# Consolidated Financial Statements in IFRS

## Banco BTG Pactual S.A. and subsidiaries

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

**BANCO BTG PACTUAL S.A and subsidiaries**

## Consolidated financial statements

December 31, 2016

Contents

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 Auditor's Report on consolidated financial statements prepared in accordance with International Financial Reporting Standards – IFRS, issued by International Accounting Standards Board – IASB.**

# INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Management of
**Banco BTG Pactual S.A.**

## Opinion

We have audited the consolidated financial statements of Banco BTG Pactual S.A. ("Bank") and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2016, and the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. and subsidiaries as of December 31, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards – IFRS, issued by the 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 consolidated financial statements*" section of our report. We are independent of the Bank and its subsidiaries in accordance with the relevant ethical principles of the Code of Professional Ethics of Accountant and professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

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

*Fair value measurement of complex and illiquid financial instruments and derivatives*

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

Our audit procedures included, among others, the involvement of specialists in illiquid financial instruments pricing to assist us in the evaluation of the pricing methodologies and the assumptions considered by management in measuring the fair value of these instruments. In addition, we evaluated the Bank's disclosures, which are included in footnotes 5, 7, 8, 9, 13 and 16.

*Disposal of investments in subsidiaries and affiliates*

As disclosed in the consolidated financial statements for the year ended December 31, 2015, management implemented initiatives to preserve capital and liquidity, which included, among others, the disposal of certain relevant investments in subsidiaries and affiliates and the corporate restructuring of some investments. The process of computing the results and determining the consequent accounting treatment is a complex issue because it involves implications of clauses stipulated in the Share Purchase Agreement, in addition to the magnitude of the amounts involved; being, then, considered as one of the main audit matters. These aspects were analyzed and treated by management in the consolidated financial statements, according to footnotes 2 and 16.

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

*Related party transactions*

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

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

Furthermore, we evaluated the Bank's disclosures pertaining to related party transactions, disclosed in footnote 30.

*Information technology (IT) environment*

Because of the volume and complexity, the Bank's operations are highly dependent on the proper functioning of the IT structures and its systems. Therefore, we considered the IT environment as one of the main audit matters.

Our audit procedures included, among others, the involvement of IT experts in conducting tests of information technology general controls for processes of managing changes and access to the systems that we deemed relevant to the preparation of the consolidated financial statements, including the automated transactional controls of those systems.

**Other matters**

The Bank has prepared a full set of individual and consolidated financial statements for the year ended on December 31, 2016 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil for which we issued an unqualified separate independent auditors' report, without modification, dated February 14, 2017.

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

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

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

Those charged with governance are responsible for overseeing the Bank and its subsidiaries' financial reporting process, and includes Management, Audit Committee and Board of Directors of the Bank and its subsidiaries.

Building a better working world

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

São Paulo, March 31, 2017.

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

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated balance sheets

As at December 31

(In thousands of reais)

