060
Open market funding	52,650,667	50,502,596	1,938,506	61,606	-	147,959	39,060,989
Funds from securities issued and accepted	8,480,089	1,659,629	1,259,012	3,261,555	1,750,998	548,895	3,774,631
Loans and onlending	1,904,736	391,627	1,011,668	7,971	14,879	478,591	919,716
Subordinated debts	6,246,109	-	-	-	1,391,826	4,854,283	4,158,295
	83,905,608	60,214,027	9,418,373	3,937,286	4,303,801	6,032,121	62,124,691

b. Deposits

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	283,551	283,551	-	-	-	-	1,574,208
Interbank deposits	627,078	504,176	74,530	24,511	21,468	2,393	576,405
Time deposits	13,713,378	6,872,448	5,134,657	581,643	1,124,630	-	12,060,447
	14,624,007	7,660,175	5,209,187	606,154	1,146,098	2,393	14,211,060

c. Open market funding

Open market funding is underlined on the following securities:

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	32,227,539	30,876,187	1,141,787	61,606	-	147,959	22,838,450
Federal government bonds	9,195,438	9,047,479	-	-	-	147,959	5,885,970
Corporate securities	2,369,990	1,166,597	1,141,787	61,606	-	-	791,631
Securities issued abroad	9,557,551	9,557,551	-	-	-	-	16,160,849
Foreign government bonds	11,104,560	11,104,560	-	-	-	-	-
Third-party portfolio	16,837,363	16,837,363	-	-	-	-	13,692,426
Federal government bonds	15,723,705	15,723,705	-	-	-	-	11,572,280
Corporate bonds	31,984	31,984	-	-	-	-	3,017
Securities issued abroad	-	-	-	-	-	-	2,112,293
Foreign government bonds	1,081,674	1,081,674	-	-	-	-	4,836

(In thousands of reais)

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Unrestricted portfolio	3,585,765	2,789,046	796,719	-	-	-	2,530,113
Federal government bonds	3,218,478	2,421,759	796,719	-	-	-	2,239,367
Corporate bonds	367,287	367,287	-	-	-	-	290,746
Securities issued abroad	52,650,667	50,502,596	1,938,506	61,606	-	147,959	39,060,989

As at December 31, 2012 and 2011 the balances above are reported net of corresponding liabilities in the amount of R$ 9,201,258 and R$ 6,681,113, according note 4(f).

d. Funds from securities issued and accepted

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	5,805,972	619,253	1,131,120	3,261,555	245,149	548,895	2,624,991
Financial bills	1,827,801	619,253	914,111	290,635	3,802	-	932,464
Mortgage bonds/letters of credit for agribusiness	3,978,171	-	217,009	2,970,920	241,347	548,895	1,692,527
Securities – abroad	2,674,117	1,040,376	127,892	-	1,505,849	-	1,149,640
Medium term notes	1,556,650	16,457	35,212	-	1,504,981	-	1,143,041
Credit linked notes	1,117,467	1,023,919	92,680	-	868	-	6,599
	8,480,089	1,659,629	1,259,012	3,261,555	1,750,998	548,895	3,774,631

e. Loans and onlending

	2012						2011
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	1,394,768	391,353	1,003,415	-	-	-	875,094
Foreign currency	695,251	391,353	303,898	-	-	-	541,493
Loans abroad	699,517	-	699,517	-	-	-	333,601
Onlending in Brazil – official institution	509,968	274	8,253	7,971	14,879	478,591	44,622
BNDES	509,968	274	8,253	7,971	14,879	478,591	44,622
	1,904,736	391,627	1,011,668	7,971	14,879	478,591	919,716

Borrowing and transfers have rates between 0.9% per year to 8.58% per year.

f. Subordinated debt

As at December 31, 2012, the outstanding balance of this item was R$ 6,246,109 (2011 – R$ 4,158,295), as represented by (i) financial bills issued on April 15, 2011, totaling R$ 4.652.973, with repayment every six months and maturity beginning October 2016 and ending April 15, 2021, indexed to fixed rates plus inflation; and (ii) subordinated notes issued on September 25th, 2012 in the amount of R$ 1,593,136 (2011 – zero) and due September 2022, which bear interest at 5.75% per year.

(In thousands of reais)

16. Other obligations

a. Social and statutory

	2012	2011
Dividends and profit sharing payable	382,340	176
Employees' profit sharing	186,514	449,842
Other benefits	626,746	103,188
	1,195,600	553,206
Current	1,118,925	552,761
Long term	76,675	445

b. Tax and social security

	2012	2011
Tax and contributions to be collected	151,079	116,081
Tax and contribution payable	610,777	83,718
Deferred social contribution and income tax	65,330	48,720
Suspended-payment taxes and others tax liabilities (Note 17 (c))	644,702	511,421
	1,471,888	759,940
Current	818,519	238,783
Long term	653,369	521,157

c. Sundry

	2012	2011
Payable for acquisition of assets and rights (i)	574,451	569,694
Accounts payable - personnel	200,737	84,697
Accounts payable - suppliers	125,753	46,669
Accounts payable - other	287,802	70,005
Provision for contingent liabilities (Note 17(c))	29,123	27,719
Other creditors - Brazil	639,232	23,563
Other creditors - abroad	65,312	56,180
Obligations related to transferred loans	120,442	-
Consolidated funds - Non-controlling interest	165,792	-
Other	310	1,186
	2,208,954	879,713
Current	1,336,557	279,206
Long term	872,397	600,507

(i) Refers to amounts payable for the acquisition of investments (substantially Panamericano and COOMEX)

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, whenever necessary. Managements judgment is based on the opinion of its internal and external legal counsel regarding the expected outcome for each proceeding.

(In thousands of reais)

a. Contingent assets

As at December 31, 2012 and 2011, 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 accrued 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 unfavorable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are accrued 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 counsel and the court level to which each proceeding was submitted.

c. Breakdown and changes in provisions in the period

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recognized for such proceedings at December 31, 2012 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes in the period are as follows:

	2012				2011
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the period	511,421	20,653	7,066	539,140	446,014
Recognition	133,478	2,404	6,480	142,362	105,541
Write-off	(197)	(3,918)	(3,562)	(7,677)	(12,415)
Balance at the end of the period	644,702	19,139	9,984	673,825	539,140
Suspended-payment taxes and other taxes contingencies				644,702	511,421
Provision for contingent liabilities				29,123	27,719

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities (Note 16(b))

The Bank's and its subsidiaries have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by the internal counsel are 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, 2012, Banco BTG Pactual and its subsidiaries were parties to tax lawsuits with a possible outcome, which were not recorded in provision. The description of the main lawsuits is 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$ 872.9 million. These lawsuits have guarantee of indemnity clause as it refers to the period before the acquisition of the Bank by the current controllers.

- Administrative proceedings challenging the tax assessment by the São Paulo Local Government, charging ISS on services provided in Rio de Janeiro, as the tax authority from the city of São Paulo understands that such services were effectively rendered in São Paulo. The amount claimed is R$ 91.9 million.

- Lawsuits relating to the demutualization and IPO of Bovespa and BM&F, challenging the taxation of PIS, Cofins, income tax and social contribution on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$ 87.5 million.

- In October 2012, we received a tax assessment totaling R$1,970 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. 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. We have filed an appeal of this tax assessment. 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. As a result, we do 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 for such losses. Accordingly, we do not expect to incur any material losses in connection with this matter.

ii. Provision for other contingent liabilities (Note 16(c))

As at December 31, 2012 and 2011, BTG Pactual Group was parties to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provision. In addition, there is a challenge of Central Bank of Brazil and day-trade derivatives transactions, from 2002 to 2004 that potentially favored foreign investor over the bank. The value concerning the results of operations on claimed is US$ 189 million.

(In thousands of reais)

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:

	2012	2011
Income tax and social contribution		
Tax base	2,369,831	963,881
Income before taxes and profit sharing	3,748,038	1,684,110
Statutory profit sharing	(938,207)	(401,229)
Interest on equity	(440,000)	(319,000)
Total charge of income tax and social contribution at the current rates	(947,932)	(385,552)
Permanent (additions) / deductions in taxation calculation	(24,589)	73,399
Equity in the earnings of subsidiaries and associated and jointly controlled companies in Brazil	98,314	(1,412)
Income/(loss) of foreign exchange on foreign investments	35,768	58,904
Foreign earnings	(83,197)	-
Dividends	25,237	15,360
Other Permanent (additions) / deductions	(100,711)	547
Temporary (additions) / deductions on the taxation calculation	(124,384)	248,873
Reversal of provision for goodwill on the acquisition of investments	119,633	373,400
Marked-to-market evaluation of securities and derivatives	(163,966)	10,630
Allowance for loan losses	(69,647)	(8,353)
Tax contingencies and provision for suspended-payment taxes	(41,365)	(24,574)
Offset of tax losses carry forward - Abroad	88,504	(81,352)
Other provisions	(57,543)	(20,878)
Offset of tax losses carry forward - Brazil	203,742	(107,986)
Tax and social contribution expense	(893,163)	(171,266)
Temporary differences		
Recognition / (reversal) of the period	175,655	(300,343)
Recognition / (reversal) on goodwill	84,247	481,369
Recognition / (reversal) of tax losses carry forward	(292,246)	189,339
Recognition of loss on investment abroad	198,049	-
Expenses) / revenues from deferred taxes	165,705	370,365
Total revenues / (expenses)	(727,458)	199,099

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	**2011**	**Recognition**	**Realization**	**2012**
Tax loss carryforwards	351,772	10,393	(302,639)	59,526
Allowance for loan losses	76,033	104,358	(34,711)	145,680
Marked-to-market evaluation of securities and derivatives	3,576	938,452	(774,486)	167,542
Goodwill on the acquisition of investment	620,412	84,247	(154,108)	550,551
Tax contingencies and provision for suspended-payment taxes	129,049	41,365	-	170,414
	-	198,049	-	198,049
Other temporary differences	137,414	144,745	(89,960)	192,199
	1,318,256	1,521,609	(1,355,904)	1,483,961

Income tax and social contribution	**2010**	**Recognition (i)**	**Realization**	**2011**

Tax loss carryforwards	166,030	189,564	(3,822)	351,772
Allowance for loan losses	67,680	73,788	(65,435)	76,033
Marked-to-market evaluation of securities and derivatives	14,202	442,896	(453,522)	3,576
Goodwill on the acquisition of investment	457,631	536,182	(373,401)	620,412
Tax contingencies and provision for suspended-payment taxes	104,474	24,575	-	129,049
Other temporary differences	62,235	78,568	(3,389)	137,414
	872,252	1,345,573	(899,569)	1,318,256

(i) In September, 2011, the wholly owned subsidiary, BTG Pactual Empresa Operadora do Mercado Energético Ltda.(Coomex) conducted a reverse merger transaction from its parent BTG Pactual Agente Comercializador de Energia Ltda. As a result, the Bank registered a tax benefit in the amount of R$ 54,813.

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**
2013	524,644	188,613	713,257
2014	211,271	68,962	280,233
2015	199,069	-	199,069
2016	193,838	-	193,838
2017 onwards	97,564	-	97,564
Total	1,226,386	257,575	1,483,961
Present value	1,087,429	173,206	1,260,635

Deferred income tax and social contribution liabilities amounts to R$ 65,330 (2011 - R$ 48,720) and corresponds basically to unrealized market-to-market valuation on securities (note 16(b)).

19. Shareholders equity

a. Capital

As at December 31, 2012, fully subscribed and paid in capital consists of 2,714,902,212 shares (2011 – 2,400,000,000), of which 1,390,671,404 common shares (December 31, 2011 – 1,200,160,000), 508,380,404 class A preferred shares (December 31, 2011 – 298,445,596) and 815,850,404 class B preferred shares (December 31, 2011 – 901,394,404), all no-par, registered shares.

In the special shareholders meeting held on December 31, 2011 approved the capital increase of R$ 271,150 without issuing shares. This decision was approved by BACEN on April 16, 2012.

In the special shareholders meeting held on April 02, 2012 the capital increase was approved without an issuance of shares in the total amount of R$ 650,000 through the incorporation of the statutory reserve. In the board of directors meeting held on April 24, 2012 was approved (i) the capital increase of R$ 2,070,000 was approved through the issuance of 82,800,000 common shares and 165,600,000 preferred shares class A and (ii) conversion of 85,544,000 Class B preferred shares into common shares. These decisions were approved by the central bank on June 29, 2012.

In the meeting of the Board of Directors held on November 13, 2012 approved the capital increase of R$ 391,875, through the issuance of 19,865,336 common shares and 39,730,672 preferred class A shares This decision was approved by the Brazilian Central Bank on December 17, 2012.

In the meeting of the Board of Directors held on December 20, 2012, approved a capital increase of R$ 52,488, through the issuance of 2,302,068 common shares and 4,604,136 preferred shares class A. This decision is currently pending approval by the Central Bank.

The common shares have right to one vote each in the deliberations of the General Assembly 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 Bank, 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 SA Holding) (ii) upon conversion, BTG Pactual SA Holding (or its successor in any capacity, including by virtue of merger, division or other 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 company's shareholders’ agreement.

b. Legal reserve

This reserve is established at the rate of 5% of net income for the exercise, before any other allocation, limited to 20% of the capital.

c. Statutory reserve

In outstanding with the bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

d. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

e. Profit distribution

The shareholders are entitled to minimum dividends of 1% on net income in accordance with Article 202 of Law 6404/76.

On June 30, 2012 the Bank provisioned R$ 181,610, relating to dividends and R$ 220,000, related to interest on capital, which generated R$ 88,000 of tax benefit. These amounts were approved in the Special Shareholders’ Meeting held on August 8, 2012 and paid on August 22, 2012.

(In thousands of reais)

On December 31, 2012 the Bank provisioned R$ 220,000, related to interest on capital, which generated R$ 88,000 of tax benefit and R$ 192,285, relating to dividends. These amounts were approved in the Special Shareholders' Meeting held on December 19, 2012 and February 19, 2013, respectively.

f. Reconcilation of net income (loss) and shareholders equity

	Shareholders' equity		Net Income	
	2012	2011	2012	2011
Banco BTG Pactual S.A.	10,068,496	6,343,965	2,024,063	1,481,222
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Panamericano S.A.(*)	32,971	(4,202)	37,174	(4,202)
Banco BTG Pactual S.A. Consolidated	10,101,467	6,339,762	2,061,237	1,477,020

(*) The consolidated information reported by Banco Panamericano 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 Panamericano 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 Panamericano through the equity method of accounting.

