Financial Statements

BTG Pactual Participations Ltd.

December 31, 2016
with independent auditors’ report on the financial statements

BTG Pactual Participations Ltd.

Financial Statements

As of December 31, 2016

Content

Centro Empresarial PB 370
Praia de Botafogo, 370
5º ao 8º Andares - Botafogo
22250-040 - Rio de Janeiro - RJ - Brasil
Tel.: (5521) 3263-7000
ey.com.br

A free translation from Portuguese into English of the Independent Auditors' Report on financial statements prepared in accordance with the International Financial Reporting Standards, issued by International Accounting Standards Board – IASB

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders and Management of
BTG Pactual Participations Ltd.

Opinion

We have audited the financial statements of BTG Pactual Participations Ltd. (Company), which comprise the balance sheet as of December 31, 2016, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board – IASB.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "*Auditor's responsibilities for the audit of the financial statements"* section of our report. We are independent of the Company in accordance with the relevant ethical principles of the Code of Professional Ethics of Accountant and professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value measurement of complex and illiquid financial instruments and derivatives

The Company has complex and illiquid financial instruments in its investment portfolio, which are priced and recorded at fair value. The fair value measurement of these instruments requires management to use pricing models and assumptions, such as expected cash flow, risk free rate, credit risk spread, among other inputs. Due to the nature of these instruments and the complexity and subjectivity involved in the valuation methodologies, we considered the measurement of these complex and illiquid financial instruments as one of the main audit matters.

Our audit procedures included, among others, the involvement of specialists in illiquid financial instruments pricing to assist us in the evaluation of the pricing methodologies and the assumptions considered by management in measuring the fair value of these instruments. In addition, we evaluated the Company's disclosures, which are included in footnote 6.

Disposal of investment entities

As disclosed in the financial statements for the year ended December 31, 2015, management implemented initiatives to preserve capital and liquidity, which included, among others, the disposal of certain investment entities. The process of computing the results and determining the consequent accounting treatment is a complex issue because it involves implications of clauses stipulated in the Share Purchase Agreement, in addition to the magnitude of the amounts involved; being, then, considered as one of the main audit matters. These aspects were analyzed and treated by management in the financial statements, according to footnote 1.

Our audit procedures, included, among others, the involvement of specialists to assist us on the understanding of these Share Purchase Agreements, as well as the evaluation of the related accounting treatment, including their impacts on the statement of income for the period. Moreover, we evaluated the Company's disclosures related to these disposals, which are disclosed in the aforementioned notes.

Related party transactions

The Company is part of an organizational structure with several legal entities, in Brazil and abroad, and it carries out, within its operations, transactions with these related parties. Due to the number of related parties, and the volume and the inherent risk associated to these transactions, we considered related parties transactions to be one of the main audit matters.

Our audit procedures included, among others, the understanding of the Company’s procedures for identifying and mapping transactions with related parties, as well as obtaining formal representation by management with respect of the identification of all related parties with the Company. Additionally, we audited, on a sampled basis, the transactions with related parties and the respective eliminations, when applicable, in the financial statements.

Furthermore, we evaluated the Company's disclosures pertaining to related party transactions, disclosed in footnote 15.

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

Company’s management is responsible for such other information, which includes the Management Report.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board – IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process, and includes Management, Audit Committee and Board of Directors of the Company.

Auditor’s responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including the applicable independence requirements, and communicate any relationships or matters that could significantly affect our independence, including, where applicable, respective safeguards.

Based on the matters that were communicated to those in charge of governance, we determine those that were considered most significant in the audit of the financial statements for the current year and, therefore, that represent the significant audit issues. We describe these matters in our audit report, unless the law or regulation has forbidden public disclosure of the matter or when in extremely rare circumstances we determine that the matter should not be included in our report because the adverse consequences from such disclosure may, within a reasonable perspective, overcome the benefits from communication to the public interest.

São Paulo, February 14, 2017.

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP 015.199/F-6

Grégory Gobetti
Accountant CRC – 1PR 039.144/O-8

BTG Pactual Participations Ltd.

Balance sheets
As of December 31
(In thousands of reais)

Assets	**Note**	**12/31/2016**	**12/31/2015**
Cash and cash equivalents	5	107	-
Investment entity portfolio	6	722,527	723,829
Total assets		**722,634**	**723,829**
Liabilities			
Due to brokers		-	540
Total liabilities		**-**	**540**
Shareholders' equity			
Capital stock and share premium	7	1,504,802	1,328,880
Treasury shares	1, 7	(17,991)	(32,665)
Other comprehensive income		418,649	600,930
Accumulated losses		(1,182,826)	(1,173,856)
Total shareholders' equity		**722,634**	**723,289**
Total liabilities and shareholders' equity		**722,634**	**723,829**

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

BTG Pactual Participations Ltd.

Statements of income
Years ended December 31
(In thousands of reais, except for earning / (loss) per share)

	Note	12/31/2016 (1)	12/31/2015 (1)
Interest income	9a	-	180,872
Interest expenses	9b	-	(957,310)
Interest expenses, net		**-**	**(776,438)**
Gains on financial instruments held for trading	10	-	174,197
Gains on financial assets designated at fair value through profit and loss		-	75,429
Equity pickup in associates and joint ventures, before change of status to investment entity		-	(117,650)
Gains / (losses) on financial assets available for sale			
Dividends received		-	16,248
Impairment losses	14	-	(188,450)
Foreign exchange reclassification - Change in status (1)		-	(818,337)
Other operating income	11	239	46,247
Gain / (loss) on investment entity portfolio measured at fair value	13	108,287	(53,231)
Operating income / (loss)		**108,526**	**(1,641,985)**
Administrative expenses	12	(182)	(157,236)
Other expenses		-	(300,247)
Income / (loss) for the year		**108,344**	**(2,099,468)**
Income / (loss) attributed to:			
Controlling shareholders		108,344	(584,542)
Non-controlling shareholders		-	(1,514,926)
Earning / (loss) per share (basic and diluted - R$)	8	0.16	(0.83)

(1) Refer to Note 2(b) regarding the application of the investment entity guidance.

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

BTG Pactual Participations Ltd.

Statements of comprehensive income

Years ended December 31
(In thousands of reais)

	12/31/2016 (1)	12/31/2015 (1)
Net income / (loss) for the year	108,344	(2,099,468)
Other comprehensive income / (loss) to be reclassified to profit or loss:	-	(206,020)
Share of other comprehensive income of non-controlled entities:		
Foreign exchange	-	233,190
Recycling - Foreign exchange - Change in status (1)	-	(233,190)
Movements in financial assets at fair value through other comprehensive income:		
Realized impairment losses - Before change in status	-	188,450
Unrealized - Before change in status	-	(882,403)
Recycling - Financial assets available for sale - Change in status (1)	-	693,953
Foreign exchange on controlled entities	-	(835,897)
Recycling - Foreign exchange on controlled entities - Change in status (1)	-	835,897
Derecognition of non-controlling interest	-	(353,042)
Recycling - Other comprehensive income from previous years - Change in status (1)	-	147,022
Other comprehensive income / (loss) not to be reclassified to profit or loss:	(177,745)	1,397,427
Currency translation adjustments	(177,745)	1,397,427
Total comprehensive loss for the year	**(69,401)**	**(908,061)**
Total comprehensive loss attributed to:		
Controlling shareholders	(69,401)	606,865
Non-controlling shareholders	-	(1,514,926)

(1) Refer to Note 2(b) regarding the application of the investment entity guidance.

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

BTG Pactual Participations Ltd.

Statement of changes in shareholders’ equity
Years ended December 31
(In thousands of reais)

	Note	Capital stock and share premium	Other comprehensive income: From Company	Other comprehensive income: From non-controlled entities	Treasury shares	Accumulated losses	Total shareholders' equity	Non-controlling interest	Total shareholders' equity and non-controlling interest
Balance as of December 31, 2014		**1,125,180**	**230,889**	**(37,999)**	**-**	**(283,693)**	**1,034,377**	**3,113,790**	**4,148,167**
Capital increase	7	203,700	-	-	-	-	203,700	-	**203,700**
Repurchase of shares	1, 7	-	-	-	(112,614)	-	(112,614)	-	**(112,614)**
Cancelation of treasury shares	1, 7	-	-	-	79,949	(79,949)	-	-	**-**
Net loss of the year after change in status		-	-	-	-	(584,542)	(584,542)	(1,514,926)	**(2,099,468)**
Share of other comprehensive income of non-controlled entities:									
Foreign exchange		-	-	58,419	-	-	58,419	174,771	**233,190**
Recycling - Foreign exchange		-	-	(58,419)	-	58,419	-	-	**-**
Change in financial assets at fair value through other comprehensive income									
Realized impairment losses		-	47,211	-	-	-	47,211	141,239	**188,450**
Unrealized		-	(221,042)	-	-	-	(221,042)	(661,361)	**(882,403)**
Recycling - Financial assets available for sale		-	221,042	-	-	(221,042)	-	-	**-**
Foreign exchange on controlled entities		-	(209,411)	-	-	-	(209,411)	(626,486)	**(835,897)**
Recycling - Foreign exchange on controlled entities		-	209,411	-	-	(209,411)	-	-	**-**
Currency translation adjustments		-	213,807	-	-	-	213,807	1,183,620	**1,397,427**
Investment entity - Change in status (1)		-	109,023	37,999	-	146,362	293,384	(1,810,647)	**(1,517,263)**
Balance as of December 31, 2015		**1,328,880**	**600,930**	**-**	**(32,665)**	**(1,173,856)**	**723,289**	**-**	**723,289**
Capital increase	7	175,922	-	-	-	-	175,922	-	**175,922**
Repurchase of shares / (sale) of treasury shares	1, 7	-	-	-	(107,176)	-	(107,176)	-	**(107,176)**
Cancelation of treasury shares	1, 7	-	-	-	117,314	(117,314)	-	-	**-**
Net loss of the year		-	-	-	-	108,344	108,344	-	**108,344**
Currency translation adjustments		-	(182,281)	-	4,536	-	(177,745)	-	**(177,745)**
Balance as of December 31, 2016		**1,504,802**	**418,649**	**-**	**(17,991)**	**(1,182,826)**	**722,634**	**-**	**722,634**

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

BTG Pactual Participations Ltd.