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at Central Bank | 6 | 2,637,154 | 5,054,877 |
| Financial assets at fair value through profit or loss | | | |
| Financial assets held for trading | 7 | 18,697,974 | 11,633,782 |
| Financial assets designated at fair value through profit and loss | 7 | 14,725,208 | 9,542,553 |
| Derivative financial instruments | 7 | 26,605,776 | 41,293,258 |
| Loans and receivables | | | |
| Open market investments | 10 | 4,201,595 | 8,010,509 |
| Amounts receivable from banks | 11 | 1,942,576 | 3,860,804 |
| Other loans and receivables | 12 | 11,267,765 | 16,947,576 |
| Available-for-sale financial assets | 8 | 129,932 | 353,721 |
| Held-to-maturity financial assets | 13 | 4,939,003 | 5,128,734 |
| Non-current assets held for sale | 17 | 2,276,493 | - |
| Deferred tax assets | 22 | 4,919,258 | 6,269,711 |
| Discontinued operations - assets | 17 | - | 90,082,776 |
| Other assets | 15 | 11,538,540 | 36,714,629 |
| Investment in associates and jointly controlled entities | 16 | 6,339,045 | 6,581,991 |
| Property, plant and equipment | | 92,688 | 244,119 |
| Intangible assets | 18 | 1,094,594 | 1,279,023 |
| **Total assets** | | **111,407,601** | **242,998,063** |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | 7 | 6,020,750 | 6,018,716 |
| Derivative financial instruments | 7 | 24,203,360 | 39,294,734 |
| Financial liabilities carried at amortized cost | | | |
| Open market funding | 10 | 20,760,558 | 14,262,022 |
| Amounts payable to banks | 11 | 226,135 | 1,475,367 |
| Other financial liabilities carried at amortized cost | 14 | 33,008,091 | 56,379,346 |
| Tax liabilities | 19 | 2,155,013 | 3,487,906 |
| Discontinued operations - liabilities | 17 | - | 84,360,947 |
| Other liabilities | 20 | 7,873,788 | 17,473,248 |
| **Total liabilities** | | **94,247,695** | **222,752,286** |
| **Shareholders' equity** | 23 | | |
| Capital stock | | 7,275,738 | 7,235,738 |
| Treasury stock | | (70,834) | (132,394) |
| Capital Reserve | | 652,515 | - |
| Income reserves | | 4,955,589 | 6,200,578 |
| Foreign currency translation reserve | | 4,222,042 | 6,712,485 |
| Total shareholders' equity of controlling shareholders | | 17,035,050 | 20,016,407 |
| Non-controlling interest | | 124,856 | 229,370 |
| **Total shareholders' equity** | | **17,159,906** | **20,245,777** |
| **Total liabilities** | | **111,407,601** | **242,998,063** |

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of income

Years ended December 31
(In thousands of reais)

| | Note | 2016 | 2015 |
|---|---|---|---|
| Interest income | 25 | 4,704,664 | 7,801,390 |
| Interest expense | 25 | (4,972,016) | (14,685,421) |
| Net interest income/(expenses) | | (267,352) | (6,884,031) |
| Net gains on financial instruments | 25 | 6,190,674 | 3,983,639 |
| Net exchange variations | | 2,105,078 | (115,684) |
| Fees and commissions | 26 | 1,596,398 | 2,868,444 |
| Income from discontinued operations | 17 | (1,456,230) | 661,114 |
| Share of profit in associates and jointly controlled entities | 16 | 644,018 | (522,971) |
| Other operating income | 27 | 1,461,760 | 2,511,160 |
| Net revenues | | 10,274,346 | 2,501,671 |
| Administrative expenses | 28 | (1,290,220) | (1,686,448) |
| Personnel expenses | 29 | (1,960,072) | (2,733,703) |
| Provisions for credit losses | 12 | (700,189) | (585,747) |
| Tax charges (other than income tax) | | (808,274) | (200,448) |
| Income before taxes and profit sharing | | 5,515,591 | (2,704,675) |
| Income tax and social contribution | 22 | (800,633) | 3,280,693 |
| **Net income for the year** | | 4,714,958 | 576,018 |
| Net income attributable to controlling shareholders | | 4,734,682 | 736,814 |
| Loss attributable to non-controlling interests | | (19,724) | (160,796) |
| Earnings per share –basic and diluted – In Reais | 24 | | |
| Common shares | | 1.82 | 0.27 |
| Preferred shares | | 1.82 | 0.27 |

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

## BANCO BTG PACTUAL S.A. and subsidiaries

**Consolidated statements of comprehensive income**
Years ended December 31
(In thousands of reais)

| | Note | 2016 | 2015 |
|---|---|---|---|
| Net income for the year | | 4,714,958 | 576,018 |
| Other comprehensive income/(loss) to be reclassified to profit or loss: | | | |
| Changes in fair value of assets available for sale - jointly controlled | 23 | 1,751 | (4,170) |
| Changes in fair value of assets available for sale | | (105,609) | 18,501 |
| Exchange differences on translation of foreign operations and non-monetary items | 23 | (2,386,585) | 5,109,634 |
| **Total comprehensive income for the year** | | 2,224,515 | 5,699,983 |
| Attributable to controlling shareholders | | 2,244,239 | 5,860,779 |
| Attributable to non-controlling interests | | (19,724) | (160,796) |