20. Income from services rendered

	2012	2011
Management and performance fee from investment funds and portfolios	1,329,355	511,447
Brokerage	167,980	107,660
Technical services	485,523	343,462
Commission on the placement of securities	98,582	72,378
Guarantees	116,158	46,068
Other services	21,551	26,553
	2,219,149	1,107,568

21. Other operating income

	2012	2011
Recovery of charges and expenses	3,739	5,695
Reversal of provision – employees' profit sharing	9,376	20,650
Reversal of allowances - other	10,592	604
Indemnities	6,242	-
Reversal of provision - contingencies	6,896	15,272
Adjustment to inflation of court deposits	52,047	70,675
Exchange gains	9,642	25,129
Other operating income	10,489	20,075
	109,023	158,100

22. Other operating expenses

	2012	2011
Other operating provisions expenses (reversals)	10,680	1,350
Expenses with taxes adjusted for inflation	1,351	4,407
Exchange rate variation	13,799	-
Reimbursement of clients	1,063	-
Repayment of financial operating costs	14,830	8,131
Adjustment of amounts payable for acquisition of investments(i)	54,121	33,418
Goodwill amortization (ii)	394,253	31,808

(In thousands of reais)

Other	61,988	7,459
	552,085	86,573

(i) Refers to update of amount payable for the acquisition of investments (basically Panamericano and Coomex).
(ii) On year ended on December 31, 2012 goodwill was fully amortized based on (a) realization of goodwill of COOMEX based on its useful economic life (R$ 69,509); (b) impairment on other goodwill and amortization(R$ 76,958 – see Note 13) and (c) profitability and recognition of deferred income tax asset due to corporate restructure of BFRE (R$ 247,786).

23. Other administrative expenses

	2012	2011
Outsourced services and consulting	339,769	120,830
Telecommunications and data proc	114,342	87,045
Leases and condominiums	60,756	23,336
Travel and Lodging	48,004	28,809
Expenses of the financial system	39,603	38,392
Advertising and Public Relations	30,466	13,516
Depreciation and amortization	26,272	18,690
Other	18,708	24,844
	677,920	355,462

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, carried at arm's length, are reflected in the following accounts:

			Assets/Liabilities		Revenues/Expenses	
	Relationship	Maturity	2012	2011	2012	2011
Assets						
Short-term interbank investments						
Interbank investments deposits						
- Banco Panamericano S.A.	Jointly controll	1/28/2013	1,203,256	500,504	25,184	2,128
Derivative financial instruments						
- BTG Investments LP (i)	Related	-	-	81,334	-	76,608
Income receivables						
- BTG Pactual Absolute Master Fund (i)	Related	No maturity	37,363	-	217,837	23,898
Sundry						
- BTG Alpha Investment LLC (ii)	Related	No maturity	54,385	-	-	-
- Max Casa XIX Empreendimentos Imobiliários S.A.	Related	No maturity	5,453	4,936	-	-
- ACS Omicron Empreendimentos imobiliários S.A.	Related	No maturity	1,187	12	-	-
- Warehouse 1 Empreendimentos imobiliários S.A.	Related	No maturity	432	432	-	-
Liabilities						
Deposits						
Demand deposits						
- BTG Pactual Mining S.A. (i)	Related	No maturity	(100)	-	-	-
- BTG Pactual Reinsurance Holdings LP (i)	Related	No maturity	(961)	(939)	-	-
- Partners	Key person	No maturity	-	(449)	-	-
Time deposits						
- BTG Holding S.A.	Parent	11/14/2013	(24,240)	-	-	-
- BTG Pactual Europe LLP (i) (iii)	Related	No maturity	(74,835)	-	-	-
- BTG Pactual Proprietary Feeder (1) Limited (i) (iii)	Related	No maturity	(2,768)	(249)	-	-

(In thousands of reais)

			Assets/Liabilities		Revenues/Expenses	
	Relationship	**Maturity**	**2012**	**2011**	**2012**	**2011**
- BTG Investments LP (i) (iii)	Related	No maturity	(10,869)	(2,120)	-	-
- BTG MB Investments LP (ii) (iii)	Related	No maturity	(2,130)	(9,425)	-	-
- BTG Pactual Absolute Master Fund (i)	Related	No maturity	(2,821)	-	-	-
- BTG Equity Investments LLC (i)	Related	No maturity	(6,615)	(194)	-	-
- BTG Alpha Investments LLC (ii)	Related	No maturity	(1,499)	(1,029)	-	-
- BTG Pactual Beta Participações S.A. (ii)	Related	12/23/2013	(1,979)	(1,459)	-	(168)
- BTG Pactual Pharma Participações S.A. (ii)	Related	11/22/2013	(388)	(1,702)	-	(272)
Open market funding						
Own portfolio						
- Banco Panamericano S.A.	Jointly controll	-	-	(629,374)	-	(29,656)
Third-party portfolio						
- Banco Panamericano S.A.	Jointly control	1/2/2013	(6,002)	(9,999)	-	-
Funds from securities issued and accepted						
Real Estate Bills						
- Partners	Key person	4/5/2013	(30,711)	-	-	-
Derivative financial instruments						
- Leblon Investment Fund Ltd.	Related	4/1/2013	(22,325)	-	-	-
- Banco Panamericano S.A.	Jointly controll	4/22/2020	(101,783)	-	-	-
Other obligations						
Securities trading and brokerage						
- BTG Investments LP (i)	Related	-	(19,219)	(69,420)	-	-

(iv) Subsidiaries of BTG Pactual Participations Ltd.
(v) Controlled by BTG MB Investments.
(vi) Classified as Demand deposits until December 31, 2011.

As of December 31, 2012 the bank holds trading securities, issued by third parties, which are backed by guarantees issued by BTG Investments LP in the approximately amount of R$ 500 million.

Total compensation paid to key management personnel totaling this period R$ 86,854 (2011 – R$ 2,961) which is considered short term benefit.

25. Other information

a. Cash and cash equivalents

Balacentes at beginning of year	**2012**	**2011**
Cash and cash equivalents	517,305	1,522,813
Open market investments	11,424,916	16,622,980
Interbank deposits	545,196	4,103
	12,487,417	18,149,896

Balacentes at beginning of year	**2012**	**2011**
Cash and cash equivalents	552,168	517,305
Open market investments	15,179,462	11,424,916
Interbank deposits	1,714,131	545,196
	17,445,761	12,487,417

b. Commitments and responsibilities

The Bank’s and its subsidiaries’ main commitments and responsibilities are as follows:

(In thousands of reais)

	2012	2011
Co-obligation and risks for guarantees granted	7,422,378	5,278,935
Responsibility for the management of futures and investment portfolio (i)	167,250,732	34,477,778
Securities under custody	291,395,585	142,531,821
Securities trading and brokerage	2,255,008,913	857,584,457
Loans contract to release	2,681,347	-

(i) Recognized by the sum of the equity values of funds and investment portfolios

The item “Co-obligations and risks for guarantees granted” mainly comprises guarantees granted or assets allocated to exchange trading securities.

The item “Securities under custody” reflects third-party public and private security positions under custody with SELIC, CETIP S.A. and BM&FBovespa S.A.

The item “Securities trading and brokerage” represents amounts from derivatives purchase and sale agreements related to third-party transactions.

The item “Loans contracted to release” register amounts related to loans contracted with clients to release.

26. Subsequent events

On January 22, 2013, the Brazilian Central Bank approved the capital increase deliberated on the Board of Directors held on December 20, described on Note 19 (a).

On January 30, 2013, the Bank signed definitive agreements related to its acquisition of certain credits and rights held by Fundo Garantidor de Créditos - FGC ("FGC") against Banco Bamerindus do Brasil S/A, in Extrajudicial Liquidation (the "Institution"), and other companies in the Institution’s economic group ("Transaction") In connection with the Transaction, BTG Pactual will pay approximately R$418 million to the FGC in five installments, the first of which will be paid at the closing of the Transaction and the other four on the first through fourth anniversary of the closing. The four installments will be adjusted. Consummation of the Transaction is subject the termination of the process complete the extrajudicial liquidation of the Institution and its subsidiaries, and the settlement of certain of their financial obligations, resulting in positive shareholders’ equity. The Institution’s assets do not include the Bamerindus brand.

This transaction will result in BTG Pactual acquiring (i) control of the Institution and its subsidiaries, (ii) an interest in the Institution greater than ninety-eight percent 98% of its total and voting capital, and (iii) the receivables and assets held by the Institution, which will be used in BTG Pactual credit operations context. The consummation of the Transaction is subject to certain conditions, including obtaining all required regulatory approvals.

On January 10, 2013 the Bank issued senior notes totaling US$1,000,000 at a fixed coupon of 4% and maturing in January 2020. Interest on the Senior Notes will be due every six months, in January and July.

Auditor’s report

with consolidated balance sheet and consolidated profit & loss statement as of 30 June 2014 of

BSI SA, Lugano

Building a better working world

Ernst & Young Ltd
Route de Chancy 59
P.O. Box
CH-1213 Geneva

Phone +41 58 286 56 56
Fax +41 58 286 56 57
www.ey.com/ch

To the Board of Directors of

BSI SA, Lugano

Geneva, 3 September 2014

Auditor's report

In accordance with your instructions, we have reviewed the consolidated balance sheet of BSI SA as of 30 June 2014 (with comparative figures as of 31 December 2013) and the consolidated profit & loss statement of BSI SA for the period from 1 January 2014 to 30 June 2014 (with comparative figures as of 30 June 2013).

This consolidated balance sheet and this consolidated profit & loss statement are the responsibility of the Board of Directors. Our responsibility is to issue a report on this consolidated balance sheet and this consolidated profit & loss statement based on our review.

We conducted our review in accordance with Swiss Auditing Standard 910 applicable to review engagements. This standard requires that we plan and perform the review to obtain assurance that the financial statements are free from material misstatements, although not with the same level of assurance obtained from an audit. A review is limited primarily to inquiries of personnel and analytical procedures applied to financial data. We have performed a review and not an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated balance sheet and the consolidated profit & loss statement do not comply with Swiss law and the company's articles of incorporation.

Ernst & Young Ltd

Mario Mosca
Licensed audit expert
(Auditor in charge)

Daniele Gianora
Licensed audit expert

Enclosure

- Consolidated balance sheet as of 30 June 2014 (with comparative figures as of 31 December 2013) and consolidated profit & loss statement as of 30 June 2014 (with comparative figures as of 30 June 2013).

BSI Group: Consolidated balance sheet as of 30 June 2014 (unaudited)

	30/06/2014 CHF 1,000	31/12/2013 CHF 1,000	Change in %
Assets			
Cash and other liquid assets	2,674,086	5,851,944	-54.3
Money market paper	2,790,759	2,271,822	22.8
Due from banks	2,468,034	2,593,366	-4.8
of which due from reverse repo transactions	*155,755*	*155,776*	*0.0*
Due from customers	6,908,552	6,301,043	9.6
Mortgage loans	4,123,569	4,019,905	2.6
Securities and precious metals held for trading	1,264,875	1,363,932	-7.3
Financial investments	1,470,714	1,407,290	4.5
Non-consolidated participations	55,500	54,727	1.4
Fixed assets	364,613	375,008	-2.8
Intangible assets	9,608	8,141	18.0
Accrued income and prepaid expenses	73,408	79,782	-8.0
Other assets	375,140	544,383	-31.1
Total assets	**22,578,858**	**24,871,343**	**-9.2**
Total subordinated assets	99,991	62,371	60.3
Total amounts receivable from non-consolidated participations and qualified shareholders	22,504	20,492	9.8
Liabilities			
Money market paper liabilities	4,317	2,240	92.7
Due to banks	723,337	524,094	38.0
Due to customers in savings and investment accounts	607,782	554,873	9.5
Due to customers, other	18,707,888	21,068,976	-11.2
of which due from the trading portfolio	*733,203*	*898,658*	*-18.4*
Medium-term notes		800	-100.0
Loans with issuers of property bonds and other	89,003	89,015	0.0
Accrued expenses and deferred income	182,804	196,840	-7.1
Other liabilities	338,419	559,682	-39.5
Value adjustments and provisions	131,843	153,928	-14.3
Reserves for general banking risks	157,572	146,152	7.8
Share capital	1,840,000	1,840,000	
Capital reserve		145,200	-100.0
Reserve and retained earnings	-266,718	311,498	-185.6
of which minority interests	*1*		*100.0*
Profit / Group's loss	62,611	-721,955	-108.7
Total liabilities	**22,578,858**	**24,871,343**	**-9.2**
Total subordinated liabilities	105,818	118,527	-10.7
Total liabilities to non-consolidated participations and qualified shareholders	26,399	22,321	18.3
Off-balance sheet business			
Contingent liabilities	2,169,695	2,140,989	1.3
Irrevocable commitments	176,250	128,844	36.8
Contingent liabilities for calls and margin liabilities	654	654	
Loan commitments	2,703	5,719	-52.7
Derivative financial instruments			
Positive replacement value	222,398	434,720	-48.8
Negative replacement value	259,210	466,124	-44.4
Contract volumes	44,652,682	43,023,066	3.8
Fiduciary transactions	1,863,972	1,728,535	7.8

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BSI Group: Consolidated profit and loss statement for the first half 2014

(unaudited)