Statements of cash flows
Years ended December 31
(In thousands of reais)

	Note	12/31/2016 (1)	12/31/2015 (1)
Operating activities			
Net income / (loss) for the year		108,344	(2,099,468)
Adjustments to the income / (loss) for the year			
Equity pickup in associates and joint ventures		-	117,650
Loss on financial assets available for sale		-	188,450
Financial assets measured at fair value through profit or loss		-	81,892
(Gains) / losses from investment entity portfolio measured at fair value	13	(108,287)	53,231
Currency translation adjustments		(177,745)	(278,254)
Adjusted gain/(loss) for the year		(177,688)	(1,936,499)
(Increase)/decrease in operating assets, net			
Investment entity portfolio		161,078	(2,203,695)
Derivative financial instruments		-	1,314,424
Financial assets held for trading		-	24,327,852
Financial assets available for sale		-	(528,705)
Loans and receivables		-	(690,326)
Due from brokers		-	2,713,546
Other assets		-	366,811
Increase/(decrease) in operating liabilities, net			
Open market funding		-	(27,829,470)
Derivative financial instruments		-	(1,206,850)
Financial liabilities held for trading		-	(3,017,657)
Due to brokers		(540)	(1,514,776)
Other liabilities		-	(296,566)
Cash provided by / (used in) operating activities		(17,150)	(10,501,911)
Investment activities			
Capitalization/acquisition of associates and joint ventures		-	(101,383)
Sale/transfer of associates and joint ventures		-	209,686
Dividends received		-	26,120
Cash from investing activities		-	134,423
Financing activities			
Capital increase		124,434	-
Repurchase of shares / (sale) of treasury shares		(107,176)	(10,509)
Financial liabilities at amortized cost		-	1,435,003
Cash provided by financing activities		17,258	1,424,494
Increase / (decrease) in cash and cash equivalents		**107**	**(8,942,994)**
Balance of cash and cash equivalents			
At the beginning of the period		-	10,094,874
Investment entity - Change in status		-	1,151,880
At the end of the period		107	-
Increase / (decrease) in cash and cash equivalents		**107**	**(8,942,994)**
Non-cash transactions			
Capital increase		51,488	203,700

(1) Refer to Note 2(b) regarding the application of the investment entity guidance.

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

1. Operations

BTG Pactual Participations Ltd ("BTGP" or "Company") was incorporated as a tax exempted Limited Liability Company under the laws of Bermuda on March 26, 2010. On December 29, 2010, the Bermuda monetary authority approved the incorporation of the Company. The Company headquarters is located on Clarendon House, 2 Church Street, HM 11, Hamilton, Bermuda.

The Company has applied for and has been granted exemption from all forms of taxation in Bermuda until March 31, 2035, including income, capital gains and withholding taxes. In jurisdictions other than Bermuda, some foreign taxes will be withheld at source on dividends and certain interest received by the Company.

Banco BTG Pactual S.A. ("BTG Pactual" or "Bank") and BTGP (together with BTG Pactual, the "Group") have units listed on NYSE Euronext in Amsterdam and BM&F BOVESPA in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank and 1 common share and 2 preferred shares, class B of BTG Pactual Participations Ltd. All units listed and traded in Amsterdam remained wholly interchangeable with the units in Brazil.

The Company is the sole owner of BTG Bermuda LP Holdco Ltd ("BTG Holdco") which, on December 29, 2010, received a Class C common share from BTG Pactual Management Ltd and thus became general partner of BTG Investments LP ("BTGI"). As a consequence of this transaction, the Company obtained the right to control the financial and operating policies of BTGI.

BTGI was formed in 2008 and makes proprietary capital investments in a wide range of financial instruments, including Merchant Banking investments in Brazil and overseas, and a variety of financial investments in global markets.

BTG Pactual's asset management area manages BTGI's assets, which do not have their own management, and receives fees at arm's length.

Special Committee

On December 4, 2015, the Board of Directors created a Special Committee, consisting of a majority of independent/non-executive members of the Board of Directors, to oversee and direct an internal investigation of issues raised as a result of the arrest of Mr. André Santos Esteves. The Special Committee hired the law firms Quinn Emanuel Urquhart & Sullivan, LLP and Veirano Advogados (together, "Legal Counsel") to conduct the independent investigation on its behalf. The Board of Directors granted the Special Committee and Legal Counsel authority to require full cooperation from the Group, its management and its employees in the investigation and unlimited access to information requested by the Special Committee and Legal Counsel.

On April 7, 2016, the Special Committee, assisted by outside counsels, concluded their investigation and released the final report. Based on its investigation, the Legal Counsel found no basis to conclude that André Santos Esteves, BTG Pactual or members of its personnel that were subject to this investigation, were engaged in any corruption or illegality with respect to the alleged matters. In addition, in April, the Brazilian Supreme Court authorized Mr. André Santos Esteves to return to BTG Pactual, who has been acting as Senior Partner, with no executive function.

Buyback Program

On November 25, 2015 the Board of Directors announced its units' buyback program. Since the beginning of the program 77,801,250 units have been repurchased impacting BTGP in the amount of R$219,790 and 71,904,350 units had been canceled, impacting BTGP in the amount of R$197,263. On December 31, 2016, 5,896,900 units are held in treasury.

Corporate events

On April 8, 2016, BTG Pactual decided to implement the separation of its commodity trading activities, with the exception of those activities carried out by the Brazil energy trading desk from the operational structure of BTG Pactual and to rearrange the commodities platform under a new Luxembourg-based company named Engelhart Commodities Trading Partners ("Engelhart CTP"). The commodities platform will operate separately from BTG Pactual, with limited administrative and operational services to be provided by BTG Pactual based on arm's length contracts in accordance with market practices, including cost sharing and infrastructure sharing agreements, until such services are fully assumed by Engelhart CTP. It is anticipated that a portion of such equity will be held by senior employees of Engelhart CTP under an incentive program. Up to five years after the completion of the separation, Engelhart CTP will have the option to acquire its remaining equity interest held by Banco for its shareholders' equity value.

BTG Pactual Group issued new units as a consequence of this transaction, which lead to a new issuance of shares from BTGP, as described in note 7.

Acquisitions and sales

On September 30, 2016, BTGI Investimentos Florestais S.A., one of BTGI's subsidiaries, raised capital through a share issuance that was fully subscribed by Fundo de Investimento em Participações Development Fund Warehouse. Subsequent to the capital increase, BTGI Investimentos Florestais S.A. acquired a 26.67% stake in Timber SPE S.A., for approximately R$8.27 million.

On July 29, 2016, the Company, through BTG Pactual Brazil Infrastructure Fund II LP, sold its interest in Latin America Power Holding B.V. to BTGPH Corp Hedge Fund owned by BTG Pactual International Portfolio Fund II SPC for US$60,454 (equivalent to R$190,810 at the time of the transaction), via transfer of shares at carrying amount with no gains or losses recorded.

On June 30, 2016, the Company, through its subsidiary BTG Equity Investments LLC, sold its interest in ADS - Advanced Disposal Service to BTGPH Corp Hedge Fund owned by BTG Pactual International

Portfolio Fund II SPC for US$94,347 (equivalent to R$302,835 at the time of the transaction), via transfer of shares at carrying amount with no gains or losses recorded.

On April 12, 2016, BTGI together with BTG Pactual Principal Investments FIP, entered into a series of agreements through which they committed to dispose of 100% of their shares in União de Lojas Leader S.A. ("Leader") and, consequently, BTG no longer has influence over the company's management. By the time these financial statements were issued, BTGI, through one of its subsidiary, among other commitments, had loans in the amount of R$1,162 million, subsequent to the acquisition of a portion of Leader's liabilities in the process of restructuring its debts. The sale of Leader was concluded on July 28, 2016. The sale price of the shares corresponds to a symbolic value and the repayment of the loans will derive from Leader's cash generation, including the cash proceeds from a potential sale by its current controlling shareholders.

On March 21, 2016, A.Z.P.S.P.E. Empreendimentos e Participações S.A., BTGI's subsidiary, entered into a share purchase and sale agreement with Gaia Ambiental Empreendimentos S.A, in which it committed to dispose of 100% of its shares in CDR Pedreira, for the amount of approximately R$258 million, at carrying amount with no gains or losses recorded.