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Statement of changes in shareholders' equity

Years ended December 31

(In thousands of reais, except for dividends per share)

| | Note | Capital | Additional paid-in capital | Capital reserve | Income reserves - Legal | Income reserves - Unrealized | Income reserves - Statutory | Income reserves - Total | Other comprehensive income | Treasury shares | Retained earnings | Controlling interests | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at December 31, 2014** | | **6,355,334** | **106,742** | **-** | **564,042** | **1,794,382** | **4,493,342** | **6,851,766** | **1,588,520** | **-** | - | **14,902,362** | **592,757** | **15,495,119** |
| Capital increase | | 773,662 | - | - | - | - | - | - | - | - | - | 773,662 | - | 773,662 |
| Own shares acquired | | - | - | - | - | - | - | - | - | (452,188) | - | (452,188) | - | (452,188) |
| Own shares sold | | - | - | - | - | - | (319,794) | (319,794) | - | 319,794 | - | - | - | - |
| Changes in fair value of assets available for sale - jointly controlled | 23 | - | - | - | - | - | - | - | (4,170) | - | - | (4,170) | - | (4,170) |
| Changes in fair value of assets available for sale | | - | - | - | - | - | - | - | 18,501 | - | - | 18,501 | - | 18,501 |
| Exchange differences on translation of foreign operations and non-monetary items | 23 | - | - | - | - | - | - | - | 5,109,634 | - | - | 5,109,634 | - | 5,109,634 |
| Intermediate interest on equity (R$0.16 per share) | | - | - | - | - | - | - | - | - | - | (422,000) | (422,000) | - | (422,000) |
| Dividends paid by previous years (R$0.04 per share) | | - | - | - | - | - | (106,130) | (106,130) | - | - | - | (106,130) | - | (106,130) |
| Intermediate dividends (R$0.02 per share) | | - | - | - | - | - | (47,324) | (47,324) | - | - | - | (47,324) | - | (47,324) |
| Net income for the year | | - | - | - | - | - | - | - | - | - | 736,814 | 736,814 | (160,796) | 576,018 |
| Legal reserve | | - | - | - | 343,728 | 3,498,426 | (4,020,094) | (177,940) | - | - | 177,940 | - | - | - |
| Interest on equity (R$0.18 per share) | 23 | - | - | - | - | - | - | - | - | - | (492,754) | (492,754) | (202,591) | (695,345) |
| Addition of non-controlliing | | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Balances at December 31, 2015** | | **7,128,996** | **106,742** | | **907,770** | **5,292,808** | **-** | **6,200,578** | **6,712,485** | **(132,394)** | **-** | **20,016,407** | **229,370** | **20,245,777** |
| **Balances at December 31, 2015** | | **7,128,996** | **106,742** | - | **907,770** | **5,292,808** | **-** | **6,200,578** | **6,712,485** | **(132,394)** | **-** | **20,016,407** | **229,370** | **20,245,777** |
| Capital increase | | 40,000 | - | 3,960,000 | - | (4,000,000) | - | (4,000,000) | - | - | - | - | - | - |
| Share premium | | - | - | (3,307,485) | - | - | - | - | - | - | - | (3,307,485) | - | (3,307,485) |
| Own shares acquired | | - | - | - | - | - | - | - | - | (593,285) | - | (593,285) | - | (593,285) |
| Own shares sold | | - | - | - | - | (654,845) | - | (654,845) | - | 654,845 | - | - | - | - |
| Changes in fair value of assets available for sale - jointly controlled | 23 | - | - | - | - | - | - | - | 1,751 | - | - | 1,751 | - | 1,751 |
| Changes in fair value of assets available for sale | | - | - | - | - | - | - | - | (105,609) | - | - | (105,609) | - | (105,609) |
| Interest on equity (R$0.19 per share) | | - | - | - | - | - | - | - | - | - | (500,000) | (500,000) | - | (500,000) |
| Exchange differences on translation of foreign operations and non-monetary items | 23 | - | - | - | - | - | - | - | (2,386,585) | - | - | (2,386,585) | - | (2,386,585) |
| Net income for the year | | - | - | - | - | - | - | - | - | - | 4,734,682 | 4,734,682 | (19,724) | 4,714,958 |
| Legal reserve | | - | - | - | 170,429 | - | 3,239,427 | 3,409,856 | - | - | (3,344,682) | 65,174 | - | 65,174 |
| Interest on equity (R$0.32 per share) | 23 | - | - | - | - | - | - | - | - | - | (890,000) | (890,000) | - | (890,000) |
| Addition of non-controlliing | | - | - | - | - | - | - | - | - | - | - | - | (84,790) | (84,790) |
| **Balances at December 31, 2016** | | **7,168,996** | **106,742** | **652,515** | **1,078,199** | **637,963** | **3,239,427** | **4,955,589** | **4,222,042** | **(70,834)** | **-** | **17,035,050** | **124,856** | **17,159,906** |