	2014 CHF 1,000	2013 CHF 1,000	Change in %
Income and expenses from ordinary banking operations			
Interest and discount income	101,047	106,000	-4.7
Interest and dividend income from financial investments	4,926	4,885	0.8
Interest expenses	-10,582	-12,067	-12.3
Result from interest activities	**95,391**	**98,818**	**-3.5**
Commission income from lending activities	4,654	5,070	-8.2
Commission income from securities and investment transactions	268,182	267,817	0.1
Commission income from other services	38,261	38,285	-0.1
Commission expenses	-50,034	-58,072	-13.8
Result from commission and service fee activities	**261,063**	**253,100**	**3.1**
Result from trading operations	**72,214**	**82,038**	**-12.0**
Result from the sales of financial investments	204	-1	20,500.0
Income from participations	7,332	15,550	-52.8
of which from participations consolidated using the equity method	*6,133*	*8,555*	*-28.3*
of which from non-consolidated participations	*1,199*	*6,995*	*-82.9*
Net income from real estate	1,232	1,401	-12.1
Other ordinary income	1,485	2,200	-32.5
Other ordinary expenses	-1,301	-3,106	-58.1
Other ordinary result	**8,952**	**16,044**	**-44.2**
Net operating result	**437,620**	**450,000**	**-2.8**
Personnel expenses	-206,811	-219,675	-5.9
Other operating expenses	-122,624	-118,348	3.6
Operating expenses	**-329,435**	**-338,023**	**-2.5**
Gross profit	**108,185**	**111,977**	**-3.4**
Net profit			
Gross profit	108,185	111,977	-3.4
Depreciation of fixed assets	-20,827	-58,137	-64.2
Value adjustments, provisions and losses	-6,861	-11,100	-38.2
Result before extraordinary items and taxes	**80,497**	**42,740**	**88.3**
Extraordinary income	5,139	50,552	-89.8
Extraordinary expenses	-12,535	-39,090	-67.9
Taxes	-10,490	-17,973	-41.6
Group's profit	**62,611**	**36,229**	**72.8**

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Report of the statutory auditor

with financial statements as of 31 December 2013 of

BSI SA, Lugano

Building a better
working world

Ernst & Young Ltd
Route de Chancy 59
P.O. Box
CH-1213 Geneva

Phone +41 58 286 56 56
Fax +41 58 286 56 57
www.ey.com/ch

To the General Meeting of

BSI SA, Lugano

Geneva, 15 April 2014

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of BSI SA, which comprise the balance sheet, income statement cash flow statement, statement of changes in equity and notes, for the year ended 31 December 2013.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting rules for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Mario Mosca
Licensed audit expert
(Auditor in charge)

Daniele Gianora
Licensed audit expert

BSI Group

Consolidated balance sheet as of 31 December 2013

	Notes	31/12/2013 CHF 1,000	31/12/2012 CHF 1,000	Change in %
Assets				
Cash and other liquid assets		5,851,944	3,890,088	50.4
Money market paper		2,271,822	1,590,600	42.8
Due from banks		2,593,366	3,678,720	-29.5
of which due from reverse repo transactions		*155,776*	*91,575*	*70.1*
Due from customers	3.1	6,301,043	7,057,084	-10.7
Mortgage loans	3.1	4,019,905	3,490,324	15.2
Securities and precious metals held for trading	3.2	1,363,932	1,731,912	-21.2
Financial investments	3.3, 3.8	1,407,290	1,140,559	23.4
Non-consolidated participations	3.4, 3.6, 3.7	54,727	54,753	
Fixed assets	3.7	375,008	387,521	-3.2
Intangible assets	3.7	8,141	762,488	-98.9
Accrued income and prepaid expenses		79,782	68,454	16.5
Other assets	3.18	544,383	434,428	25.3
Total assets		**24,871,343**	**24,286,931**	**2.4**
Total subordinated assets		62,371	45,895	35.9
Total amounts receivable from non-consolidated participations and qualified shareholders		20,492	20,746	-1.2
Liabilities				
Money market paper liabilities		2,240	2,408	-7.0
Due to banks		524,094	1,094,599	-52.1
of which due from repo transactions			*166,529*	*-100.0*
Due to customers in savings and investment accounts		554,873	493,340	12.5
Due to customers, other	3.17	21,068,976	19,409,843	8.5
of which due from the trading portfolio		*898,658*	*867,663*	*3.6*
Medium-term notes	3.17	800	1,029	-22.3
Loans with issuers of property bonds and other	3.17	89,015	91,575	-2.8
Accrued expenses and deferred income		196,840	188,494	4.4
Other liabilities	3.18	559,682	484,861	15.4
Value adjustments and provisions	3.10	153,928	44,667	244.6
Reserves for general banking risks	3.10, 3.11	146,152	142,508	2.6
Share capital	3.11	1,840,000	1,840,000	
Capital reserve	3.11	145,200	145,200	
Reserve and retained earnings	3.11	311,498	277,396	12.3
Group's loss / profit		-721,955	71,011	-1,116.7
Total liabilities		**24,871,343**	**24,286,931**	**2.4**
Total subordinated liabilities		118,527	105,148	12.7
Total liabilities to non-consolidated participations and qualified shareholders		22,321	28,673	-22.2
Off-balance sheet business				
Contingent liabilities	3.1, 4.1	2,140,989	1,934,921	10.6
Irrevocable commitments	3.1, 4.5	128,844	108,422	18.8
Contingent liabilities for calls and margin liabilities	3.1	654	983	-33.5
Loan commitments	3.1, 4.6	5,719	6,409	-10.8
Derivative financial instruments				
Positive replacement value	3.18, 4.2	434,720	315,754	37.7
Negative replacement value	3.18, 4.2	466,124	373,641	24.8
Contract volumes	4.2	43,023,066	41,557,241	3.5
Fiduciary transactions	4.3	1,728,535	2,133,313	-19.0

BSI Group

Consolidated profit and loss statement 2013

	Notes	2013 CHF 1'000	2012 CHF 1'000	Change in %
Income and expenses from ordinary banking operations				
Interest and discount income	5.1	202,950	252,666	-19.7
Interest and dividend income from financial investments		10,389	15,345	-32.3
Interest expenses		-22,195	-39,263	-43.5
Result from interest activities		**191,144**	**228,748**	**-16.4**
Commission income from lending activities		8,915	9,550	-6.6
Commission income from securities and investment transactions		513,190	485,692	5.7
Commission income from other services		78,644	51,034	54.1
Commission expenses		-96,661	-87,567	10.4
Result from commission and service fee activities		**504,088**	**458,709**	**9.9**
Result from trading operations	**5.2**	**148,103**	**156,533**	**-5.4**
Result from the sales of financial investments		465	748	-37.8
Income from participations		18,859	17,387	8.5
of which from participations consolidated using the equity method		*11,640*	*14,111*	*-17.5*
of which from non-consolidated participations		*7,219*	*3,276*	*120.4*
Net income from real estate		3,143	2,912	7.9
Other ordinary income		3,738	4,233	-11.7
Other ordinary expenses		-6,470	-4,232	52.9
Other ordinary result		**19,735**	**21,048**	**-6.2**
Net operating result		**863,070**	**865,038**	**-0.2**
Personnel expenses	5.3	-424,808	-437,713	-2.9
Other operating expenses	5.4	-241,702	-230,284	5.0
Operating expenses		**-666,510**	**-667,997**	**-0.2**
Gross profit	**5.5**	**196,560**	**197,041**	**-0.2**
Net loss / profit				
Gross profit		196,560	197,041	-0.2
Depreciation of fixed assets	3.7	-796,301	-105,231	656.7
Value adjustments, provisions and losses	3.10	-144,658	-41,104	251.9
Result before extraordinary items and taxes		**-744,399**	**50,706**	**-1,568.1**
Extraordinary income	5.6	89,686	41,030	118.6
Extraordinary expenses	5.6	-49,931	-6,740	640.8
Taxes	5.7	-17,311	-13,985	23.8
Group's loss / profit		**-721,955**	**71,011**	**-1,116.7**

BSI Group

Consolidated cash flow statement 2013

	2013		2012	
	Sources of cash	Uses of cash	Sources of cash	Uses of cash
	CHF 1'000	CHF 1'000	CHF 1'000	CHF 1'000
Cash flow provided by operating activities (internal financing)				
Group's loss / profit		721,955	71,011	
Depreciation of fixed assets	796,301		105,231	
Value adjustments and provisions	109,261			10,469
Accrued income and prepaid expenses		11,328	23,566	
Accrued expenses and deferred income	8,345		52,745	
Other items		35,134	38,150	
Dividend		30,000		31,151
Subtotal	**115,490**			**249,083**
Cash flow provided by equity transactions				
Reserves for general banking risks	3,541			26,008
Reserve and retained earnings			428	
Translation differences arising from profit consolidation		6,806		1,750
Subtotal		**3,265**	**27,330**	
Cash flow provided by changes in fixed assets and in participations				
Participations		98	2,105	
Real estate		2,416		554
Other fixed assets		25,417		29,711
Intangible assets		1,484		5,288
Subtotal		**29,415**	**33,448**	
Total	**82,810**			**188,305**
Cash flow provided by banking activities				
Medium- and long-term activities (> 1 year)				
Due to customers	109,804		5,685	
Medium-term notes		800		229
Loans with issuers of property bonds and other		2,560		1,915
Due from banks	31,634			31,270
Due from customers	441,978			61,817
Mortgage loans		132,534		23,487
Financial investments	62,945			261,845
Short-term activities				
Money market paper liabilities		168		133
Due to banks		570,505	354,651	
Savings and investment accounts	61,534		79,826	
Due to customers	1,549,329			7,407,120
Medium-term notes	571			292
Money market papers		681,222	392,401	
Due from banks	1,053,720		29,795	
Due from customers	314,063			832,854
Mortgage loans		397,047		206,455
Securities and precious metals held for trading	367,980			438,615
Financial investments		329,676	468,671	
Cash and other liquid assets		1,961,856	7,746,698	
Total		**82,810**	**188,305**	

BSI Group

Notes to the 2013 Group financial statements

1. Commentaries regarding the Group's business activities

The following notes refer to the situation as at 31 December 2013.

General information

The Group's parent Bank, BSI Ltd., is based in Lugano and operates in Switzerland and internationally through a network of ten branches (Bellinzona, Chiasso, Geneva, Locar-no, Lausanne, St. Moritz, Zurich, Bahrain, Hong Kong and Nassau), one agency (Crans-Montana) three representative offices (Istanbul, Montevideo and Panama), four banks (Luxembourg, Monte Carlo, Nassau and Singapore), and affiliated companies. For the scope of consolidation and the major non-consolidated holdings, please see tables 3.5 and 3.6. BSI Ltd. is wholly owned by Assicurazioni Gen-erali SpA, Trieste (Italy), through the investee company Participatie Maatschappij Graafschap Holland N.V., Diemen (NL).

The BSI Group's core business

The BSI Group provides mainly asset management for private and institutional clients as well as related services, especially concerning investment funds, the placement of fiduciary deposits, and trading in securities, metals and currencies. The Group also offers credit services to its clients.

BSI Ltd., trades in currencies and securities (shares, bonds and derivatives) for third parties and its own account subject to set limits. It also issues securities and acts as a market maker.

Balance sheet transactions

Balance sheet transactions have a complementary role. They account for about 22.1% of the Group's net operating result (2012: 26.4%). Lending operations mainly involve the granting of Lombard loans, loans secured mainly by collateral and mortgages, and unsecured loans. Overall, secured loans account for 93.8% of total loans (2012: 92.8%). Bank deposits are made only with major institutions in Switzerland or OECD countries. BSI Ltd. holds a bond portfolio, recognised under "Financial investments", as a medium- to long-term investment.

Headcount

At the end of 2013, the Group had 1,989.45 full-time equivalent (FTE) employees (2012: 1,962.55), of whom 654.20 were employed abroad (2012: 645.40).

The parent Bank had 1,378.75 full-time equivalent employees (2012: 1,355.45), of whom 109 were employed abroad.

Control and risk management

Principles

Risk management forms an integral part of the corporate policy of the BSI Group. In compliance with Swiss and international laws and regulations, the Bank has set up a control and risk management structure for the BSI Group.

Structure and responsibilities

The Bank's risk management and internal control structure is proportionate to the size and complexity of the Bank's business. This structure includes processes and controls that ensure the delegation of powers and the segregation of critical functions.

The Board of Directors monitors whether the Bank has a clear global risk management process. It approves risk policies and limits and receives quarterly reports on all risks for the BSI Group.

The Group Executive Board is responsible for implementing the risk management process throughout the entire banking organisation. It defines risk principles, strategies and policies, as well as the global limits and the limits of the power delegated by the Board of Directors.

To ensure that risk is managed effectively, the Group Executive Board has set up various Committees with specific responsibilities relating to the management of credit risks, counterparty risks, market risks, liquidity risks, operational risks, and compliance risks. The members of the Group Executive Board generally sit on the various Committees, which are composed of risk management experts for the Bank's various areas of business.

Risk Management, in cooperation with the control units of the Bank's various business areas, carries out several controls independently of the business line. The control units intervene directly in case of non-compliance with the limits, and they regularly report to Risk Management on the risks they are responsible for.

Risk Management analyses and consolidates the risk data and information at Group level and prepares a quarterly Global Report on Risk for the Group Executive Board and the Board of Directors.

The Legal & Compliance unit is responsible for managing legal and reputational risks and ensuring that the BSI Group complies with regulatory and legal requirements.

Reporting guidelines

The Bank has a reference model for preparing the consolidated financial statements, approved by the Board of Directors and the Group Executive Board. The reference model explicitly sets out the risk appetite and the guidelines for reporting on the main assets and liabilities on the basis of solvency, liquidity, risk and profitability. In particular, within these reporting guidelines the Bank has defined some measures which have allowed it to improve its solvency as well as mitigate and optimise risk exposures.

Credit risks

Credit risk is the risk that a borrower's creditworthiness deteriorates and that said counterparty becomes insolvent or fails to meet its obligations. Credit risk also includes other risk categories such as counterparty risk, delivery risk, concentration risk and country risk. Credit risks are present in interbank portfolios and in the Bank's own portfolios, as well as in the client loan portfolios.

The Bank has various internal policies that define the principles for managing risk, the methods for calculating and limiting risk, the power to approve credit lines and overdrafts, and the reporting to the managing bodies and the Board of Directors.

More specifically, the Credit Office represents a central risk management function at Group level, monitoring all consolidated positions and managing control processes. There are two high-level decision-making committees: the Credit Committee, which is responsible for loans to private and institutional clients, and the Banks and Brokers Committee, which is responsible for counterparty risks (states, banks, brokers, custodian banks and correspondent banks). The Financial Risks & Capital Allocation Committee is responsible for the analysis, control and management of portfolio credit risks.