On December 8, 2015 BTGI, through its subsidiary, Aigues de Catalunya Ltd ("ADC") signed promise to sell the totality of its interests in ATLL Concessionaria de La Generalitat de Catalunya S.A. ("ATLL") as follow: (i) Sale of 95% of Company's interest in ATLL's equity for EUR19.34 million (R$79.78 million), being the receipt of the remaining balance equivalent to 5% of its interest, subject to the fulfillment of precedent conditions, and (ii) liquidation of the credit agreement granted by ADC to ATLL in the amount of EUR54.76 million (R$ 225.85 million). As consequence of this sale, Company registered a loss for EUR32.25 million (R$137.06 million).

The financial statements were approved by the Management on February 14, 2017 and they contain a true and fair view of the financial position and results of the Company.

2. Presentation of financial statements

The Company's financial statements were prepared and are being presented in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board (IASB).

The accounting policies set out in Note 3 have been applied consistently to all years presented in these financial statements except for the application of the International Financial Reporting Standard ("IFRS") 10 Consolidated Financial Statements – Investment Entities (Amendment), described in the financial statements for the year ended on December 31, 2015, and the effects of the early adoption of IFRS 9 – Financial Instruments, described below.

a. Early Adoption of IFRS 9 – Financial Instruments

The Company decided to early adopt, and with prospective effects, IFRS 9 – Financial Instruments with the date of initial application of January 1, 2016 in order to reduce the complexity of its financial statements, volatility in the income statement of the gains and losses in fair value of its financial assets, and to anticipate a change that will be mandatory as of January 1, 2018. IFRS 9 determines new requirements for classifying and measuring financial assets and financial liabilities, for the credit risk impairment methodology for financial assets, and for the hedge accounting treatment.

Subsequently to the IFRS 9 early adoption without electing fair value option nor hedge accounting, the Company classified prospectively its financial assets as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) with or without recycling, or at amortized cost. The main characteristics of IFRS 9 are further described in the main accounting practices.

Apart from the aforementioned changes in classification, no significant impact was identified for the Company's financial statements for the year ended on December 31, 2016, as of January 1, 2016, date of the IFRS 9 early adoption.

b. IFRS 10 Consolidated Financial Statements – Investment Entities (Amendment)

On September 30, 2015, the Company reassessed the application of the investment entities guidance from IFRS 10, Consolidated Financial Statements, and concluded that it became an investment entity as a result of the restructuring of the vehicles, through which certain of our global capital markets investment activities had been carried out, and change in the way Management conducts the business. The change in status to investment entity caused significant changes, mainly to the presentation of the financial statements, and we believe it provides enhanced transparency in its investments to the ultimate shareholders, and users of its financial statements.

The objective of the restructuring, initiated in early 2015, was to reduce the operational costs of maintaining similar trading strategies in the funds in which we invest directly, BTG Pactual Absolute Return II LP ("ARF II") and BTG Pactual Absolute Return LP ("ARF"), and the fund in which BTG Pactual's other clients invest with similar strategies, BTG Pactual Global Emerging Markets and Macro Fund Limited ("GEMM"). Accordingly, BTGI reduced the positions in ARF and ARF II; funds consolidated in our financial statements, and reallocated substantial portions of such proprietary capital to GEMM, an unconsolidated fund. While the restructuring caused a significant reduction in BTGI's total assets, its economic exposure to the corresponding trading strategies remains substantially similar. Further, it became substantially a vehicle through which investment are made for returns from capital appreciation and investment income and which measures and evaluate the performance of substantially all its portfolio on a fair value basis.

(In thousands of reais)

Under IFRS 10, the criteria which define an investment entity are currently as follows:

a. An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;

b. An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and

c. An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

In accordance with IFRS10.30 and IFRS10.B101, the Company has therefore ceased to consolidate its subsidiaries at the date of the change in status, which it has evaluated as being September 30, 2015. The Company has no subsidiaries that provides services that relate to its investment activities that would continue to be consolidated under IFRS10.32.

The Company’s investments in controlled entities, as well as investments in associates and joint ventures, are now measured at fair value through profit or loss, as shown in Note 8. The Company has derecognized the assets and liabilities of its subsidiaries from its balance sheet and recognized a gain or loss associated with the move to fair value accounting of these subsidiaries.

As at September 30, 2015, the major impacts due to the change in investment entity status are: (i) transfer of foreign exchange differences on translation of subsidiaries and fair value from available for sale financial instruments from current year and previous periods that had been recognized in other comprehensive income to the income statement in the amount of R$818,337, (ii) recognition of positive fair value in the amount of R$178,310 in the income statement related to the net position of both raised and contracted loans, (iii) significant change in presentation of the balance sheet due to several reclassifications to the investment entity portfolio line; and, (iv) no longer presentation of non-controlling interest on the balance sheet; statements of changes in shareholders’ equity and cash flows.

Prospective application of the amended standard resulted in the following changes to the balance sheet as of September 30, 2015:

	Consolidated	Adoption of IFRS 10 - Investment Entities	Investment entity
Assets			
Cash at banks	1,435,629	(1,435,629)	-
Open market investments	228,327	(228,327)	-
Derivative financial instruments	73,692	(73,692)	-
Financial assets held for trading	5,136,588	(5,136,588)	-
Investment entity portfolio	-	912,487	912,487
Financial assets available for sale	3,861,825	(3,861,825)	-
Loans and receivables	2,985,879	(2,985,879)	-
Due from brokers	846,934	(846,934)	-
Investments in associates and joint ventures	1,352,132	(1,352,132)	-
Investment properties	824,283	(824,283)	-
Receivables from related parties	-	203,700	203,700
Other assets	752,563	(752,563)	-
Total assets	**17,497,852**	**(16,381,665)**	**1,116,187**

BTG Pactual Participations Ltd.

Notes to the financial statements
As of December 31, 2016
(In thousands of reais)

	Consolidated	Adoption of IFRS 10 - Investment Entities	Investment entity
Liabilities			
Open market funding	1,934,228	(1,934,228)	-
Derivative financial instruments	212,911	(212,911)	-
Financial liabilities held for trading	110,460	(110,460)	-
Financial liabilities at amortized cost	8,511,838	(8,511,838)	-
Due to brokers	301,873	(301,873)	-
Payables to related parties	-	203,700	203,700
Other liabilities	2,879,592	(2,879,592)	-
Total liabilities	**13,950,902**	**(13,747,202)**	**203,700**
Shareholders' equity			
Capital stock and share premium	1,328,880	-	1,328,880
Other comprehensive income	310,899	288,396	599,295
Accumulated losses	(603,355)	(412,333)	(1,015,688)
Total shareholders' owners equity	**1,036,424**	**(123,937)**	**912,487**
Non-controlling interest	2,510,526	(2,510,526)	-
Total shareholders' equity and non-controlling interest	**3,546,950**	**(2,634,463)**	**912,487**
Total liabilities and shareholders' equity	**17,497,852**	**(16,381,665)**	**1,116,187**

Although the Company no longer consolidates any subsidiary, information relating to non-controlling interest has been provided in the statement of income and comprehensive income as it presents its results until September 30, 2015. Further, the Company has decided to present consolidated statement of income and comprehensive income for the periods and quarters ended September 30, 2015 because it understands the derecognition of subsidiaries should solely be recorded prospectively.

The Company's investment entity portfolio is held through BTG Holdco, which measures its investment in BTGI, at fair value through profit or loss. Both entities are now fair valued. When it is impractical or there is reasonable effort to measure the fair value of the entity, IFRS 10 allows an investment entity to use the previous carrying amount of the subsidiary. As of December 31, 2016 and 2015, both entities were presented at fair value.

c. Application and significant judgments

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in Note 3, specifically regarding the classification of financial assets, the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

d. Revised IFRS pronouncements

The following standards have been adopted as of and for the year ended December 31, 2016:

• Annual improvements

The "Annual Improvements to IFRSs" for the 2014-16 annual improvement cycles were issued December 8, 2016 and their adoption is required from January 1, 2018.

The Company assessed the possible effects and concluded that it will have no material impact on its financial statements.

• IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

“Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” amends IFRS 10 and IAS 28, to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (i) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations), (ii) require the partial recognition of gains and losses where the assets do not constitute a business.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in any subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

The change is effective since January 1, 2016 and Management assessed the possible impacts. However, it concluded that they are not significant as of December 31, 2016.

3. Main accounting practices

a. Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported balances of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the year. These estimates are based on historical experience and various other factors that Management believes are reasonable under the circumstances, the results form the basis for judgments about carrying values of assets and liabilities, which are not determined through other sources. The actual results could differ from those estimates.

b. Functional currency and presentation

Functional currency

The items included in the financial statements of each of the subsidiaries of the Company are measured using the currency of the primary economic environment in which the company operates ("functional currency").

The Company's functional currency is the U.S. Dollar, since the majority of the Company's business transactions are in the mentioned currency. The subsidiaries functional currency generally corresponds to the currency from its country.

Foreign currency translation

The financial statements of subsidiaries whose functional currency is different from that adopted by the parent Company, are translated into the functional currency of the parent using the criteria in IAS 21.

Monetary assets and liabilities denominated in currencies other than U.S. Dollars are converted into U.S. Dollar using exchange rates closing at the end of each period. The non-monetary assets and liabilities are translated using the historical rate date. Transactions during the end of the financial year, including purchases and sales of securities, income and expenses are translated at the exchange rate in effect at the transaction date. Gains and losses on foreign currency transactions are included in "translation adjustments" in the statement of comprehensive income.