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of cash flows
Years ended December 31
(In thousands of reais)

| | Note | 2016 | 2015 |
|---|---|---|---|
| Operating activities | | | |
| Net income for the year | | 4,714,958 | 576,018 |
| | | | |
| Adjusts to net income | | 724,534 | (1,484,461) |
| Equity in the (earnings)/losses of associates | 16 | (644,018) | 522,971 |
| Interest expense from subordinated debt | | 923,708 | 2,876,070 |
| Non-controlling interest | | 19,724 | 160,796 |
| Deferred tax | | 6,282 | (4,986,493) |
| Permanent assets exchange variation | | 86,645 | (194,803) |
| Intangible amortization | | 322,032 | 94,166 |
| Depreciation and amortization | | 10,161 | 42,832 |
| | | | |
| Adjusted net income for the year | | 5,439,492 | (908,443) |
| | | | |
| Increase/decrease in operational assets and liabilities | | | |
| Financial assets held for trading | | (8,070,660) | 1,773,941 |
| Financial assets designated at fair value through profit and loss | | (5,182,655) | 13,971,387 |
| Derivative financial instruments - assets | | 14,687,482 | (5,986,115) |
| Assets held for sale | | 223,789 | 585,826 |
| Open market investments | | 2,931,292 | (10,252,992) |
| Amounts receivable from / (payable to) banks | | (1,249,232) | 1,993,560 |
| Other loans and receivables | | 5,679,811 | 14,151,298 |
| Held-to-maturity financial assets | | 189,731 | (494,178) |
| Non-current assets held for sale | | (2,276,493) | 568,162 |
| Other assets | | 26,526,542 | (23,550,004) |
| Financial liabilities held for trading | | 2,034 | (7,118,509) |
| Derivative financial instruments - liabities | | (15,091,374) | 5,962,567 |
| Open market funding | | 6,498,536 | (11,882,842) |
| Tax liabilities | | (1,339,175) | 997,335 |
| Other liabilities | | (10,489,460) | 11,866,219 |
| | | | |
| Cash provided by / (used) in operating activities | | 18,479,660 | (8,322,788) |
| | | | |
| Investing activities | | | |
| Sale of investments | 16 | 2,270,079 | 1,678,463 |
| Aquisition of equity interest | 16 | (2,589,408) | (270,300) |
| Dividends received | 16 | 307,689 | 299,458 |
| Acquisition of property and equipment in use | | (10,916) | (151,134) |
| Sale of property and equipment in use | | 111,858 | 15,744 |
| Acquisition of intangible assets | 18 | (211,343) | (48,850) |
| Sale on intangible assets | 18 | - | - |
| Business combination, net of cash | | - | 7,806,287 |
| Discontinued operations from assets and liabilities | | 5,721,829 | (4,519,059) |
| | | | |
| Cash provided by investing activities | | 5,599,788 | 4,810,609 |
| | | | |
| Financing activities | | | |
| Other liabilities | | (24,294,963) | (3,999,666) |
| Acquisition / sale of treasury shares | | (593,285) | (452,188) |
| Capital increase / (decrease) | | (3,307,485) | 773,663 |
| Non-controlling interest | | (104,514) | (363,387) |
| Dividends distributed | 23 | - | (153,454) |
| Interest on equity distributed | 23 | (992,774) | (720,200) |
| | | | |
| Cash (used in) by financing activities | | (29,293,021) | (4,915,232) |
| | | | |
| Decrease in cash and cash equivalents | | (5,213,573) | (8,427,411) |
| Balance of cash and cash equivalents | 31 | | |
| At the beginning of the year | | 13,994,899 | 22,422,310 |
| At the end of the year | | 8,781,326 | 13,994,899 |
| | | | |
| Decrease in cash and cash equivalents | | (5,213,573) | (8,427,411) |
| | | | |
| Noncash transactions | | 890,000 | 492,754 |
| Interest on equity declared | | 890,000 | 492,754 |
| Credit renegotiation | | - | 1,202,770 |
| Changes in fair value of assets available for sale in jointly controlled entities | | 1,751 | (4,170) |