The Bank measures and checks credit risk every day. Using a system of limits, it defines the maximum levels of exposure to groups of counterparties and checks compliance with regulatory requirements on major risks. The Credit Office unit carries out independent controls both at the consolidated level and for the Bank and the main affiliates.

In its lending operations, the Bank aims to diversify risks and maximise the risk-return ratio. To this end, the Bank uses internal credit risk forecasting models. The client loan portfolio mainly consists of loans secured by assets or securities as well as mortgages, especially for residential property in Switzerland, Singapore and London. For these categories of loans, the Bank applies internal policies governing the valuation of the guarantees on a prudent basis. Exceptions to said policies are monitored and submitted to the Board of Directors for approval. The loan portfolio includes, to a lower extent, commercial loans, loans linked to trade financing, and loans to public entities.

The Bank has maintained a cautious approach to the credit risk for the interbank portfolio, paying particular attention to the selection and diversification of bank counter-parties and issuers, including governments, and keeping the duration of exposures below 12 months.

The Bank has a "Country Risk Policy" (concerning risk for balance sheet assets) and the country exposure is measured based on the "final risk" approach: if the loan is secured by collateral (pledges, mortgages, guarantees), the Bank considers the domicile of the collateral, rather than that of the borrower.

Throughout 2013, the Bank monitored country risk closely and implemented various measures to limit its exposures to high-risk countries.

Market risk

Market risk is the risk of losses arising from unexpected changes in interest rates, exchange rates, share prices or the prices of precious metals and commodities, as well as the relevant expected volatility. Market risks can impact the Bank's operating and financial results.

Risks specific to the balance sheet structure (interest rate and exchange rate) are managed by the Financial Risks & Capital Allocation Committee (FINRISK) and monitored by Risk Management in accordance with the principles and maximum limits set out in the "Market Risk Policy – balance sheet / ALM". In the case of Asset & Liability Management (ALM), the Bank uses also derivative products. Positions without fixed maturities are replicated on the basis of historical analyses. The FINRISK Committee is also responsible for managing credit risks and allocating capital for the Bank's various balance sheet assets.

The Bank carries out trading operations both for its clients and its own account using all financial products and their derivatives. The trading portfolio is governed by a "Market Risk Policy – Trading", setting out the organisational structure, responsibilities, the system of limits and the maximum acceptable risk. The Proprietary Trading Committee is responsible for managing and monitoring market risk related to trading operations based on the restrictions set by the FINRISK Committee.

In addition to its trading portfolio, the Bank has an investment portfolio, which allows it to diversify its assets and optimise excess liquidity, if any. The investment portfolio is divided into various portfolios according to the type of product and the strategy. The risks related to the investment portfolio are managed by the Proprietary Investment Committee, which operates on the basis of restrictions set by the FINRISK Committee and the "Market Risk Policy-Investments".

Liquidity risks

Liquidity risks arise when funding becomes difficult or costly due to liquidity crises or reputational problems. Liquidity risks also arise when the Bank struggles to meet its obligations in a timely fashion due to the lack of highly liquid assets.

Liquidity risks are managed by the FINRISK Committee, which delegates responsibility for the relevant day-to-day operations and for controlling them to the Treasury and Risk Management, respectively.

Since 2013 the Bank has adopted a new "Liquidity Risk Policy" implementing the new qualitative and quantitative requirements of the new Basel III Swiss regulatory framework concerning liquidity. In its reporting guidelines, the Bank has included the indicators defined by the new Basel III international framework for liquidity risk management. The indicators serve two separate but complementary purposes. The first indicator, the Liquidity Coverage Ratio (LCR), is intended to increase the short-term resilience of the liquidity risk profile, ensuring there are sufficient high-quality liquid assets to address an acute stress scenario lasting one month. The second indicator, the Net Stable Funding Ratio, has a one-year time horizon and aims to provide a sustainable maturity structure of assets and liabilities.

Operational risks and internal controls

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks also include compliance, legal and reputational risks.

Within BSI, the management of operational risks is the responsibility of Risk Management. It consists essentially in the centralised collection and analysis of operational losses, the identification and analysis of risks inherent to the Bank's processes through Risk & Control Self-Assessments, and the management of corrective measures. The Bank makes provisions for events that could cause a potential financial loss. The heads of the Bank's different business areas have selected a number of risk indicators, which are used and monitored in order to assess in advance whether to increase the level of risk within the Bank.

The Operational Risk and Compliance Committee governs the management of operational and compliance risks and coordinates the implementation of strategies for managing and mitigating operational and compliance risk.

The Bank's risk mitigation controls have a "three lines of defence" model:

- The first line of defence consists in controls conducted by the business line, inherent to the performance of operations, as well as controls carried out by units independent of the business line. The former are intended to ensure operations are carried out correctly, the latter to monitor and guarantee that operating units properly perform their duties.

- The second line of defence is the responsibility of Risk Management and Global Compliance, and consists in controls intended to verify the correct implementation and the effectiveness of the first line of defence controls. The Group Executive Board receives reports on the controls.

- The third line of defence is an independent control carried out by the Group Internal Audit, which reports directly to the Board of Directors.

Stress testing

"Stress testing" refers to a set of qualitative and quantitative techniques the Bank uses to assess its own vulnerability to exceptional events that could potentially occur. Stress testing techniques supplement other Risk Management approaches and measures. These techniques are intended to better define the Bank's risk profile, assess the adequacy of the relevant limits, verify the accuracy of risk forecasting models, the soundness of the assumptions about correlations, and the effectiveness of the systems for reducing and mitigating risks.

Risk Management systematically carries out stress tests on the Bank's main assets and portfolios to assess the overall effectiveness of risk limits, capital adequacy, and liquidity reserves considered as a whole. Stress scenarios are periodically revised, updated or supplemented by Risk Management based on the trend in risk factors (prices, volatility, exchange and interest rates, etc.) and the macro-economic context.

Capital Adequacy

As at the end of 2013, the BSI Group and the Bank complied with the limits specified by the "Capital Adequacy Ordinance" (CAO) concerning both the minimum capital requirements and concentration risk. Quantitative information on capital adequacy and credit risk is provided in the attached tables 6.1-6.6.

As at the end of 2013, for BSI Group the Total Capital Ratio is equal to 18.17% (table 6.1) while the Ratio of available equity to required equity is equal to 228.11% (table 6.2). Additional information about the calculation method used by the Bank is provided below.

Credit risk

The Bank applies the AS-BRI approach (Standard International Approach) to the calculation of capital buffer requirements for credit risk. This approach is based on ratings provided by external agencies recognised by FINMA. In particular, the Bank uses the ratings provided by Standard & Poor's, Moody's and Fitch to assess the quality of counterparties, and the ratings provided by Standard & Poor's and Moody's for debt securities.

Off-balance sheet exposures to derivatives are calculated as credit equivalents under the "mark-to-market" method (art. 57 CAO). The Bank also applies the "comprehensive" approach to transactions with financial collateral (art. 62 CAO). As at 31 December 2013, these requirements amounted to around 28.4% of the available eligible capital.

Counterparty risks

As at 31 December 2013, these requirements amounted to around 1.6% of the available eligible capital.

Market risk

The Bank applies the standard method as defined in FIN-MA Circular 2008/20 to the calculation of capital buffer requirements for market risk. As at 31 December 2013, these requirements amounted to around 6.0% of the available eligible capital.

Operational risk

To calculate the regulatory requirements for operating risks, the Bank uses the standard method, weighting gross revenues with factors varying from 12% to 18%, depending on the business lines in question, as defined in FINMA Circular 2008/21. As at 31 December 2013, the regulatory capital for the BSI Group's operating risks amounted to around CHF 107 million, which is about 5.7% of the available eligible capital.

Legal and compliance risk

The Legal & Compliance unit is responsible for managing legal risks and ensuring that the BSI Group complies with regulatory and legal requirements.

Legal risk can be divided into (a) the risk that the BSI Group, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and (b) the risk of financial or other loss or injury resulting from the BSI Group not being able to enforce its rights and claims against third parties.

Regulatory and compliance risk is defined as the risk of financial, reputational or other loss or injury resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice.

On 23 December 2013, the Bank announced its intent to participate in the U.S. Department of Justice's (the "DOJ['s]") Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks (the "DOJ Program") as a Category 2 bank. BSI's participation in the DOJ Program comports with the recommendations of the Swiss authorities.

On 10 January 2014, FINMA recommended that Category 2 banks participating in the DOJ Program make a provision, and accordingly, BSI has made a preliminary provision related to its participation in the DOJ Program. The internal review process is, however, still ongoing and there are significant uncertainties under the DOJ Program. Moreover, the DOJ Program states that the factors specific to a particular bank – such as the level of institutional culpability – may be considered in reaching a final resolution with the DOJ. For these reasons, the Bank's provision is only preliminary.

Outsourcing

BSI outsources the management, development and maintenance of its IT infrastructure and back-office activities to B-Source SA, a service provider 49%-owned by BSI. BSI Ltd. outsources the management of hedge fund products to Thalìa SA, 100%-owned by BSI. BSI Ltd. has also out-sourced part of the administrative operations and IT services for some specific products (Genera products) to Fi-naclear AG. The Bank complies with the legal provisions on outsourcing set out in FINMA Circular 2008/7.

Value added tax (VAT)

The Bank is part of the VAT group of Generali Personen-versicherungen AG and is thus jointly liable for the potential obligations related to this tax.

2. Accounting and valuation principles

General principles

The accounting, balance sheet entry and valuation criteria conform to the provisions of the Swiss Code of Obligations, the Swiss Banking Law and the directives of the Swiss Financial Market Supervisory Authority FINMA. The Group accounts show a true and fair view of the Bank's asset, financial and economic situation.

Recording of transactions

All transactions are recorded in the books of Group companies on the execution date. Transactions with future execution date are recorded in the balance sheet, except for BSI Monaco SAM, for which they are booked in accordance with the value date principle.

Scope of consolidation

The Bank fully consolidates all the companies operating in the banking and finance sector in which it directly or indirectly holds most of the votes or the capital (50%). Special purpose entities (SPE) in which the Bank does not hold the majority of votes or capital are fully consolidated if circumstances indicate a business relationship in which the Bank controls the majority of the profit of the entity or the risks connected to the entity's activities.

A list of fully consolidated participations, participations entered in the balance sheet in accordance with the equity principle, relevant participations entered in the balance sheet at the purchase value minus the necessary amortisation and depreciation, and changes to the perimeter of consolidation are shown in tables 3.5 and 3.6.

Consolidation method

The capital of the companies involved in banking and finance in which BSI Ltd. has a direct or indirect majority of the voting rights or capital is fully consolidated in accordance with the purchase method. The purchase price is offset against the market value of the assets at the time of acquisition. The resulting difference from the first consolidation is entered in the balance sheet under "Intangible assets" and amortised in compliance with FINMA's accounting provisions.

Participations between 20% and 50% are consolidated at equity and are shown in the balance sheet with the net asset value for the Bank's share.

Minor companies and companies held with a view to a subsequent sale are entered in the balance sheet at their purchase price after deduction of the necessary depreciation. Group-internal transactions and related internal profits are eliminated.

Conversion of currency

Foreign currency transactions are recorded at the exchange rate of the trade date. Profits or losses arising from revaluations are recorded into the profit and loss account. Foreign currency denominated balance sheet items are converted into Swiss francs at the rate of the balance sheet closing date.

Foreign currency denominated profit and loss items of Group companies are converted into Swiss francs at the average exchange rate for the year. Conversion differences are booked directly within the consolidated shareholders' equity.

		Closing rate		Annual average rate	
Denomination	**Currency**	**31.12.2013**	**31.12.2012**	**2013**	**2012**
1	USD	0.890	0.916	0.923	0.933
1	EUR	1.228	1.207	1.229	1.204
100	JPY	0.848	1.059	0.946	1.167
1	GBP	1.472	1.488	1.446	1.485

Cash and other liquid assets, money market papers, due from banks and liabilities

These items are recorded in the balance sheet at the nominal value or purchase cost less any adjustments for doubtful debts. Any discounts are recorded in the appropriate liabilities items.

Due from customers and mortgage loans

Loans to clients are recorded in the balance sheet at their nominal value.

Loans for which the debtors or guarantors are unlikely to meet their future obligations are considered by the Bank to be non-performing loans. A loan is therefore deemed to be non-performing if certain indicators show that the capital and/or interest due in accordance with the contract will probably not be paid. Non-performing loans are valued individually, and specific value adjustments are booked to cover the identified value losses. The Bank creates provisions for the interest on the credit positions for which clients have not respected the contractual terms for more than 90 days.

Off-balance sheet liabilities such as guarantees and derivatives are also considered in this valuation.

The Bank determines the provisions' amounts based on the liquidation value of the collaterals.

Provisions are created for non-performing interest in accordance with the rule described above and directly deducted from the corresponding items under "Assets". Loans are no longer considered non-performing if the amount due (interest and principal) is fully settled, the contractual obligations are re-established and the solvency criteria are fulfilled.

Loans are amortised by debiting the corresponding individual provisions if the loans are considered entirely or partially impaired or if the decision is taken not to recover them.

Securities lending and borrowing

Securities lending operations for which the Bank acts as principal are shown in the notes to the annual accounts. The commissions collected and paid for these transactions are booked in the corresponding items of the profit and loss statement.

Repo and reverse repo transactions

These transactions are booked as loans collateralised with securities or secured with pledged securities accounts. They are entered under "Due from / to banks" and valued at their nominal value. Interest amounts collected or paid are recorded in the corresponding items of the profit and loss account.

Securities and precious metals held for trading

Securities and metals held by the Bank for trading are revalued at market price on the balance sheet date. The result of the revaluation is entered in the profit and loss account under "Results from trading operations". Any relevant accrued interest and dividends are reported as "Results from trading operations", minus any financing costs, which are recorded as "Result from interest activities".

Financial investments

The balance sheet value of securities purchased as longterm investments is calculated according to the following principles:

- Debt securities intended to be held to maturity are valued at the purchase price. If the purchase was made at a price other than at par, the premium or discount is spread over the residual term to maturity and debited or credited to "Interests and dividend income from financial investments";

- Debt securities which are not intended to be held until maturity and shares are booked at the lower of purchase price and market value. Any value adjustments are recorded as "Sundry ordinary expenses". In the event of a recovery in market value, shares are revalued to the extent that their revalued amount does not exceed the purchase price. Such revalued amounts are posted to "Sundry ordinary income".