Presentation currency

These financial statements are presented using the Brazilian Real ("Real" or "reais" or "R$") , the presentation currency, as its reporting currency exclusively to meet the specific requirements of the Brazilian Federal Securities Commission ("CVM"), the Brazilian regulatory body.

The conversion of U.S. Dollar functional currency into reais (presentation currency) was recorded pursuant to the methodology described in IAS 21 – ("The effects of changes in exchange rates"), and is summarized below:

- The assets and liabilities for each balance sheet date were translated at the closing exchange rate at the balance sheet date. Income and expenses were translated using monthly average exchange rate.

- For assets and liabilities for each balance which IAS 21 does not establish a methodology for translation, the Company elected to translate balances using the closing rate of each balance sheet, and other movements in shareholders' equity were converted using monthly average rate, except those that correspond to a specific transaction with shareholders that were converted at the exchange rate at the transaction date.

- For the preparation of the statement of cash flows, the Company used the average annual rate for the conversion of balances of changes in assets and liabilities items of operational cash flows. For the remaining transactions, the Company used the historical rate.

All resulting translation differences are recognized directly in "translation adjustments" in the statement of other comprehensive income.

c. Cash and cash equivalents

For the purposes of statements of cash flow, cash and cash equivalents includes cash, bank deposits and highly-liquid short-term investments redeemable in up to 90 days, subject to an insignificant risk of change in value.

d. Revenue and expense recognition

Net gains with financial instruments

Amounts that arise from trading activity including all gains and losses from changes in the fair value and the interest and dividend income or expense of financial assets and liabilities held for trading.

Interest income (expense)

Interest income (expense) is recognized as incurred, using the effective interesting rate method.
The interest on financial instruments held for trading are recorded in “Gain (losses) on financial instruments held for trading”.

Dividend income

For investments classified as fair value through profit and loss and available for sale, dividend income is recognized when the right to receive payment is established.

Dividends on financial instruments held for trading are recorded as “Gain (losses) on financial instruments held for trading”, and dividends received on financial assets as available for sale are classified as “Gain (losses) on financial assets available for sale”.

e. Financial instruments

This section described the accounting practices adopted as a result of the early adoption of IFRS 9.

Recognition date

All financial assets and liabilities are initially recognized on the trading date, that is, the date in which the entity becomes an interested party to the contractual relationship of the instrument. This includes purchases or sales of financial assets or liabilities that require delivery of the asset at a specified time established by regulation or market standard.

Initial recognition of financial instruments

The classification of the financial instruments at their initial recognition depends on the purpose for which they were acquired and their characteristics. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. Subsequently to the IFRS 9 early adoption without electing fair value option, the Company classified its financial assets as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) with or without recycling or at amortized cost.

Derivatives financial instruments

Derivative financial instruments are recorded at fair value and held as assets when fair value is positive and as liabilities when fair value is negative. The changes in fair value of derivatives are recognized in the income statement "Net gains (losses) with financial instruments held for trading".

Financial assets and liabilities held for trading

Financial assets or liabilities held for trading are recorded in the balance sheet at fair value. Variations in fair value, interest revenue, expenses and dividends are recorded in "Gains (losses) on financial instruments held for trading".

Included in this classification are: debt instruments, equities and short sale that have been acquired specifically for the purpose of short term trading or repurchase.

Financial assets and liabilities designated at fair value through profit and loss

Financial assets and liabilities classified in this category are those designed as such on initial recognition. The designation of a financial instrument at fair value through profit or loss on initial recognition is only possible when the following criteria is observed and the designation of each instrument is individually determined:

- Designation eliminates or significantly reduces the inconsistent treatment which would occur in the measurement of assets and liabilities or in the recognition of gains and losses corresponding to different ways; or

- Assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and with their performance assessed based on the fair value, as a documented strategy of risk or investment management; or

- The financial instrument contains one (or more) embedded derivative(s), which significantly modifies the cash flows that would otherwise be required by the agreement.

Financial assets and liabilities at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in the fair value and earned or incurred interest are recorded in "Net gain on financial assets or liabilities designated at fair value through profit and loss".

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income includes equities and debt instruments:

Equity Instruments

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading, nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. If it makes such election, only dividend income that does not clearly represent a recovery of part of the cost of the investment is recognized in profit or loss, with all other gains and losses (including those related to foreign exchange) recognized in other comprehensive income. These gains and losses remain permanently in equity and are not subsequently reclassified to profit or loss, even on derecognition. After derecognition of the investment, the Company may transfer the cumulative gain or loss retained in other comprehensive income to retained earnings.

Debt Instruments

Debt instruments can be recognized under this category if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The unrealized gains or losses are recognized directly in equity as other comprehensive income. Upon the realization of the debt instrument, the unrealized gains or losses, previously recognized in the statement of comprehensive income, are reclassified to the income statement, as "Gain (losses) on fair value through other comprehensive income".

Financial assets measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and;

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets are measured at amortized cost using the effective interest rate method.
Although the Company is not expected to sell a financial asset measured under this category, as it is expected to hold it to maturity to collect contractual cash flows, the Company need not hold all of those instruments until maturity and sales may occur.

Financial liabilities at amortized cost

Financial liabilities are measured at amortized cost using the effective interest rate method and taking into account any discount or premium on issue and relevant costs that become part of the effective interest rate.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Impairment of financial assets

Under IFRS 9, at initial recognition of a debt instrument, the Company needs to project its expected credit losses for the next 12 months and recognize it as an allowance for credit losses, even though no losses have yet occurred. This is a change of concept to an expected loss model, rather than an incurred loss model that was effective under IAS 39.

If the Company is expecting a significant deterioration in the credit quality of its counterparty, it should recognize an allowance equivalent to the lifetime expected credit losses of the instrument, rather than only the 12 month expected credit losses.

Measurement

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and

- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

If the assets are no longer performing (a credit event), despite considering the expected credit losses for the lifetime of the instrument, the Company should also recognize interest revenue based on the net carrying amount, which means that the allowance should be accounted for on interest recognition.

The main evidence of deterioration of the credit quality of the counterparty are:

- the significant decline in the fair value of any security for a prolonged period;
- noncompliance with contract terms for delay of principal or interest;
- deterioration in ability to pay and operational performance;
- breach of covenants;
- significant change in the performance of the counterparty market;
- reduced liquidity of the asset due to financial difficulties the lender.

For impairment losses related to debt instruments through other comprehensive income, such losses will be recognized on the statements of income against other comprehensive income in an account called “accumulated impairment amount”. However, if in a subsequent period occur an increase in the fair value of the financial asset that can be related to any event, the loss previously considered will be reversed in profit and losses.

The Company is required to reduce the gross carrying amount of its financial instruments when there is no reasonable expectation of recovering the contractual cash flows on the financial assets on its entirety or a portion thereof.

f. Valuation of Investment entity portfolio

Investment entity portfolio is held at fair value with movements in fair value going through the profit and loss account. The investments held by BTG Holdco (through BTGI) are defined as underlying investments. These underlying investments correspond substantially to an investment in global markets and merchant banking investments which are generally made directly or through ownership in limited partnership funds. The merchant banking investments are comprised of equity ownerships, loans and convertible instruments which most of the risk and return are dependent on the fair value and characteristics of underlying equity. The Company may adjust these values if, in its view, the values do not reflect the price which would be paid in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act.

Investment entity portfolio are measured according to the fair value measurement hierarchy described below:

Level 1: Price quotations observed in active markets for the same instrument;

Level 2: Price quotations observed in active markets for instruments with similar characteristics or based on pricing model in which the relevant parameters are based on observable active market data;

Level 3: Pricing models in which current market transactions or observable data are not available and require a high degree of judgment and estimation. Instruments in this category have been valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Company determines a reasonable level for the input. The valuation models are developed internally and are reviewed by the pricing team, which is independent from the revenue generating areas, they are updated whenever there is evidence of events that could have affected the assets' pricing. Investment entity portfolio primarily includes certain limited partnership interests in private equity funds mainly derived from our merchant banking activities and OTC derivatives which valuation depends upon unobservable inputs. No gain or loss is recognized on the initial recognition of an investment entity portfolio valued using a technique incorporating significant unobservable data.

Level 3 valuation assumptions

Asset	Valuation technique	Main assumptions
Private Equity Funds (unquoted investments)	Price of recent investments; Models based on discounted cash flows or earnings; Market and transaction (M&A) multiples.	Market and revenue growth, profitability and leverage expectations, discount rates, macro-economic assumptions such as inflation and exchange rates, risk premiums including market, size and country risk premiums.
Derivatives	Standard models and non-bidding quoted prices	Probability of default and recovery rates

In certain cases, data used to determine fair value may be from the different levels of the fair value measurement hierarchy. In these cases, the financial instrument is classified in the most conservative hierarchy in which the relevant data for the fair value assessment were used. This evaluation requires judgment and considers specific factors of the relevant financial instruments. Changes in the availability of the information may result in reclassification of certain financial instruments among the different levels of fair value measurement hierarchy.

g. Financial instruments – Offsetting

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a current and enforceable legal right to offset the amounts recognized and if there is the intention to offset, or to realize the asset and clear the liability simultaneously.

h. Due from / to brokers

Amounts receivable from / payable to brokers include unsettled trades and cash maintained at (or payable to) brokers and other counterparties of the Company.

After initial measurement, due from/to brokers are measured at amortized cost using the effective interest rate method, net of the provision for losses with impairment.

i. Impairment of nonfinancial assets

Investments in associates and joint ventures and assets that have an indefinite life, such as goodwill are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are tested for impairment annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Impairment is recognized if the asset's carrying amount exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and its recoverable value in use. For the purpose of evaluating the impairment amount, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units - CGU).

j. Contingent assets and liabilities

Provisions are recognized when the Company has a current obligation (legal or constructive), as the result of a past event and it is probable that an outflow of resources which incorporates economic benefits shall be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The expense related to any allowance is presented in the income statement net of any reimbursement.

The recognition, measurement and the disclosure of the assets and contingent liabilities and of the legal are made pursuant to the criteria described below.

Contingent assets - not recognized in the financial statements, except when there is evidence that realization is virtually certain.

Contingent liabilities - are recognized in the financial statements when, based on the opinion of legal advisors and Management, the risk of loss of an action, judicial or administrative is deemed likely, with a probable outflow of resources to settlement of the obligations and when the amounts involved can be reasonably measured. Contingent liabilities classified as possible losses by the legal advisors are only disclosed in explanatory notes, while those classified as remote losses are neither provided for nor disclosed.

k. Profit allocation

The dividends are classified as liabilities when declared by the board and approved by the Extraordinary / Ordinary General Meeting.

l. Segment information

IFRS 8 requires that operating segments are disclosed consistently with information provided to the Company's chief operating decision maker, who is the person or group of persons that allocates resources to the segments and assesses their performance. Management believes the Company has only one segment, which is related to the overall activity of an investment entity and so no segment information is disclosed.

(In thousands of reais)

m. Subsidiaries

The table below presents the direct and indirect interest of the Company in its subsidiaries that have been consolidated in the financial statement up to the change in status to the investment entity:

		Equity interest - %	
	Country	12/31/2016	12/31/2015
Direct			
BTG Bermuda LP Holdco Ltd.	Bermuda	100.00	100.00
Indirect			
BTG Investments LP	Bermuda	29.28	25.88

Below is the ownership interest held by BTGI in its subsidiaries and investment funds:

		Equity interest - %	
	Country	12/31/2016	12/31/2015
Subsidiaries			
BTG Loanco LLC	USA	100.00	100.00
BTG Pactual Stigma LLC	USA	100.00	100.00
BTG Pactual Reinsurance Holdings LP	Bermuda	100.00	100.00
BTG Equity Investments LLC	USA	100.00	100.00
Preserve Insurance Co. Ltd	UK	100.00	100.00
BTG Pactual Mining S.A. (i)	Brazil	-	100.00
Hárpia Omega Participações S.A.	Brazil	100.00	100.00
BTG Pactual Servicios S.A. de C.V.	Mexico	100.00	100.00
BTG Pactual Swiss Services S.A.	Switzerland	100.00	100.00
Aigues de Catalunya Ltd.	UK	98.00	98.00
BTG Pactual Iberian Concessions Ltd.	UK	100.00	100.00
BTG Pactual PropertyCo LLC	USA	-	100.00
BTG Pactual PropertyCo II LLC	USA	-	100.00
BTG Pactual Prop Feeder (1) S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Investimentos Florestais S.A.	Brazil	85.86	100.00
BRPEC Agro Pecuária S.A.	Brazil	100.00	100.00
BTG Pactual Proprietary Feeder (1) Limited	Cayman	100.00	100.00
A.Z.A.S.P.E Empreendimentos e Participações S.A.	Brazil	70.00	100.00
A.Z.P.S.P.E Empreendimentos e Participações S.A. (ii)	Brazil	100.00	86.56
Timber XI SPE S.A.*	Brazil	22.90	-
Timber IX Participações S.A.*	Brazil	22.90	26.67
BTG Pactual SCFlor & São Lourenço Holding S.A. (iii)*	Brazil	-	26.67
São Lourenço Empreendimentos Florestais Ltda.*	Brazil	22.38	26.67
Fazenda Corisco Participações S.A.*	Brazil	22.38	26.67
BTG Pactual Santa Terezinha Holding S.A*	Brazil	21.55	25.07
SCFlor Empreendimentos Agrícolas Ltda.*	Brazil	22.38	25.07
Fazenda Santa Terezinha Participações S.A.*	Brazil	21.55	25.07
BTGI Quartzo Participações S.A	Brazil	100.00	100.00
BTGI Safira Participações S.A	Brazil	100.00	100.00
Investment funds			
Beira Rio Fundo de Investimento em Participações	Brazil	100.00	100.00
Bravo Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Brazil Investment Fund I LP	Cayman	100.00	100.00
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Turquesa Fundo de Investimento em Participação	Brazil	100.00	100.00
FII - FII Estoque Residencial Vitacon	Brazil	100.00	100.00

(i) BTG Pactual Mining S.A. ceased to exist during the year ended 31 de dezembro de 2016.
(ii) During the year ended on December 31, 2016, the remaining interest was transferred from FIP Iron (BTGI's structure) to Turquesa Fundo de Investimento em Participação.
(iii) During the year ended December 31, 2016, BTG Pactual SCFlor & São Lourenço Holding S.A. was incorporated by Fazenda Corisco Participações S.A.
* The investee equity is divided into ordinary and preferred shares. The Company has the majority of the ordinary shares and voting rights.

As described in Note 1, as from December 29, 2010, the Company became the general partner of BTGI with powers to control BTGI's financial and operating policies through the interest held in that Company.

During the year ended December 31, 2015, the Company received a capital contribution from Generali NV, as part of the BSI S.A. transaction, and subsequently contributed the same amount in BTGI. In addition, as mentioned in Note 1, due to shares repurchase occurred in the years ended December 31, 2015 and 2016, the Company holds 29.28% of equity interest in BTGI (December 31, 2015 – 25.88%).

4. Risk management

The Company's risk management involves several levels of our management team and various policies and strategies. The structure of the Company's committees allows engaging the whole organization and ensuring decisions are readily 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 our 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 our Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including utilization of our 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 our liquidity risk, including our cash position and balance sheet usage, and for managing our capital structure, (viii) Audit Committee, which is responsible for the independent verification of the adequacy of our controls, and for assessing whether our books records are kept appropriately.

The Company 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 committees are responsible for monitoring risk exposures and for general oversight of our risk management process, as described further below. The close involvement of various committees (including their subcommittees) with the ongoing management and monitoring of our risks helps the Company foster its culture of risk control throughout the organization. The committees consist of senior members of business units and senior members of control departments that are independent of businesses.

a. Market risk

Value at 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 Company's positions at market risk. The Company 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 Company uses a stress test models as a complement to VaR method for its daily risk activities.

The table below contains daily average VaR for the years ended:

	December 31, 2016	December 31, 2015	December 31, 2014
In millions of R$			
Daily average VaR	0.7	9.6	10.5

The Company used to and continue to measure and evaluate the performance of substantially its entire investments entity portfolio on a fair value basis and therefore there was no significant change in the risk management framework.

Further, it has not been possible to present detailed market risk information relating to Global Markets Investment within its investment entity portfolio. For this matter, the Company's management rely on VaR provided by its manager, which is BTG Pactual.

b. Credit risk

The following table shows the maximum exposure of the investment entity portfolio and cash and cash equivalents by geographic region:

(In thousands of reais)

	12/31/2016			
	Brazil	**United States**	**Others**	**Total**
Assets				
Cash and cash equivalents	107	-	-	107
Investment entity portfolio				
Assets				
Cash and cash equivalents	2,269	-	-	2,269
Investment entity portfolio (i)	2,303,381	-	193,865	2,497,246
Investments at fair value through other comprehensive income	66,380	1,922	(17,875)	50,427
Loans and receivables	18,766	626,980	485	646,231
Other assets	2,643	-	-	2,643
Liabilities (ii)	-	-	(2,476,289)	(2,476,289)
Total	2,393,546	628,902	(2,299,814)	722,634

	12/31/2015				
	Brazil	**United States**	**Europe**	**Others**	**Total**
Assets					
Investment entity portfolio					
Assets					
Cash and cash equivalents	190,283	-	105	-	190,388
Investment entity portfolio (i)	509,533	95,343	-	1,959,652	2,564,528
Investments at fair value through other comprehensive income	41,550	13,201	58,725	-	113,476
Loans and receivables	15,644	584,330	-	519	600,493
Other assets	-	-	-	15,521	15,521
Liabilities (ii)	-	-	-	(2,760,577)	(2,760,577)
Total	757,010	692,874	58,830	(784,885)	723,829

(i) The amount of R$193, 725 (2015 – R$1,959,651) being presented as Others mainly relates to Funds based in the Cayman Islands (ARF II and GEMM) with global market investments strategy, as described in Note 6b(ii).
(ii) Includes financial liabilities entered into by BTGI (BTGP is not a counterparty of such contracts).