Properties that have been acquired as a result of lending transactions and are intended to be sold are booked under this item and valued at the lower of purchase price and sale price.

The result deriving from the securities related to this asset item are entered under "Interest and dividend income from financial investments".

Non-consolidated participations

Minority participations between 20% and 50% in the banking and finance sector are entered in the balance sheet in accordance with the equity method.

Companies in which the Bank has a participation of less than 20% or whose size or activities do not have a significant influence on the Bank are valued at purchase price, minus the required depreciation.

Accruals and deferrals

Interest income, interest expenses and all other income and expenses not settled during the accounting period are accrued or prepaid in order to match the correct profit and loss period.

Fixed assets

Fixed asset acquisitions are capitalised and valued at their purchase price, if their intended use is for more than one accounting period and their purchase price exceeds a minimum of CHF 5,000. Any new investment in already existing fixed assets is capitalised if it leads to permanent increases in the market value or significant lengthening in the useful life of such assets.

Thereafter, fixed assets are recorded at their purchase cost less accumulated depreciation. Depreciation is calculated on the basis of assets' expected useful lives. Fixed assets are reviewed annually for any impairments in value: if such analysis shows the need to shorten the depreciation period or to decrease the value, the rates of depreciation are adjusted or an extraordinary depreciation charge is booked in the profit and loss statement.

Profits realised on the sale of fixed assets are booked as "Extraordinary income" and losses as "Extraordinary expenses".

Asset	Duration of use
Bank premises	50 years
Structural renovation of premises	10 years
Internal restructuring or improvements (own property)	5 years
Internal restructuring or improvements (third-party property)	5 years[1]
Furnishings	10 years
Miscellaneous non-IT installations and vehicles	5 years
Hardware and software	In accordance with expected useful life
Special projects	In accordance with expected useful life

[1] Duration of the rental contract.

Intangible assets

Starting this year, the BSI Group has applied the new FIN-MA accounting directives, with retroactive effect. The amortisation period has been reduced to a maximum of 5 years. Intangible assets have been adjusted accordingly. The adjustment had a negative impact on the income statement for CHF 692 million.

The current value is revised every year. If this valuation identifies a change in useful life or a fall in value, the residual accounting value is amortised in accordance with a plan corresponding to the new useful life.

Pension plans

The accounting treatment complies with Swiss GAAP ARR 16 relating to the presentation of accounts.

Further details are provided in point 3.9 in the notes to the Group accounts.

Taxes

Taxes relating to the current accounting period are estimated in accordance with local tax legislation and recorded as costs for the period to which they relate. Direct taxes on current year profits payable, but not yet paid, are recorded as "Accrued expenses".

Provisions for deferred taxation relating to any future release of amounts from the reserve for general banking risks are reported as "Value adjustments and provisions". Tax credits on tax losses carried forward are entered in the balance sheet in the item "Other assets" up to an amount calculated based on the profits forecast for a maximum period of three years.

The accounting treatment is in compliance with ARR 11 relating to the presentation of accounts.

Value adjustments and provisions

Specific provisions and value adjustments are made with respect to all identified risks in accordance with the principle of prudence. The value of such items is deducted from the balance sheet assets to which they relate. Value adjustments and provisions proving to be financially unnecessary during the financial year are released and credited to the profit and loss statement. Provisions for latent risk or other risks are booked as liabilities in the balance sheet under "Value adjustments and provisions".

Reserves for general banking risks

This item was created in accordance with FINMA directives on the presentation of accounts. Movements in the reserves for general banking risks are posted to "Extraordinary income" or "Extraordinary expenses".

Contingent liabilities, irrevocable commitments, contingent liabilities for calls and margin liabilities

Off-balance sheet items are stated at nominal value. Any provisions for identified risks are included under "Value adjustments and provisions". A guarantee is in place to the government of Singapore for the business operations conducted by the subsidiary BSI Bank Ltd., Singapore. Following the application of the banking agreement on deposit guarantees, the Bank has an irrevocable commitment in respect of privileged deposits.

Derivative financial instruments

Derivative financial instruments are normally treated as trading operations with the exception of the transactions described in the following paragraph.

Trading transactions

They are periodically valued with reference to market or trading prices or, alternatively, are based on calculations entailing the discounted future cash flows or option pricing models.

Hedging transactions

The Bank uses derivative financial products for asset and liability management (ALM) purposes. Hedges and their underlying positions are valued in the same way. Any net income earned on these transactions is credited to the same item as income arising from the hedged transactions. The Bank enters into global hedge transactions with respect to interest rate risk. Profits on these transactions are accrued as interest income. Accrued interest payable and receivable is recorded in the balance sheet under "Other liabilities" and "Other assets". Positive and negative replacement values in connection with hedges are also recorded under "Other assets" and "Other liabilities". The use of derivatives for ALM purposes is documented together with the objectives and strategies employed and kept on file until such time as the transactions expire. The effectiveness of the hedge is periodically controlled. Whenever the value of a hedge exceeds the value of the hedged item, the excess is treated as a normal trading position.

Replacement values

For over the counter transactions (OTC), replacement values are recorded in the balance sheet as "Other assets" if positive and as "Other liabilities" if negative. In either case, gains or losses are recorded in the Bank's profit and loss statement as "Results from trading operations".

Client assets

The value of client assets under management is calculated with reference to the total value of all client positions at year end. Fund units held by the Bank's clients are double counted: once as units held by clients and again as funds under management. Any funds held by correspondent banks and brokers are excluded as are securities belonging to the Group. Funds managed by the Group but deposited at third party banks are also included.

Events following the balance sheet date

After the balance sheet date, no event took place that would lead to a correction of the financial statements.

3. Information on the balance sheet

3.1 Breakdown of loan collateral and off-balance-sheet business

	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Loans				
Due from customers	223,651	5,442,905	634,487	6,301,043
Mortgage loans	3,950,275	62,857	6,773	4,019,905
Residential properties	*3,193,451*	*14,532*	*727*	*3,208,710*
Commercial and industrial properties	*669,082*	*443*	*3,034*	*672,559*
Other	*87,742*	*47,882*	*3,012*	*138,636*
Total at 31.12.2013	**4,173,926**	**5,505,762**	**641,260**	**10,320,948**
31.12.2012	3,607,452[1]	6,183,694[1]	756,262[1]	10,547,408
Off-balance sheet business				
Contingent liabilities	4,597	329,180	1,807,212	2,140,989
Irrevocable commitments	132	94,669	34,043	128,844
Contingent liabilities for calls and margin liabilities			654	654
Loan commitments			5,719	5,719
Total at 31.12.2013	**4,729**	**423,849**	**1,847,628**	**2,276,206**
31.12.2012	5,008	409,315	1,636,412	2,050,735

[1] The data for 2012 have been adjusted.

	Gross amount	Estimated realisable value of guarantees received	Net amount	Individual specific provisions
Impaired loans				
Total at 31.12.2013	**202,097**	**82,122**	**119,975**	**118,522**
31.12.2012	212,008	89,556	122,452	122,452

3.2 Securities and precious metals held for trading

	31/12/2013	31/12/2012
	CHF 1,000	CHF 1,000
Securities and precious metals held for trading		
Debt securities	637,184	837,695
listed	*627,193*	*828,905*
unlisted	*9,991*	*8,790*
Equities	337,031	228,753
Precious metals	389,717	665,464
Total	**1,363,932**	**1,731,912**
of which eligible as repurchase transactions in compliance with the liquidity regulations	*21,252*	*47,947*

3.3 Financial investments

	Book value		Market value	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Financial investments	**1,200,924**	**1,103,469**	**1,225,010**	**1,149,835**
of which valued on an accrual basis	*1,199,716*	*1,102,289*	*1,223,802*	*1,148,654*
of which valued according to the lower value principle	*1,208*	*1,181*	*1,208*	*1,181*
Equities	**29,346**	**22,321**	**29,867**	**22,748**
of which qualified participations 1	*16,907*	*8,117*	*16,907*	*8,117*
Precious metals	**166,016**		**166,016**	
Real estate	**11,004**	**14,769**	**11,520**	**16,520**
Total	**1,407,290**	**1,140,559**	**1,432,413**	**1,189,103**
of which eligible as repurchase transactions in compliance with the liquidity regulations	*854,579*	*737,564*		

[1] At least 10% of capital or votes.

3.4 Non-consolidated participations

	31/12/2013	31/12/2012
	CHF 1,000	CHF 1,000
Without market value	54,727	54,753
Total	**54,727**	**54,753**

3.5 Information on relevant participations

3.5.1 Scope of consolidation

	Business	Share capital		31/12/2013 participation in %	31/12/2012 participation in %	Change participation in %
		million				
A. Fully consolidated participations						
Anderfin SA, Lugano	Asset management company	CHF	0.10	100.00	100.00	
BSI Bank Ltd., Singapore	Bank	USD	214.00	100.00	100.00	
BSI Investment Advisors (Hong Kong) Ltd., Hong Kong	Investment company	USD	43.00[1]		100.00	-100.00
BSI Investment Advisors (Panama) Inc., Panama	Investment company	USD	0.41	100.00	100.00	
BSI Europe SA, Luxembourg[2]	Bank	EUR	31,47	100.00	100.00	
BSI Monaco SAM, Monte Carlo	Bank	EUR	15.00	100.00	100.00	
BSI Asset Managers SAM, Monte Carlo	Asset management company	EUR	2.00	99.98	99.98	
BSI Overseas (Bahamas) Ltd., Nassau	Bank	USD	10.00	100.00	100.00	
BSI Trust Corporation (Bahamas) Ltd., Nassau	Trust company	USD	1.00	100.00	100.00	
Alpine Services Ltd., Nassau	Investment company	USD	0.01	100.00	100.00	
BSI Trust Corporation (Malta) Ltd., La Valletta	Trust company	EUR	0.05	100.00	100.00	
BSI Wealth & Family Società d'Intermediazione Mobiliare SpA, Milan	Brokerage firm	EUR	5.00[3]		100.00	-100.00
EOS Servizi Fiduciari SpA, Milan	Fiduciary company	EUR	0.75	100.00	100.00	
Oudart SA, Paris	Asset management company	EUR	5.50	100.00	100.00	
Oudart Gestion SA, Paris	Asset management company	EUR	1.00	100.00	100.00	
Oudart Patrimoine SARL, Paris	Asset management company	EUR	0.04	100.00	100.00	
Solidia Finance et Patrimoine SA, Paris	Asset management company	EUR	0.31	100.00	100.00	
Patrimony 1873 SA, Lugano	Asset management company	CHF	5.00	100.00	100.00	
Thalìa SA, Lugano	Investment company	CHF	4.80	100.00	100.00	

	Business	Share capital		31/12/2013	31/12/2012	Change
		million		participation in %	participation in %	participation in %
B. Participations valued at equity						
Atacama Investments Ltd., British Virgin Islands	Investment company	USD	0.09	44.16	39.71	4.45
B-Source SA, Bioggio	Systems development and business operations	CHF	2.40	49.00	49.00	
Cross Factor SpA, Milan	Investment company	EUR	1.03	20.00	20.00	
Second Pillar SA, Athens	Asset management company	EUR	0.063		25.00	-25.00

[1] Share capital at the time the de-consolidation took place.
[2] Former BSI Luxembourg SA.
[3] Share capital at the time the liquidation took place.

3.5.2 Changes to the scope of consolidation

<u>Participations no longer in the scope of consolidation</u>

BSI Investment Advisors (Hong Kong) Ltd., Hong Kong: deconsolidated in view of the liquidation

BSI Wealth & Family Società d'intermediazione Mobiliare SpA, Milan: liquidated

Second Pillar SA, Athens: liquidated

<u>Changes to the participation percentage</u>

Atacama Investments Ltd., British Virgin Islands: increase in the participation percentage from 39.71% to 44.16%

<u>Capital increase</u>

BSI Europe SA, Luxembourg: capital increase from EUR 27.47 million to EUR 31.47 million

<u>Reduction of capital</u>

Atacama Investments Ltd., British Virgin Islands: reduction of capital from USD 16.85 million to USD 0.09 million

3.6 Significant non-consolidated participations

3.6.1 Significant non-consolidated participations and entered under "Non-consolidated participations"

	Business	Share capital		31/12/2013	31/12/2012	Change
		million		participation in %	participation in %	participation in %
Banca Patrimoni Sella & C. SpA, Turin	Bank	EUR	28.00	5.68	5.68	
BSI Bank (Panama) SA, Panama	Bank	USD	6.50	100.00		100.00
BSI Laran SA, Lugano	Investment company	CHF	0.10	100.00	100.0	
Dynamic Securities SA, Athens	Securities broker	EUR	6.09	19.95	19.95	

3.6.2 Significant non-consolidated participations and entered under "Financial investments" (at purchase price, minus the required depreciation)

	Business	Share capital		31/12/2013	31/12/2012	Change
		million		participation in %	participation in %	participation in %
IFA SA, Paris [1,2]	Investment company	EUR	15.79	51.00	51.00	

	Business	Share capital million		31/12/2013 participation in %	31/12/2012 participation in %	Change participation in %
BSI Investment Advisors (Hong Kong) Ltd., Hong Kong [3]	Investment company	USD	43.00	100.00		100.00

[1] Former BSI-Ifabanque SA.
[2] In liquidation.
[3] Reclassified in light of the liquidation.