The table below states the maximum exposures to credit risk of the investment entity portfolio and cash and cash equivalents, classified by the counterparties' economic activities:

	12/31/2016				
	Private institutions	**Companies**	**Individuals**	**Others**	**Total**
Assets					
Cash and cash equivalents	107	-	-	-	107
Investment entity portfolio					
Assets					
Cash and cash equivalents	2,269	-	-	-	2,269
Investment entity portfolio	2,198,778	642,276	-	(343,808)	2,497,246
Investments at fair value through other comprehensive income	-	68,302	-	(17,875)	50,427
Loans and receivables	-	19,250	626,981	-	646,231
Other assets	-	-	-	2,643	2,643
Liabilities (i)	-	-	-	(2,476,289)	(2,476,289)
Total	2,201,154	729,828	626,981	(2,835,329)	722,634

(In thousands of reais)

	12/31/2015				
	Private institutions	Companies	Individuals	Others	Total
Assets					
Investment entity portfolio					
Assets					
Cash and cash equivalents	190,388	-	-	-	190,388
Investment entity portfolio	2,166,659	397,869	-	-	2,564,528
Investments at fair value through other comprehensive income	-	113,476	-	-	113,476
Loans and receivables	518	15,644	584,331	-	600,493
Other assets	-	-	-	15,521	15,521
Liabilities (i)	-	-	-	(2,760,577)	(2,760,577)
Total	2,357,565	526,989	584,331	(2,745,056)	723,829

(i) Includes financial liabilities entered into by BTGI (BTGP is not a counterparty of such contracts)

c. Liquidity analysis and risk

As of December 31, 2016, the Company has R$107 in cash and cash equivalents (December 31, 2015 – zero), as described in note 5, which has no maturity, and does not have any liabilities. As of December 31, 2015, Due to brokers in the amount of R$540 represented the sole liability of the Company, and its undiscounted cash flow was equal to its book value.

As of December 31, 2016, there is no fixed maturity for the discounted cash flows for the investment entity portfolio of the Company. The following table shows the Investment entity portfolio's and cash and cash equivalents' liquidity position as of December 31, 2016 and 2015:

	12/31/2016				
	Up to 90 days / No maturity	90 to 365 days	1 to 3 years	Over 3 years	Total
Assets					
Cash and cash equivalents	107	-	-	-	107
Investment entity portfolio					
Assets					
Cash and cash equivalents	2,269	-	-	-	2,269
Investment entity portfolio	1,694,209	-	-	803,037	2,497,246
Investments at fair value through other comprehensive income	-	-	-	50,427	50,427
Loans and receivables	-	14,335	1,272	630,624	646,231
Other assets	-	2,643	-	-	2,643
Liabilities (i)	(1,741,996)	(39,270)	(490,679)	(204,344)	(2,476,289)
Total	(45,411)	(22,292)	(489,407)	1,279,744	722,634

(In thousands of reais)

	12/31/2015				
	Up to 90 days / No maturity	90 to 365 days	1 to 3 years	Over 3 years	Total
Assets					
Investment entity portfolio					
Assets					
Cash and cash equivalents	190,388	-	-	-	190,388
Investment entity portfolio	1,967,464	-	-	597,064	2,564,528
Investments at fair value through other comprehensive income	-	-	-	113,476	113,476
Loans and receivables	518	29,496	-	570,479	600,493
Other assets	15,521	-	-	-	15,521
Liabilities (i)	(2,111,456)	(255,375)	(391,331)	(2,414)	(2,760,577)
Total	62,435	(225,879)	(391,331)	1,278,605	723,829

(i) Includes financial liabilities entered into by BTGI (BTGP is not a counterparty of such contracts).

5. Cash and cash equivalents

Cash and cash equivalents comprises exclusively highly liquid bank deposits, in Banco BTG Pactual S.A., totaling R$107 (December 31, 2015 – zero).

6. Investment entity portfolio

As of December 31, 2016, the investment entity portfolio measured at fair value through profit and loss is represented by the interest in BTG Holdco, a holding entity, in the amount of R$722,527 (December 31 2015 - R$723,829). Below are presented relevant information of the investment portfolio as of December 31, 2016 and 2015, through the investment in BTGI (via BTG Holdco).

On January 1, 2016, BTGI adopted IFRS 9, with prospective effects from that date onwards. For this matter, the figures disclosed below include impacts from the early adoption, as described in its financial statements.

The relevant figures of the Company's investment portfolio, as of December 31, 2016 and 2015, are presented below:

	Note	12/31/2016 (1)	12/31/2015 (1)
Assets			
Cash and cash equivalents	(a)	7,747	735,657
Investment entity portfolio	(b)	8,527,913	9,909,305
Investments at fair value through other comprehensive income	(c)	172,204	438,468
Loans and receivables	(d)	2,206,832	2,320,296
Other assets		9,024	59,974
Total		**10,923,720**	**13,463,700**
Liabilities			
Derivatives		3,658	-
Financial liabilities at amortized cost	(e)	8,401,685	11,315,154
Other liabilities		61,128	40,825
Total		**8,466,471**	**11,355,979**

(In thousands of reais)

	Note	12/31/2016 (1)	12/31/2015 (1)
Shareholders' equity		**2,457,249**	**2,107,721**
Total liabilities and shareholders' equity		**10,923,720**	**13,463,700**
Investment entity portfolio reconciliation on December 31, 2015			
BTGI shareholder's equity		2,457,249	2,107,721
BTGP ownership (via BTG Holdco)		29.28%	25.88%
Subtotal		**719,561**	**545,519**
Fair value adjustment (2)		2,966	178,310
Total		**722,527**	**723,829**

(1) Balances as reported by BTGI as of December 31, 2016 and 2015.
(2) BTGI measures certain assets and liabilities at amortized cost in its financial statements, therefore a fair value adjustment is necessary upon adoption of investment entity by BTGP.

(a) Cash and cash equivalents

Cash and cash equivalents are comprised exclusively of highly liquid bank deposits.

(b) Investment entity portfolio

	As of December 31, 2016		As of December 31, 2015	
	Cost	Fair value	Cost	Fair value
Merchant Banking investments (i)	2,184,401	2,193,327	2,486,353	1,741,693
Private equity funds ("FIP")	300,507	331,498	711,215	755,904
Subsidiaries, associates and jointly controlled entities	1,831,643	1,809,578	933,665	1,015,978
Others	52,251	52,251	(30,189)	(30,189)
Global markets investments (ii)	609,784	609,784	7,602,257	7,602,257
Corporate bonds (iii)	1,886,953	1,723,067	1,924,820	1,380,902
Loans (1)	5,175,817	5,175,817	2,343,960	2,343,960
Others (2)	(1,174,082)	(1,174,082)	(3,159,507)	(3,159,507)
Total	**8,682,873**	**8,527,913**	**11,197,883**	**9,909,305**

(1) Refers to loans granted by BTG Pactual Proprietary Feeder (1) Limited to BTGI. The amount is reflected as financial liabilities at amortized cost in Note 6e. As of December 31, 2015, the amount was presented as Others.
(2) Includes financial assets and liabilities entered into by BTGI's subsidiaries (BTGP is not a counterparty of such contracts).

(i) Merchant Banking investments

Merchant Banking investments consist of investments, held directly or through investment vehicles (including funds that also include third party investors), in a diversified group of portfolio companies primarily located in Brazil. Merchant Banking investments are structured generally through privately negotiated transactions with a view to disinvest in four to ten years.

As a result of the IFRS 9 early adoption, part of the Merchant Banking investments from the investment entity portfolio was reclassified as investments at fair value through comprehensive income as described in note 6c.

As of December 31, 2016 and 2015, BTGI Merchant Banking investments corresponds to private equity and real estate investments, through FIP or other investment vehicles, as disclosed below:

(In thousands of reais)

Merchant Banking investments	Description/ Segment activity	12/31/2016 (%) (1)	12/31/2016 Fair value	12/31/2015 (%) (1)	12/31/2015 Fair value
Through FIPs:					
União de Lojas Leader S.A.	Retail company	-	-	51.9%	67,854
B&A Mineração S.A.	Development and operation of mining assets	87.8%	165,892	87.8%	261,569
CDR Pedreira Ltda.	Disposal services	-	-	56.3%	156,000
BrPec Agropecuária S.A.	Ranching	100.0%	165,606	100.0%	270,481
Through subsidiaries, associates and jointly controlled entities:					
ADS - Advanced Disposal Service	Disposal services	-	-	10.2%	368,406
Timber XI SPE S.A.	Biological assets	22.9%	8,439	-	-
Timber IX Participações S.A.	Biological assets	22.9%	58,475	26.7%	42,572
BTG Pactual Santa Terezinha Holding S.A	Biological assets	21.6%	31,864	25.1%	45,126
BTG Pactual SCFLOR & São Lourenço Holding S.A	Biological assets	23.0%	27,824	26.7%	43,330
Brasil Pharma S.A. (2)	Pharmaceutical retail company	94.5%	403,912	14.3%	5,098
ATLL Concessionaria de La Generalitat de Catalunya S.A.	Concession company	2.0%	-	2.0%	4,320
Loans - Merchant Banking investments (3)	Others		1,279,064		507,126
Others			52,251		(30,189)
Total			**2,193,327**		**1,741,693**

(1) The equity interest disclosed in the table above refers to the Company indirect interest.
(2) During the quarter ended March 31, 2016, BTGI, through its subsidiary BTG Pactual Prop Feeder (1) S.a.r.l, undertook a capital increase of approximately R$400,000 in Brasil Pharma S.A. The cash proceeds were used to pay back the loan that was previously shown as "Loans – Merchant Banking investments".
(3) Includes the loans subsequent to the acquisition of a portion of Leader's liabilities, as described in Note 1.