3.7 Analysis of investments

in CHF 1'000	Acquisition price	Deprecia-tion to date	Book value 31.12. 2012	2013 Changes to the scope of consolida-tion	Purpose change (reclassifi-cations)	Invest-ments	Disposal	Depre-ciation	Book value 31.12. 2013
Participations valued at equity	41,417		41,417			1,400[1]	-6,739	36,078	
Other non-consolidated	15,112	-1,776	13,336			6,665	-1,228	-124	18,649
Total non-consolidated participations	**56,529**	**-1,776**	**54,753**			**8,065**	**-7,967**	**-124**	**54,727**
Bank premises	259,397	-72,904	186,493		7,342	2,017	15	-5,481	190,386
Other real estate	67,743	-38,153	29,590		-7,342	384		-1,026	21,606
Total real estate	**327,140**	**-111,057**	**216,083**			**2,401**	**15**	**-6,507**	**211,992**
Other tangible fixed assets	**374,882**	**-203,444**	**171,438**			**26,315**	**-898**	**-33,839**	**163,016**
Total tangible assets	**702,022**	**-314,501**	**387,521**			**28,716**	**-883**	**-40,346**	**375,008**
Goodwill	1,053,991	-298,495	755,496	-946			20	-750,730	3,840
Total costs	22,259	-17,762	4,497					-4,451	46
Other intangible assets	9,700	-7,205	2,495			2,459	-49	-650	4,255
Total intangible assets	**1,085,950**	**-323,462**	**762,488**	**-946**		**2,459**	**-29**	**-755,831**	**8,141**
Fire insurance value of the real estate		293,980					294,393		
Fire insurance value of other tangible fixed assets		137,768[2]					137,256		
Off-balance sheet lease agreements: commitments arising from future lease payments		88[2]					96		

[1] Including value increases.
[2] The data for 2012 have been adjusted.

3.8 Assets pledged and securities repurchase and reverse repurchase agreements

A. Assets pledged as security for own liabilities

	31.12.2013 CHF 1,000		31.12.2012 CHF 1,000		Change in %	
	Book value	Pledged amount	Book value	Pledged amount	Book value	Pledged amount
Including assets subject to retention of title and excluding securities repurchase and reverse repurchase agreements	235,860	52,761	259,729	57,940	-9.2	-8.9

B. Securities repurchase and reverse repurchase agreements[1]

	31.12.2013 CHF 1,000	31.12.2012 CHF 1,000	Change in %
Book value of own account securities lent or transferred as collateral for securities lending operations or for repurchase and reverse repurchase transactions	1,585,713	1,866,379	-15.0
of which securities with no restrictions on rights of sale or subsequent pledging	*1,585,713*	*1,866,379*	*-15.0*
Book value of securities received as collateral in accordance with securities lending agreements and securities received in accordance with securities borrowing agreements and with reverse repurchase agreements with no restrictions on rights of sale or subsequent pledging	3,362,467	3,837,791	-12.4

of which securities sold or pledged as collateral	*1,662,683*	*2,007,787*	*-17.2*

1 Amounts paid or received in cash are booked under the balance sheet subheading in the item "Due from banks" or "Due to banks".

3.9 Commitments to pension institutions and notes on pension plans

	31.12.2013	**31.12.2012**
	CHF 1,000	**CHF 1,000**
Commitments to Group pension institutions	82,591	57,229

A. Staff at the Bank and the Swiss subsidiaries

Pension insurance is provided to employees of BSI Ltd. and its Swiss subsidiaries, except for apprentices, trainees, unpaid staff, and employees on fixed-term contracts of more than three months or acting as consultants, by the Pension Foundation of BSI Ltd., which provides mandatory occupational pension insurance in compliance with the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG/ LPP) and the relevant ordinances.

The BSI Ltd. Pension Foundation applies a defined-benefit plan. Therefore, pension, disability and survivor benefits are determined based on the employee's last salary prior to the occurrence of the insured event. Retirement age is set at 64.

BSI Ltd.'s Social Insurance Fund (Fund) offers a complementary defined-contribution plan. This Fund provides pension insurance to employees who are already covered by BSI Ltd.'s Pension Foundation and whose contributory salary calculated in accordance with the BVG/ LPP is positive, or whose vested benefits on joining BSI Ltd.'s Pension Foundation generated a surplus.

Pension contributions and benefits are determined based on the contributory salary calculated pursuant to the applicable regulations and variable compensation, if any.

Employees of BSI Ltd. and its Swiss subsidiaries who have a fixed-term employment contract of more than three months or an advisory mandate are covered for their occupational pension by a primary pension institution.

In 2013, the Swiss Chamber of Pension Actuaries, based on the FRP4 directive, recommended a reduction from 3.5% to 3% in the technical interest rate to be applied to the 2013 financial statements of social security institutions. The actuary responsible for BSI Ltd.'s Pension Foundation calculated the impact of said reduction and estimated a funding ratio at 31 December 2013 4% lower than in the previous year (31 December 2012: funding ratio 98.2%, technical interest rate 3.5%). The reduction from 3.5% to 3% in the technical interest rate had a smaller impact on BSI Ltd.'s Social Insurance Fund, whose funding ratio at 31 December 2013 is estimated to be 0.5% lower than in the prior year (31 December 2012: funding ratio 101.8%, technical interest rate 3.5%).

Pursuant to article 57 paragraphs 1 and 2 of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV2/OPP2), BSI Ltd., by establishing a collateral deposit, will guarantee the liquidity of BSI Ltd.'s Pension Foundation and Social Insurance Fund held at the Bank.

Employer's contribution reserve

in CHF 1,000	**Nominal value**	**Waiver of use**	**Other value adjustments**	**Lending value**	**Balance sheet**	
	31.12.2013	**31.12.2013**	**31.12.2013**	**31.12.2013**	**31.12.2013**	**31.12.2012**
Pension fund / Pension institution						
BSI Ltd. Pension Foundation						
(booked in "Other assets")	11,000				11,000	11,000

BSI Ltd.'s Social Insurance (booked in "Other assets")	2,000				2,000	2,000
Total	**13,000**				**13,000**	**13,000**

Financial assets / liabilities and pension insurance costs

	Cover surplus / deficit[1]	Financial share paid by the organisation	Financial share paid by the organisation	Change from previous financial year / with impact on financial result	Contributions adjusted for the period	Pension insurance costs included in the costs of staff	Pension insurance costs included in the costs of staff
	31.12.2013	31.12.2013	31.12.2012			2013	2012
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Pension funds / Pension institutions							
BSI Ltd. Pension Foundation							
with cover deficit	-19,859				22,450	22,450	30,629
BSI Ltd.'s Social Insurance Fund							
without cover surplus / deficit					8,434	8,434	12,411
Total	**-19,859**				**30,884**	**30,884**	**43,040**

[1] This value is an estimate. At the time this annual report was issued, BSI Ltd. Pension Foundation and BSI Ltd. Social Insurance Plan's annual financial statements as of 31 December 2013 were not yet submitted.

B. Employees of foreign branches and affiliates

Employees of foreign branches and affiliates have occupational pension insurance in their respective countries according to local laws. The relevant costs are entered under "Personnel expenses".

	31.12.2013	31.12.2012
	CHF 1,000	CHF 1,000
Pension insurance costs included in the costs of staff	1,927	2,772

3.10 Value adjustments and provisions / reserves for general banking risks

in CHF 1,000		2013				
	Situation 31.12.2012	Use according to purpose	Recoveries, doubtful interest, currency differences	New provisions charged to P/L	Release credited	Situation to P/L 31.12.2013
Provisions for deferred taxes	9,741		32	6,072	-5,108	10,737
Value adjustments and provisions for default risks and other business risks	**174,655**	**-43,644**	**2,836**	**138,824**	**-7,860**	**264,811**
Value adjustments and provisions for default risks (credit and country risks)	143,087	-35,105	2,888	18,406	-4,141	125,135
Value adjustments and provisions for other business risks	938	-656	1	579	-253	609
Value adjustments for financial investments	3,884		-100			3,784
Provisions for restructuring			-10	277		267
Other provisions	26,746	-7,883	57	119,562	-3,466	135,016
Total value adjustments and provisions	**184,396**	**-43,644**	**2,868**	**144,896**	**-12,968**	**275,548**
Value adjustments set off directly against assets	-139,729	–	–	–	–	-121,620
Total value adjustments and provisions as per balance sheet	**44,667**	**–**	**–**	**–**	**–**	**153,928**
Reserves for general banking risks	**142,508**		**103**	**47,053**	**-43,512**	**146,152**

3.11 Presentation of share capital and statement of shareholders' equity

3.11.1 Presentation of share capital and shareholders with voting rights above 5%

	31.12.2013			31.12.2012		
	Total nominal value CHF 1,000	Number of shares	Capital with dividend rights CHF 1,000	Total nominal value CHF 1,000	Number of shares	Capital with dividend rights CHF 1,000
A. Share capital						
Share capital	1,840,000	18,400,000	1,840,000	1,840,000	18,400,000	1,840,000

	31.12.2013		31.12.2012	
	Nominal CHF 1,000	Participation percentage	Nominal CHF 1,000	Participation percentage
B. Shareholders				
Shareholders with voting rights Participatie Maatschappij Graafschap Holland N.V., Diemen (NL)[1]	1,840,000	100.00	1,840,000	100.00

[1] Company directly and wholly owned by the Assicurazioni Generali Group, Trieste.

3.11.2 Statement of shareholders' equity

	CHF 1,000
Shareholders' equity at 1 January 2013	
Share capital	1,840,000
Capital reserve	145,200
Reserve and retained earnings	277,396
Reserves for general banking risks	142,508
Net Group profit	71,011
Total shareholders' equity	**2,476,115**
Creation of reserves for general banking risks charged to P/L	3,541
Distribution of the dividend of the previous year's profits	-30,000
Group's loss for the current year	-721,955
Translation differences arising on profit consolidation	-6,806
Total shareholders' equity at 31 December 2013	**1,720,895**
of which:	
Share capital	*1,840,000*
Capital reserve	*145,200*
Reserve and retained earnings	*311,498*
Reserves for general banking risks	*146,152*
Group's loss	*-721,955*

3.12 Maturity structure of current assets and third-party liabilities

in CHF 1,000		Residual maturity							
		on demand	subject to notice	due within 3 months	due within 3-12 months	due within 1 to 5 years	due after 5 years	fixed	Total
Current assets									
Cash and other liquid assets		5,851,944	–	–	–	–	–	–	5,851,944
Money market papers		–	–	833,880	1,437,942		–	2,271,822	
Due from banks		557,781	1,234,833	800,752		–	2,593,366		
Due from customers		2,147,715	3,014,150	738,259	353,035	47,884	–	6,301,043	
Mortgage loans		–	415,714	1,245,063	539,398	1,095,805	723,925	–	4,019,905
Securities and precious metals held for trading		1,363,932	–			–	1,363,932		
Financial investments		194,282	–	55,105	219,205	887,594	40,100	11,004	1,407,290
Total	**31.12.2013**	**7,967,939**	**2,563,429**	**6,383,031**	**3,735,556**	**2,336,434**	**811,909**	**11,004**	**23,809,302**
	31.12.2012	7,140,862	3,118,962	5,357,919	3,398,174	2,798,120	750,481	14,769	22,579,287
Third-party liabilities									
Money market paper liabilities		–	–	2,240		–	2,240		
Due to banks		421,250	102,844		–	524,094			
Due to customers in savings and investment accounts		–	554,873	–	–	–	–	–	554,873
Due to customers, other		19,156,925	704,825	804,476	279,640	123,110	–	21,068,976	
Medium-term notes		–	–	800		–	800		

Loans with issuers of property bonds and other		–	–			89,015	–	89,015	
Total	**31.12.2013**	**19,578,175**	**1,259,698**	**910,360**	**279,640**	**123,110**	**89,015**	**–**	**22,239,998**
	31.12.2012	17,833,156	1,490,047	1,244,351	419,559	14,106	91,575	–	21,092,794

3.13 Due from and to the Group's bodies, due from and to affiliated companies

	31.12.2013	**31.12.2012**	**Change**
	CHF 1'000	**CHF 1'000**	**in %**
Due from the bank's bodies	16,912	15,305	10.5
Due from affiliated companies	113,312	132,845	-14.7
Due to affiliated companies	2,346,498	485,444	383.4

– The conditions applied to loans to the Bank's senior management are the same as those applied to staff loans. Due to their lower credit risk, employees generally receive a 1% or 1.5% interest rate reduction depending on the type of loan.

– All transactions with affiliated companies were carried out at arm's length. Revenues of CHF 1.0 million are included under the item "Result from interest activities" (2012: costs of about CHF 5.0 million), while revenues of CHF 2.6 million received from companies linked to the Generali Group are recognised under "Result from commission and service fee activities" (2012: CHF 4.1 million).

3.14 Analysis of Swiss and foreign assets and liabilities

	31.12.2013		**31.12.2012**	
	Switzerland	**Abroad**	**Switzerland**	**Abroad**
	CHF 1,000	**CHF 1,000**	**CHF 1,000**	**CHF 1,000**
Assets				
Cash and other liquid assets	3,803,831	2,048,113	3,675,095	214,993
Money market papers	1,451	2,270,371	1,283	1,589,317
Due from banks	100,541	2,492,825	270,311	3,408,409
Due from customers	1,178,950	5,122,093	1,383,873	5,673,211
Mortgage loans	3,085,011	934,894	2,811,070	679,254
Securities and precious metals held for trading	491,384	872,548	609,575	1,122,337
Financial investments	126,800	1,280,490	19,775	1,120,784
Non-consolidated participations	16,018	38,709	16,841	37,912
Fixed assets	367,541	7,467	379,762	7,759
Intangible assets	3,462	4,679	758,871	3,617
Accrued income and prepaid expenses	16,475	63,307	18,305	50,149
Other assets	171,931	372,452	143,911	290,517
Total assets	**9,363,395**	**15,507,948**	**10,088,672**	**14,198,259**
Liabilities				
Money market paper liabilities	2,240		2,408	
Due to banks	163,708	360,386	288,235	806,364
Due to customers in savings and investment accounts	476,343	78,530	414,017	79,323
Due to customers, other	4,542,670	16,526,306	4,592,594	14,817,249
Medium-term notes	800		1,029	
Loans with issuers of property bonds and other		89,015		91,575
Accrued expenses and deferred income	94,141	102,699	89,681	98,813
Other liabilities	209,080	350,602	189,927	294,934
Value adjustments and provisions	145,250	8,678	36,513	8,154
Reserves for general banking risks	146,152		142,508	
Share capital	1,840,000		1,840,000	
Capital reserve	145,200		145,200	
Reserve and retained earnings	311,498		277,396	
Group's loss / profit	-721,955		71,011	
Total liabilities	**7,355,127**	**17,516,216**	**8,090,519**	**16,196,412**

3.15 Assets by country / groups of countries

	31.12.2013		31.12.2012	
	CHF 1,000	**Participation in %**	**CHF 1,000**	**Participation in %**
Switzerland	9,363,395	37.6	10,088,672	41.6
Other OECD countries	10,287,929	41.4	8,715,892	35.9
Other European countries	254,188	1.0	638,997	2.6
Caribbean and Latin America	2,335,635	9.4	2,527,886	10.4
Other	2,630,196	10.6	2,315,484	9.5
Total	**24,871,343**	**100.0**	**24,286,931**	**100.0**

3.16 Assets and liabilities by currency

Equivalent in CHF 1'000

	CHF	**USD**	**EUR**	**JPY**	**Other**	**Total**
Assets						
Cash and other liquid assets	3,725,373	4,669	2,117,262	406	4,234	5,851,944
Money market papers	20	1,030,440	1,111,768		129,594	2,271,822
Due from banks	110,802	1,402,118	769,542	12,224	298,680	2,593,366
Due from customers	1,023,076	3,139,924	1,315,668	120,855	701,520	6,301,043
Mortgage loans	3,074,580	204,049	155,169	3,366	582,741	4,019,905
Securities and precious metals held for trading	106,606	430,926	399,146		427,254	1,363,932
Financial investments	15,650	464,189	761,145	29	166,277	1,407,290
Non-consolidated participations	16,966	28,307	9,434		20	54,727
Fixed assets	368,735	1,836	4,437			375,008
Intangible assets	3,462	1,788	2,891			8,141
Accrued income and prepaid expenses	12,269	29,886	34,726	67	2,834	79,782
Other assets	344,235	133,588	47,763	5,468	13,329	544,383
Total balance sheet assets 31.12.2013	**8,801,774**	**6,871,720**	**6,728,951**	**142,415**	**2,326,483**	**24,871,343**
31.12.2012	9,335,605	7,281,895	4,784,778	208,483	2,676,170	24,286,931
Spot, forward and option contracts not yet delivered	7,200,476	11,969,156	5,539,303	982,903	2,006,742	27,698,580
Total assets	**16,002,250**	**18,840,876**	**12,268,254**	**1,125,318**	**4,333,225**	**52,569,923**
Liabilities						
Money market paper liabilities	137	1,087	938	4	74	2,240
Due to banks	150,140	172,423	74,320	6	127,205	524,094
Due to customers in savings and investment accounts	530,905		23,968			554,873
Due to customers, other	3,340,282	8,111,696	8,008,399	46,623	1,561,976	21,068,976
Medium-term notes	800					800
Loans with issuers of property bonds and other		89,015				89,015
Accrued expenses and deferred income	103,348	73,162	19,133	2	1,195	196,840
Other liabilities	366,413	113,467	62,508	5,725	11,569	559,682
Value adjustments and provisions	58,913	88,957	6,058			153,928
Reserves for general banking risks	146,152					146,152
Share capital	1,840,000					1,840,000
Capital reserve	145,200					145,200
Reserve and retained earnings	311,498					311,498
Group's loss	-721,955					-721,955
Total balance sheet liabilities 31.12.2013	**6,271,833**	**8,649,807**	**8,195,324**	**52,360**	**1,702,019**	**24,871,343**
31.12.2012	7,361,205	7,884,672	6,566,763	74,385	2,399,906	24,286,931
Spot, forward and option contracts not yet delivered	9,874,651	10,088,606	4,123,616	1,019,843	2,493,525	27,600,241
Total liabilities	**16,146,484**	**18,738,413**	**12,318,940**	**1,072,203**	**4,195,544**	**52,471,584**
Net position per currency	-144,234	102,463	-50,686	53,115	137,681	98,339

3.17 Unredeemed bonds, medium-term notes and structured products

A. Unredeemed bonds

Issuer	**Average weighted yield**	**Maturity**	**Amounts in CHF 1'000**	
BSI Ltd., Lugano	5.25%	23.12.2021	89,015	Subordinated loan
Total			**89,015**	

Maturity schedule of unredeemed bonds

Issuer	Maturity: due within 1 year	from 1 to 2 years	from 2 to 3 years	from 3 to 4 years	from 4 to 5 years	after 5 years	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
BSI Ltd., Lugano						89,015	89,015

B. Medium-term notes

Maturity	CHF 1'000	Yield %	CHF 1'000	CHF 1'000	Average residual maturity (months)	Average Yield %
2014	800	2.000 - 2.875	800	800	0.5	2.1
	800					

C. Structured products

Issuer	Average weighted yield	Maturity	Amounts in CHF 1,000	
BSI Ltd., Lugano (CHF)		2014-2016	77,550	Unsubordinated, structured products
BSI Ltd., Lugano (EUR)		2014-2016	47,558	Unsubordinated, structured products
BSI Ltd., Lugano (HKD)		2014	4,448	Unsubordinated, structured products
BSI Ltd., Lugano (SGD)		2014	4,924	Unsubordinated, structured products
BSI Ltd., Lugano (USD)		2014-2016	105,472	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (CHF)	5.61%	2014	88,426	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (EUR)	4.08%	2014	114,535	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (EUR)		2014-2017	121,667	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (GBP)	4.60%	2014	729	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (USD)	5.69%	2014	47,072	Unsubordinated, structured products
BSI Overseas (Bahamas) Ltd., Nassau (USD)		2014 - 2023	88,630	Unsubordinated, structured products
Total			**701,011**	

Maturity schedule of structured products

Issuer	Maturity: due within 1 year	from 1 to 2 years	from 2 to 3 years	from 3 to 4 years	from 4 to 5 years	after 5 years	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
BSI Ltd., Lugano	117,577	122,375					239,952
BSI Overseas (Bahamas) Ltd., Nassau	327,377	71,631	7,636	27,332		27,083	461,059
Total	**444,954**	**194,006**	**7,636**	**27,332**		**27,083**	**701,011**

These amounts are included in "Due to customers, other".

3.18 Other assets and other liabilities

	31.12.2013	31.12.2012	Change
	CHF 1,000	CHF 1,000	in %
Other assets			
Contribution reserve with BSI Ltd. Pension Foundation and BSI Ltd.'s Social Insurance Fund	13,000	13,000	
Replacement values for derivatives from trading activities	411,132	292,368	40.6
Replacement values for derivatives from hedging activities	23,588	23,386	0.9
Netting account	10,920	28,210	-61.3
Other assets	85,743	77,464	10.7
Total other assets	**544,383**	**434,428**	**25.3**
Other liabilities			
Replacement values for financial instruments deriving from trading activities	396,050	272,432	45.4
Replacement values for financial instruments deriving from hedging activities	70,074	101,209	-30.8
Other liabilities	93,558	111,220	-15.9

Total other liabilities	**559,682**	**484,861**	**15.4**

4. Information on off-balance sheet business

4.1 Breakdown of contingent liabilities

	31.12.2013	31.12.2012	Change
	CHF 1'000	CHF 1'000	in %
Irrevocable commitments	214,677	142,633	50.5
Performance guarantees	1,831,279	1,583,418	15.7
Other contingent liabilities	95,033	208,870	-54.5
Total	**2,140,989**	**1,934,921**	**10.6**

4.2 Derivative financial instruments outstanding

		Trading instruments			Hedging instruments		
		Replacement value		Contract	Replacement value		Contract
		positive[1]	negative[1]	volumes[2]	positive[1]	negative[1]	volumes[2]
		CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Interest rate instruments							
Swaps		1,537		109,448	14,940	51,080	2,095,731
Futures		117	13	962,445			
Currencies and precious metals							
Forward contracts		296,555	289,924	23,857,468	7,773	18,819	3,203,341
Swaps					875		89,015
Options (OTC)		83,809	72,595	7,490,685			
Equities / indices							
Futures		3,417	2,161	108,901			
Options (OTC)		10,932	16,540	4,464,836			
Credit derivatives							
Credit default swaps		14,765	14,817	528,240		175	112,956
Total at	**31.12.2013**	**411,132**	**396,050**	**37,522,023**	**23,588**	**70,074**	**5,501,043**
	31.12.2012	292,368	272,432	36,140,816	23,386	101,209	5,416,425

[1] No value is entered for products traded for the client's account in a recognised stock market with daily margining.
[2] Credit component of the underlyings or the nominal values of own transactions and transactions with clients.

4.3 Fiduciary transactions

	31.12.2013	31.12.2012	Change
	CHF 1,000	CHF 1,000	in %
Fiduciary deposits with other banks	1,728,535	2,133,313[1]	-19.0
Total	**1,728,535**	**2,133,313**	**-19.0**

[1] The data for 2012 have been adjusted.

4.4 Client assets

	31.12.2013	31.12.2012	Change
	CHF million	CHF million	in %
Held by funds	6,247	5,802	7.7%
Assets under management	18,135	17,035	6.5%
of which deposited with third parties	*507*	*451*	*12.4%*
Other assets	64,994	63,425	2.5%
Total client assets	**89,376**	**86,262**	**3.6%**
of which double counting	*5,244*	*4,597*	*14.1%*
Net inflow / outflow [1]	2,181	7,519	

[1] 2013 Net new money was calculated by deducting capital outflows from inflows (cash or securities from outside the BSI Group). Intra-group transactions were excluded. Net new money thus does not include interest or dividends received from clients related to assets under management. Moreover, it does not include the performance impact or other changes in the portfolios occurred during the year.

As at 31 December 2013, the BSI Group had assets under management deposited at other banks for a total of CHF 507 million (2012: CHF 451 million) for which other banks act solely as custodians. BSI Ltd., BSI Overseas (Bahamas) Ltd. and BSI Bank Ltd. Singapore hold assets of CHF 5,912 million (2012: CHF 2,935 million), CHF 436 million (2012: CHF 732 million) and CHF 2,063 million (2012: CHF 2,123 million), respectively, related to clients for whom BSI acts as Custodian and recognised under "Other assets". The expression "Custody Only" is used to describe clients for whom the Bank acts solely as a custodian or financial intermediary, without any influence on the management of their assets.

4.5 Irrevocable commitments

	31.12.2013 CHF 1,000	31.12.2012 CHF 1,000	Change in %
Deposit guarantees	33,732	30,836	9.4
Other irrevocable commitments	95,112	77,586	22.6
Total	**128,844**	**108,422**	**18.8**

4.6 Loan commitments

	31.12.2013 CHF 1,000	31.12.2012 CHF 1,000	Change in %
Deferred payment liabilities	5,719	6,409	-10.8
Total	**5,719**	**6,409**	**-10.8**

5. Information on the profit and loss statement

5.1 Income from refinancing included in Interest and discount income

	2013 CHF 1,000	2012 CHF 1,000	Change in %
Total	**692**	**1,281**	**-46.0**

5.2 Results from trading operations

	2013 CHF 1,000	2012 CHF 1,000	Change in %
Foreign exchange and banknote transactions	86,134	86,723	-0.7
Precious metal transactions	2,689	8,433	-68.1
Securities transactions	54,591	59,243	-7.9
Other trading income	4,689	2,134	119.7
Total	**148,103**	**156,533**	**-5.4**

5.3 Personnel expenses

	2013 CHF 1,000	2012 CHF 1,000	Change in %
Salaries	336,373	337,392	-0.3
Social security contributions	29,085	28,307	2.7
Contributions to pension funds in favour of the staff	33,078	46,122	-28.3
Other personnel expenses	26,272	25,892	1.5
Total	**424,808**	**437,713**	**-2.9**

5.4 Other operating expenses

	2013 CHF 1,000	2012 CHF 1,000	Change in %
Premises, machinery and furnishing	32,174	33,835	-4.9
IT expenses	103,861	96,765	7.3
Other office expenses	105,667	99,684	6.0
Total	**241,702**	**230,284**	**5.0**

5.5 Domestic and foreign consolidated gross profit of the Group

	2013		2012	
	Switzerland CHF 1,000	Abroad CHF 1,000	Switzerland CHF 1,000	Abroad CHF 1,000
Result from interest activities	156,631	34,513	189,399	39,349
Result from commission and service fee activities	333,233	170,855	333,128	125,581
Result from trading operations	120,190	27,913	131,876	24,657
Other ordinary result	22,095	-2,360	20,006	1,042
Net operating result	**632,149**	**230,921**	**674,409**	**190,629**
Personnel expenses	-281,120	-143,688	-302,613	-135,100
Other operating expenses	-195,928	-45,774	-185,164	-45,120
Operating expenses	**-477,048**	**-189,462**	**-487,777**	**-180,220**
Gross profit	**155,101**	**41,459**	**186,632**	**10,409**

5.6 Extraordinary income and expenses

	2013 CHF 1,000	2012 CHF 1,000
Extraordinary income	**89,686**	**41,030**
Release of value adjustments and provisions	7,860	6,512
Release of reserves for general banking risks	43,512	26,687
Gain on the sale of participations	36,849	522
Recovered losses	535	559
Profit from sale of fixed assets	31	212
Other extraordinary income	899	6,538
Extraordinary expenses	**-49,931**	**-6,740**
Creation of reserves for general banking risks	-47,053	-679
Losses on sale of participations	-1,992	-4,437
Losses on sale of fixed assets	-40	
Other extraordinary expenses	-846	-1,624
Total	**39,755**	**34,290**

5.7 Taxes

	2013 CHF 1,000	2012 CHF 1,000
Creation of deferred tax assets	-29	-25
Release of deferred tax assets	2,794	946
New provisions for deferred taxes	6,072	2,318
Release of provisions for deferred taxes	-5,108	-18,186[1]
Current year tax liability	12,959	30,067[1]
Change in tax credits on tax losses carried forward in the balance sheet	623	-1,135
Total	**17,311**	**13,985**
Tax credits on tax losses not on balance sheet	6,894	3,667

[1] Including CHF 17.2 million of provisions for current year tax liability, which have been reclassified. They were considered as deferred taxes in the past years.