(ii) Global market investments

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 funds have hybrid portfolios composed of a mix of fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities, mortgages and interest rates. These funds usually employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

As of December 31, 2016 and 2015, BTGI had invested in the following global hedge funds:

	12/31/2016	12/31/2015
Global markets investments		
BTG Pactual Global Emerging Markets and Macro Fund Limited ("GEMM")(1)	-	2,452,290
BTG Pactual Absolute Return II Master Fund LP ("ARF II") (2)	609,784	5,149,967
Total	**609,784**	**7,602,257**

(1) During the year ended on December 31, 2016, the Company enacted a full redemption of its investment in GEMM.
(2) During the year ended on December 31, 2016, the loan granted by ARF II to BTGI has been fully reimbursed.

As of December 31, 2016 and 2015, the Net Asset Value ("NAV") of the Global markets investments presented in the table above approximates to its fair value, which is equivalent to its cost value on the referred date.

(In thousands of reais)

(iii) Investment in corporate bonds

Investment in corporate bonds comprises exchanged traded corporate bonds issued by Banco BTG Pactual S.A - Luxembourg Branch, maturing December 29, 2049 and by BTG Pactual S.A. – Cayman Branch, maturing on September 28, 2022.

(c) Investments at fair value through other comprehensive income

Subsequently to the IFRS 9 early adoption, BTGI now presents part of its investment entity portfolio as investments at fair value through other comprehensive income. The carrying amount and fair value of these investments are the same both under IAS 39 and IFRS 9. For this matter, the comparative balances from the year ended on December 31, 2015 were also reclassified, as shown hereunder:

	As of December 31, 2016		As of December 31, 2015	
	Cost	**Fair value**	**Cost**	**Fair value**
Merchant Banking investments - FIP (i)	240,555	233,247	672,178	498,729
Others (1)	(61,043)	(61,043)	(60,261)	(60,261)
Total	**179,512**	**172,204**	**611,917**	**438,468**

(1) Includes payables for management fees or loans purposes.

(i) Merchant banking investments - FIP

Merchant Banking investments consist of investments, held directly or through investment vehicles (including funds that also include third party investors), in a diversified group of portfolio companies primarily located in Brazil. Merchant Banking investments are structured generally through privately negotiated transactions with a view to disinvest in four to ten years.

As of December 31, 2016 and 2015, BTGI Merchant Banking investments corresponds to private equity and real estate investments, through FIP, as disclosed below:

		12/31/2016		12/31/2015	
Merchant Banking investments	**Description/Segment activity**	**(%) (1)**	**Fair value**	**(%) (1)**	**Fair value**
A!Bodytech Participações S.A.	Fitness segment	10.6%	54,529	10.3%	51,862
Brasil Brokers Participações S.A.	Investment in real estate companies	4.5%	13,642	4.3%	10,982
Deep Sea Group (2)	Maritime transport and logistics services for the oil and gas sector	3.0%	6,563	14.7%	51,008
Brasil Pharma S.A (3).	Pharmaceutical retail company	0.2%	800	2.8%	1,042
Auto Adesivos Paraná S.A.	Adhesives, labels and special paper company	30.1%	27,810	29.2%	26,998
Estre Participações S.A.	Waste collection, treatment and disposal	9.7%	30,581	9.6%	29,563
Latin America Power Holding B.V.	Energy sector	-	-	10.6%	226,913
Sete Brasil Participações S.A.	Oil and gas	0.5%	-	0.5%	3,938
UOL Universo on Line S.A.	Internet and server provider	2.3%	99,322	2.2%	96,423
Total			**233,247**		**498,729**

1) The equity interest disclosed in the table above refers to the Company indirect interest.
2) During the year ended in December 31, 2016, Deep Sea Group had a corporate reorganization which lead to the roll-up of BTGI's interest, through its subsidiary Principal DPC Serviços Óleo e Gás S.A.
3) See Note 6f, section vii.

(In thousands of reais)

(d) Loans and receivables

	12/31/2016	12/31/2015
Partners (i)	2,119,612	2,114,683
Others	87,220	205,613
Total	**2,206,832**	**2,320,296**

(i) Loans indexed to CDI or libor, and the maturity are in general higher than 1 year. Loans to partners are provided in connection to the acquisition of units in BTG Pactual Group.

As of December 31, 2016 and 2015, the fair value attributed to the Loans and receivables is similar to its amortized cost.

(e) Financial liabilities at amortized cost

			12/31/2016	
	Maturity	**Index**	**Cost**	**Fair value**
Loans with financial institutions	February-17 to August-20	Libor and 1.15% to 5.3% p.a.	5,959,040	6,044,445
Medium term notes	Janeiro-17 to June-19	0.8%p.a. to 100% CDI	2,442,645	2,367,369
Total			**8,401,685**	**8,411,814**

			12/31/2015	
	Maturity	**Index**	**Cost**	**Fair value**
Loans with financial institutions	February-16 to December-16	Libor and 1.15% to 2.64% p.a.	7,779,185	7,712,537
Medium term notes	January-16 to June-19	0.8%p.a. to 100% CDI	3,535,969	2,913,675
Total			**11,315,154**	**10,626,212**

Certain issuance of the loans and medium term notes are guaranteed by BTG Pactual Holding S.A., parent company of Group.

(f) Fair value Hierarchy

BTGP classifies its investment entity portfolio as level 3. However, the underlying assets and liabilities of this portfolio have different classification which is presented as follows:

(i) Investment entity portfolio

	12/31/2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment entity portfolio				
Merchant Banking investments				
Private equity funds	-	-	331,498	331,498
Subsidiaries, associates and jointly controlled entities	-	1,279,064	530,514	1,809,578
Others	-	-	52,251	52,251
Global markets investments	-	609,784	-	609,784
Corporate bonds	-	1,723,067	-	1,723,067
Loans	-	5,175,817	-	5,175,817
Others	-	(1,174,082)	-	(1,174,082)
Total	-	7,613,650	914,263	8,527,913

(In thousands of reais)

	12/31/2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment entity portfolio				
Merchant Banking investments				
Private equity funds	-	-	755,904	755,904
Subsidiaries, associates and jointly controlled entities	5,098	507,126	503,754	1,015,978
Others	-	-	(30,189)	(30,189)
Global markets investments	-	7,602,257	-	7,602,257
Corporate bonds	-	1,380,902	-	1,380,902
Loans	-	1,267,053	-	1,267,053
Others	-	(2,082,600)	-	(2,082,600)
Total	5,098	8,674,738	1,229,469	9,909,305

Changes in level 3 for the year ended are as follows:

	Merchant Banking investments
Balances as of December 31, 2014	**2,096,032**
Acquisitions	116,752
Sales	(267,530)
Losses on fair value of investment entity portfolio	(715,785)
Balances as of December 31, 2015	**1,229,469**
Reclassification between levels (i)	5,098
Acquisitions	547,163
Sales	(561,053)
Losses on fair value of investment entity portfolio	(306,414)
Balances as of December 31, 2016	**914,263**

(i) As described in Note 6f, section vii.

(ii) Investments at fair value through other comprehensive income

The summary of assets and liabilities classified in accordance with the fair value hierarchy is as follows:

	12/31/2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value through other comprehensive income				
Merchant Banking investments - FIP	20,205	-	213,042	233,247
Others	-	(61,043)	-	(61,043)
Total	20,205	(61,043)	213,042	172,204

	12/31/2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments at fair value through other comprehensive income				
Merchant Banking investments - FIP	12,024	-	486,705	498,729
Others	-	(60,261)	-	(60,261)
Total	12,024	(60,261)	486,705	438,468

(In thousands of reais)

Changes in level 3 for the year ended are as follows:

	Merchant Banking investments
Balances at December 31, 2014	**686,657**
Acquisitions	87,811
Losses on fair value of investment entity portfolio	(287,763)
Balances at December 31, 2015	**486,705**
Reclassification between levels (i)	(49,966)
Acquisitions	8,452
Sales	(190,810)
Losses on fair value of investment entity portfolio	(41,339)
Balances as of December 31, 2016	**213,042**

(i) As described in Note 6f, section vii.

(iii) Loans and receivables

Loans and receivables are presented at fair value at BTGP's level using a pricing model in which the relevant parameters are based on observable active market data. Therefore, they fall in the Fair Value Level 2 category.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost are presented at fair value at BTGP's level using a pricing model in which the relevant parameters are based on observable active market data. Therefore, they fall in the Fair Value Level 2 category.

(v) Derivatives

Derivatives are presented at fair value at BTGP's level using pricing models in which current market transactions or observable data are not available and require a high degree of judgment and estimation. Therefore, they were classified as a new Level 3 acquisition during the year ended December 31, 2016.