BSI Group financial statements

6. Information required in accordance with FINMA Circular 08/22 on Capital Adequacy Disclosure

6.1 Presentation of available shareholders' equity

	31.12.2013[1]	31.12.2012[2]
	CHF 1,000	CHF 1,000
Available shareholders' equity		
Share capital	1,840,000	1,840,000
Reserves for general banking risks	146,152	142,508
Capital reserve	145,200	145,200
Reserve and retained earnings	311,498	277,396
Group's loss / profit	-721,955	41,011
Subtotal	**1,720,895**	**2,446,114**
- Goodwill	-3,840	-762,488
- Other intangible assets	-4,301	
- Other amounts arising from shareholders' equity		-31,969
Total basic shareholders' equity (CET1)	**1,712,753**	**1,651,657**
+ Additional shareholders' equity (AT1)		
Total basic shareholders' equity (T1)	**1,712,753**	**1,651,657**
Total additional shareholders' equity (T2)	80,113	91,575
Total available shareholders' equity	**1,792,866**	**1,743,232**
Total risk-weighted positions	**9,824,725**	**10,279,000**
CET1 Ratio	17.35%	16.22%
Total Capital Ratio	18.17%	16.96%

[1] Basel III
[2] Basel II

6.2 Presentation of required shareholders' equity

	31.12.2013[1]	31.12.2012[2]
	CHF 1,000	CHF 1,000
Credit risks (in accordance with the standard approach)	**529,144**	**444,644**
of which equities and shares in collective investment schemes	*31,706*	*37,093*
Risks not linked to counterparties	**30,902**	**136,219**
Market risk (in accordance with the standard approach)	**111,681**	**133,673**
of which relating to bonds (general and specific market risk)	37,796	34,773
of which relating to equities	36,504	29,814
of which relating to currencies and precious metals	13,998	40,709
of which relating to commodities	9,925	17,127
Operating risks (in accordance with the standard approach)	**107,386**	**107,784**
Items not deducted in accordance with 3 threshold [3]	6,865	n/a
Total required shareholders' equity	**785,978**	**822,320**
Ratio of available shareholders' equity to required shareholders' equity	**228.11%**	**211.99%**

[1] Basel III
[2] Basel II
[3] New in Basel III in accordance with art. 40 CAO.

6.3 Credit risk by type of counterparty

in CHF 1,000	Govern-ments and central banks	Banks and securities traders	Corpora-tions under public law	Corpora-tion	Individuals, small and medium-sized companies (retail)	Equities and shares in collective investment schemes	Other	Total
Loan commitments								
Balance sheet / loans								
Liquidity							5,851,944	5,851,944
Due from banks	2,084	2,591,282						2,593,366
Due from customers	184,736	787,811	188,865	3,016,120	2,123,511			6,301,043
Mortgage loans	39,129	113,016		680,905	3,186,855			4,019,905
Financial investments[1]	1,048,362	1,798,704	316,705	308,726		163,481	177,023	3,813,001
Other assets / positive replacement values	4,329	459,531	731	67,032	12,497		263	544,383
Total at 31.12.2013[2]	**1,278,640**	**5,750,344**	**506,301**	**4,072,783**	**5,322,863**	**163,481**	**6,029,230**	**23,123,642**

31.12.2012[3]	1,446,848	6,177,960	811,840	3,527,820	5,388,189	153,235	3,906,583	21,412,475
Off-balance sheet								
Contingent liabilities	9,689	458,390	1,302	396,770	116,568			982,720
Irrevocable commitments		2	33,730	463	94,649			128,844
Contingent liabilities for calls and margin liabilities		654						654
Loan commitments		1,492		4,227				5,719
Total at 31.12.2013[2]	**9,689**	**460,538**	**35,032**	**401,460**	**211,217**			**1,117,936**
31.12.2012[3]	5,601	111,249	38,728	329,485	190,171		446	675,680

[1] Including money market paper and reclassification of hedge fund portfolios.
[2] Basel III
[3] Basel II

6.4 Credit risk mitigation

in CHF 1,000	Covered by recognised financial guarantees	Covered by guarantees and derivatives	Covered by other guarantees	Total
Loan commitments / Counterparty risk on balance sheet closing				
Balance sheet / loans				
Due from banks	155,776			155,776
Due from customers	4,717,361	305,038	535,642	5,558,041
Mortgage loans	356,586	103,773	3,484,346	3,944,705
Financial investments[1]		530,312		530,312
Other assets / positive replacement values	74,492		3,803	78,295
Total at 31.12.2013[2]	**5,304,215**	**939,123**	**4,023,791**	**10,267,129**
31.12.2012[3]	5,247,190	1,157,422	3,970,888	10,375,499
Off-balance sheet				
Contingent liabilities	396,228	11,125	3,486	410,839
Irrevocable commitments	463		300	763
Contingent liabilities for calls and margin liabilities				
Loan commitments				
Total at 31.12.2013[2]	**396,691**	**11,125**	**3,786**	**411,602**
31.12.2012[3]	342,641	19,231	10,721	372,593

[1] Including money market paper.
[2] Basel III
[3] Basel II

6.5 Breakdown of credit risk

	Weighting of regulated risk									
in CHF 1,000	0%	20-25%	35%	50%	75%	100%	125%	150%	> = 250%	**Total**
Loan commitments / Counterparty risk on balance sheet closing										
Balance sheet / loans										
Liquidity	5,851,944									5,851,944
Due from banks	113,352	859,200		1,617,248				3,566		2,593,366
Due from customers	4,976,490	122,438	334,526	180,125	66,040	619,707		1,717		6,301,043
Mortgage loans	525,181	64,661	2,737,029	180	78,710	591,989		22,155		4,019,905
Financial investments[1]	1,407,040	397,336		1,529,925		316,256		162,444		3,813,001
Other assets / positive replacement values	89,826	171,380	102	269,050	1,492	12,533				544,383
Total at 31.12.2013[2]	**12,963,833**	**1,615,015**	**3,071,657**	**3,596,528**	**146,242**	**1,540,485**		**189,882**		**23,123,642**
31.12.2012[3]	11,254,181	3,910,785	2,638,690	1,881,535	625,742	905,743	5,301	27,406	163,092	21,412,475
Off-balance sheet										
Contingent liabilities	405,240	19,676	844	422,074	12	134,813		61		982,720
Irrevocable commitments	463	33,732	300			94,349				128,844
Contingent liabilities for calls and margin liabilities						654				654
Loan commitments		1,492				4,227				5,719
Total at 31.12.2013[2]	**405,703**	**54,900**	**1,144**	**422,074**	**12**	**234,043**		**61**		**1,117,937**
31.12.2012[3]	348,140	70,349	8,271	61,084	12,774	175,061				675,680

[1] Including money market paper and reclassification of hedge fund portfolios.
[2] Basel III

[3] Basel II

6.6 Geographical credit risk (domicile of the collateral)

in CHF 1,000	Switzerland	Oceania	North America	Latin America	Europe	Carib-bean	Asia	Africa	Other	Total
Loan commitments										
Balance sheet / loans										
Due from banks	212,573	12,724	82,212	1,196	1,675,898	3,539	599,115	6,109		2,593,366
Due from customers	1,238,959	171,832	351,069	195,929	1,575,521	1,530,605	1,168,189	68,939		6,301,043
Mortgage loans	3,085,822		176,188		497,090	2,823	257,982			4,019,905
Financial investments[1]	128,252	105,886	68,447		3,275,156	1,038	234,222			3,813,001
Other assets / positive replacement values	174,357	4,085	6,191	12,828	271,292	51,902	22,385	1,343		544,383
Total at 31.12.2013[2]	**4,839,963**	**294,527**	**684,108**	**209,953**	**7,294,956**	**1,589,907**	**2,281,893**	**76,391**		**17,271,698**
31.12.2012[3]	4,926,093	175,361	1,419,036	215,520	7,438,793	1,338,872	1,940,327	68,385		17,522,387
Off-balance sheet										
Contingent liabilities	467,880	10,840	13,354	19,662	206,575	190,075	68,098	6,236		982,720
Irrevocable commitments	128,844									128,844
Contingent liabilities for calls and margin liabilities	654									654
Loan commitments	4,371						1,348			5,719
Total at 31.12.2013[2]	**601,749**	**10,840**	**13,354**	**19,662**	**206,575**	**190,075**	**69,446**	**6,236**		**1,117,937**
31.12.2012[3]	237,228	2,443	4,981	19,790	160,315	157,697	81,910	11,315		675,680

[1] Including money market paper and reclassification of hedge fund portfolios.
[2] Basel III
[3] Basel II

6.7 Impaired client loans by geographical region

in CHF 1,000	Switzerland	Oceania	North America	Latin America	Europe	Carib-bean	Asia	Africa	Other	Total
Impaired loans (gross amount)	**93,412**		**8,461**	**685**	**81,032**	**18,507**				**202,097**
Total at 31.12.2013[1]	**93,412**		**8,461**	**685**	**81,032**	**18,507**				**202,097**
31.12.2012[2]	106,321		8,298	679	75,496	21,214				212,008
Individual value adjustments	**29,955**		**1,299**	**699**	**68,062**	**18,507**				**118,522**
Total at 31.12.2013[1]	**29,955**		**1,299**	**699**	**68,062**	**18,507**				**118,522**
31.12.2012[2]	46,358		1,156	692	55,362	19,000				122,568

[1] Basel III
[2] Basel II

6.8 Contract volumes for credit derivatives in the Bank portfolio

	2013[1]		**2012[2]**	
	Seller	**Buyer**	**Seller**	**Buyer**
	CHF 1,000	**CHF 1,000**	**CHF 1,000**	**CHF 1,000**
Derivatives				
Credit default swaps	249,081	294,199	55,861	124,752
of which from the trading portfolio	*249,081*	*279,160*	*55,861*	*97,483*
of which from the investment portfolio		*15,039*		*27,269*

[1] Basel III
[2] Basel II

6.9 Presentation of the most important features of regulatory capital instruments[1]

		Share capital	Subordinated loan Tier 2
1	Issuer	BSI Ltd.	BSI Ltd.
2	Identification (e.g. ISIN)	n/a	CH0145635766
3	Law applicable to the instrument	Swiss	Swiss
	Prudent basis		
4	Consideration during transitional Basel III regulations (CET1 / AT1 / T2)	CET1	T2
5	Consideration after the Basel III transitional phase (CET1 / AT1 / T2)	CET1	-
6	Calculated at the individual / consolidated / individual and consolidated level	Individual and consolidated	Individual and consolidated
7	Equities / debt securities / hybrid financial instruments / other instruments	Equities	Debt securities
8	Amount calculated on regulatory treasury funds (based on the last treasury fund statement)	CHF 1840 million	CHF 80.113 million
9	Nominal value of the instrument	CHF 1840 million	USD 100 million
10	Accounting item	Share capital	Loans with issuers of property bonds and other loans
11	Original issue date	1873	23.12.11
12	Unlimited or with maturity	n/a	with maturity
13	Original maturity date	n/a	23.12.21
14	Rescindable by the issuer (with consent from the Supervisory Authority)	n/a	yes
15	Period of notice of termination to be chosen / conditional period of notice of termination / reimbursement amount		23.11.2016 at 100% of the notional value
16	Subsequent termination clauses, if applicable	n/a	every 6 months
	Coupons / dividends		
17	Fixed / variable / first fixed then variable / first variable then fixed	dividend	first fixed, then variable
18	Nominal coupon and reference index, if any	n/a	5.25% until 23.12.16, then Libor +4%
19	Presence of a "dividend stopper" (waiver of dividends on an instrument involves cancellation of dividends on ordinary shares)	n/a	no
20	Payment of interests / dividends: completely discretionary / Partially discretionary / mandatory	completely discretionary	mandatory
21	Presence of a set-up clause or another reimbursement incentive	n/a	n/a
22	Not cumulative or cumulative	n/a	n/a
23	Convertible or non-convertible	n/a	n/a
24	If convertible: conversion activation (including through PONV)	n/a	n/a
25	If convertible: total in any case / total or partial / partial in any case	n/a	n/a
26	If convertible: conversion rate	n/a	n/a
27	If convertible: mandatory / optional conversion	n/a	n/a
28	If convertible: type of instrument resulting from the conversion	n/a	n/a
29	If convertible: instrument issuer resulting from the conversion	n/a	n/a
30	Presence of depreciation clause	n/a	no
31	Depreciation activation	n/a	n/a
32	Total / partial	n/a	n/a
33	Lasting or temporary	n/a	n/a
34	In case of temporary depreciation: description of the depreciation mechanism	n/a	n/a
35	Ranking in case of liquidation (specify the instrument with immediately 35 higher ranking)	AT1	not subordinate
36	Presence of features that prevent full recognition pursuant to Basel III	No	No PONV
37	If present, description of these features	n/a	n/a

[1] New Basel III

ISSUER
Principal Office in Brazil
Banco BTG Pactual S.A.
Praia de Botafogo, 501, 5 º e 6º andares
Rio de Janeiro, RJ–22250-040
Brazil

Registered Office of Luxembourg Branch
Banco BTG Pactual S.A.
2, Avenue Charles De Gaulle
L-1653 Luxembourg

AUDITORS OF THE ISSUER
Ernst & Young Terco Auditores Independentes S.S.
Av. Presidente Juscelino Kubitscheck, 1830,
São Paulo, SP– 04543-900
Brazil

TRUSTEE, PAYING AGENT, REGISTRAR AND TRANSFER AGENT
Deutsche Bank Trust Company Americas
60 Wall Street, 16th Floor
MS: NYC60-1630
New York, NY 10005

LUXEMBOURG PAYING AGENT AND LUXEMBOURG TRANSFER AGENT
Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

LEGAL ADVISERS

To the Initial Purchasers
as to United States Law
Shearman & Sterling LLP
Av. Brigadeiro Faria Lima, 3400
São Paulo, SP 04538-132
Brazil

To the Initial Purchasers
as to Brazilian Law
Demarest Advogados
Av. Pedroso de Moraes, 1201
São Paulo, SP – CEP 05419-001
Brazil

To the Issuer
as to United States Law
Skadden, Arps, Slate, Meagher & Flom LLP
Av. Brigadeiro Faria Lima, 3311, 7° andar
São Paulo, SP – 04538-133
Brazil

To the Issuer
as to Brazilian Law
Machado, Meyer, Sendacz e Opice Advogados
Av. Brigadeiro Faria Lima, 3144, 11° andar
São Paulo, SP – 01451-000
Brazil

To the Issuer
as to Luxembourg Law
Loyens & Loeff s.à r.l.
18-20 r. Edward Steichen, 2540
L-2540 Luxembourg