(vi) Summary of valuation techniques

The following table summarizes the valuation techniques and significant unobservable inputs used in the fair value measurement level 3 financial instruments:

(In thousands of reais)

Merchant Banking Investment / Investments at fair value through other comprehensive income	Fair value - 12/31/16	Fair value - 12/31/15	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Private Equity Funds	544,539	1,242,610	Discounted cash flows	· Future Cash Flows	· Increases (decreases) in future cash flows increase (decrease) fair value
				· Discount rate	· Increases (decreases) in discount rates decrease (increase) fair value
			Market Multiples	· Future Cash Flows	· Increases (decreases) in future cash flows increase (decrease) fair value
				· Comparison to peers	· Increases (decreases) in multiples for individual companies in peer group may skew averages and increase (decrease) fair value
			Transaction Multiples	· Future Cash Flows	· Increases (decreases) in future cash flows increase (decrease) fair value
				· Comparison to peers	· Increases (decreases) in multiples for individual companies in peer group may skew averages and increase (decrease) fair value
			Net Asset Valuation	· Asset values	· Increases (decreases) in liquidation value for individual assets increase (decrease) fair value
			Adjusted Quoted Price	· Liquidity discount	· Increases (decreases) in discount for lack of liquidity for individual assets increase (decrease) fair value
Subsidiaries, associates and jointly controlled entities	582,766	473,565	Discounted cash flows	· Future Cash Flows	· Increases (decreases) in future cash flows increase (decrease) fair value
				· Discount rate	· Increases (decreases) in discount rates decrease (increase) fair value
			Market Multiples	· Future Cash Flows	· Increases (decreases) in future cash flows increase (decrease) fair value
				· Comparison to peers	· Increases (decreases) in multiples for individual companies in peer group may skew averages and increase (decrease) fair value

(In thousands of reais)

(vii) Reclassification between levels

During the year ended on December 31, 2016, Brasil Pharma S.A was reclassified from Level 1 to Level 3 of the fair value hierarchy and is now fair valued using the techniques mentioned in Note 6f(vi).

During the year ended on December 31, 2016, Deep Sea Group was reclassified from Level 3 to Level 1 of the fair value hierarchy. The investment's value is now assessed according to the price of Deep Sea Supply Plc.'s shares, a company listed on the Norwegian Stock Exchange.

7. Shareholders' equity

a. Capital

BTGP's Board of Directors held on October 5, 2016 approved the conversion of 17,722,662 BTGI's class D shares into BTGP's 5,907,554 class A and 11,815,108 class B shares, resulting into a capital increase of R$15,940. In the meantime, 5,907,554 BTGP's class D shares were canceled. After the conversions, BTGP, through BTG Holdco, subscribed to 17,722,662 newly issued BTGI's class C shares.

BTGP's Board of Directors, held on September 29, 2016, approved the issuance of 46,200,273 Class A Shares and 92,400,546 Class B Shares, for R$124,434, fully subscribed by Banco BTG Pactual S.A. The new issuance of shares is a consequence of the separation of the Bank's commodity trading, as described in Note 1.

BTGP's Board of Directors held on June 1, 2016 approved the conversion of 45,873,921 BTGI's class D shares into BTGP's 15,291,307 class A and 30,582,614 class B shares, resulting into a capital increase of R$35,548. In the meantime, 15,291,307 BTGP's class D shares were canceled. After the conversions, BTGP, through BTG Holdco, subscribed to 45,873,921 newly issued BTGI's class C shares.

BTGP's Board of Directors held on September 15, 2015, approved the issuance of 33,634,410 Class A Shares and 67,268,820 Class B Shares, at an issuance price of US$0.5081 per Share, totalizing R$203,700.

As of December 31, 2016 and 2015, the Company's capital was comprised by the following class of shares:

12/31/2016				
Authorized	**Issued**	**Par value (R$)**	**Voting rights**	**Vote per share**
5,000,000,000	269,481,035	-	Yes	1
10,000,000,000	538,962,070	-	No	-
1	1	10	Yes	(*)
1,000,000,000	-	0,0000000001	Yes	1
16,000,000,001	808,443,106			

(In thousands of reais)

12/31/2015				
Authorized	**Issued**	**Par value (R$)**	**Voting rights**	**Vote per share**
5,000,000,000	234,652,209	-	Yes	1
10,000,000,000	469,304,418	-	No	-
1	1	10	Yes	(*)
1,000,000,000	21,198,861	0,0000000001	Yes	1
16,000,000,001	725,155,489			

(*) Class C shareholders have voting rights equivalent to ten times the total number of issued and subscribed A and D Class shares at any moment.
(i) Only class A and class B shareholders are entitled to economic benefits.

b. Treasury shares

During the year ended December 31, 2016, the Group repurchased 33,666,708 class A shares and 67,333,416 class B shares in the amount of R$107,176 (December 31, 2015 - R$112,614) and canceled 38,746,138 class A shares and 77,492,276 class B shares in the amount of R$117,314 (December 31, 2015 - R$79,949). As of December 31, 2016, 5,896,900 class A shares and 11,793,800 class B shares were held as treasury shares (December 31, 2015 – 12,072,730 class A shares and 24,145,460 class B shares) for an amount of R$17,991 (December 31, 2015 – R$32,665).

c. Dividends

The Company did not distribute dividends for the year ended on December 31, 2016 and 2015.

8. Earning / (loss) per share

	12/31/2016	12/31/2015
Earning / (loss) attributed to controlling shareholders	108,344	(584,542)
Weighted average per thousand shares outstanding during the year (i)	698,853	707,287
Earning / (loss) per share - Basic (in Reais)	0.16	(0.83)
Earning / (loss) per share - Diluted (in Reais)	0.16	(0.83)

(i) Class A and class B shares.

9. Interest expenses, net

Interest expenses, net recognized in the consolidated statement of income (before the change in status) consists primarily of: (i) interest accumulated in the year from loans and financing and loans and receivables, (ii), open market transactions and (iii) foreign exchange results. The Company had no interest income/expense for the year ended December 31, 2016. The breakdown of this item for the year ended December 31, 2015 is as follows:

(In thousands of reais)

a. Interest income

	12/31/2015
Loans and receivables	166,651
Interest on open market investments	14,221
	180,872

b. Interest expenses

	12/31/2015
Interest on funding	(200,583)
Foreign exchange	(693,949)
Interest on loans and financing	(62,778)
	(957,310)

10.Gains on financial instruments held for trading

The Company had no gain/loss on financial instruments held for trading for the year ended December 31, 2016. The breakdown of this item for the year ended December 31, 2015 is as follows:

	12/31/2015
Derivatives financial instruments	130,723
Financial assets and liabilities held for trading	43,474
	174,197

11.Other operating income

	12/31/2016	12/31/2015
Equity Kicker	-	(57,970)
Other operating (expenses) / income (i)	239	104,217
	239	46,247

(i) Mainly comprised of foreign exchange on cash transactions in the year ended on December 31, 2016.

12.Administrative expenses

	12/31/2016	12/31/2015
Professional fees (i)	(182)	(138,038)
Expenses related to financial market	-	(18,886)
Other administrative expenses	-	(312)
	(182)	(157,236)

(i) As of December 31, 2015, the balance is mainly comprised of management and performance fees of ARF II.

(In thousands of reais)

13.Gain / (loss) from investment entity portfolio measured at fair value

The breakdown of this item for the years ended December 31, 2016 and 2015 is as follows:

	12/31/2016	12/31/2015
Gain on investment entity portfolio	266,533	(231,541)
Fair value adjustment on loans issued and granted	(158,246)	178,310
Total	108,287	(53,231)

14.Gain / (loss) on financial assets available for sale

Up to September 30, 2015, the Company recognized losses totaling R$188,450 associated with its investments in FIP Principal fund, which had previously been recognized in Other comprehensive income.

15.Related Parties

The balances of related-party transactions, which are carried out at arm's length, are reflected in the following items:

			Assets (Liabilities)		Revenues (Expenses)	
	Relationship	Maturity	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash and cash equivalents						
- Banco BTG Pactual S.A. (ii)	Related	No maturity	107	-	-	-
Open market investments						
- Banco BTG Pactual S.A. (ii)	Related	No maturity	-	-	-	20,726
Financial assets held for trading						
- Banco BTG Pactual S.A. (ii)	Related	No maturity	-	-	-	33,364
Loans and receivables						
- Partners (i)	Partners	1/14/2035	-	-	-	55,694
- ATLL Concessionaria de La Generalitat de Catalunya S.A.	Joint venture	3/2/2016	-	-	-	4,623
Liabilities						
Open market funding						
- Banco BTG Pactual S.A. (ii)	Related	5/6/2015	-	-	-	(238,004)
Derivatives						
- Banco BTG Pactual S.A. (ii)	Related	6/30/2015	-	-	-	(119,148)
Due to brokers						
- Banco BTG Pactual S.A. (ii)	Related	No maturity	-	(540)	-	-
Other liabilities						
- BTG Pactual Global Asset Management Limited (ii)	Related	No maturity	-	-	-	(59,332)
- Banco BTG Pactual S.A. (ii)	Related	No maturity	-	-	-	(3,499)

(i) Considered as related parties only partners acting as Executive Directors.
(ii) BTG Pactual S.A. and subsidiaries, ultimately controlled by BTG Pactual Holding S.A.

No management compensation was recorded in the years ended December 31, 2016 and 2015.

16.Subsequent events

On January 27, 2017, BTG Pactual and BTGP informed their shareholders and the market in general that they are currently evaluating the potential effects of the independent trading of the securities issued by the Companies, seeking to address, among other things, (i) greater transparency of the assets of each of the Companies, with clearer differentiation between the banking and asset management activities performed by BTG Pactual and the private equity investment vehicle activities performed by BTGP, (ii) the possibility of greater liquidity for securities issued by BTG Pactual, which securities, if traded without a corresponding interest in BTGP, would become eligible to be incorporated into major trading indexes (which currently is not permitted by applicable rules), and could also be targeted as an investment by a broader range of potential investors, and (iii) the specific context of each of the Companies, particularly with respect to their capital structures.

On February 14, 2017, date of completion of these financial statements, the companies issued a material fact informing to the market the conclusion of the aforementioned intention.