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

## 1. Operations

Banco BTG Pactual S.A. (''Bank'' or "BTG Pactual") is incorporated as a multiple Bank, operating jointly with its subsidiaries ("the Group"), offering financial products and services relating to commercial, including exchange, investment portfolios, credit, financing and investment, leasing and real estate loans.

The transactions are conducted as part of a group of institutions fully participating in the financial market, and certain transactions are intermediated by other institutions of the BTG Pactual Group.

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

BTG Pactual concluded its strategic plan to improve liquidity and preserve capital; and it understands that the measures implemented as well as the ones planned, particularly the sale of BSI, spin-off of commodities as well as the cost reduction program, will bring it to levels of liquidity and capital better than its historical.

**Special Committee**

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

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

**Units buyback Program**

On November 25, 2015 the Board of Directors announced its units buyback program. Since the beginning of the program 77,801,250 units have been repurchased in the total amount of R$1,045,473 and 71,304,950 units had been canceled, in the amount of R$974,639. On December 31, 2016, 5,896,900 units are held in treasury.

**Liability Repurchase**

During the year ended December 31, 2016 and 2015 the Group repurchased liabilities and early liquidated liabilities, including some of the outstanding balance of senior and subordinated non-cumulative perpetual notes (tier I), with no impact on our capital base.
The Bank board of directors understands that concluded sufficient measures to fulfill the Group obligation's in both the short and medium terms, and strengthened its current liquidity. The cash level, measured by high quality liquid assets was higher than as at November 25, 2015. On December 31, 2016, short-term liquidity KPI is equivalent to 129% to the Bank.

The consolidated financial statements were approved by Bank's Management on March 31, 2017, and they contain a true and fair view of the development and results of the Bank. Management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, Management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

## 2. Corporate reorganization

**Corporate events**

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

Further to the process of separation of its commodity trading activities, on October 13, 2016 the Bank informed its shareholders and the market in general that (i) 596,209,676 Class A shares of Engelhart CTP were delivered to the shareholders that elected to receive equity interest in Engelhart CTP against delivery to Banco of 596,209,676 Class C Preferred Shares ("PNCs") that were allocated to such alternative, and (ii) 59,457,673 additional BBTG11 units were added, as at October 14, 2016, to the book-entry position of those shareholders that did not elect to receive equity interests in Engelhart CTP, BTG Pactual is recognizing the remaining stake as an investment in an associate entity based on the equity method.

During the year ended December 31, 2016, as part of the commodity trading activities separation process, Engelhart CTP acquired 6.1% of its own shares held by Banco. The total consideration was US$150 million and the price was equivalent to Engelhart CTP's net asset accounting value.

As at September 2015, the restructuring process of Eneva S.A. (“Eneva”) was completed. As a result, part of the loans held by the Bank were converted into interest in the company and the Bank has also contributed new assets in the company. As at December 31, 2016, the Bank has a stake equivalent to 33.7% (December 31, 2015 - 49.7%) of the total capital of Eneva. As a result of the completion of the Eneva’s restructuring process and its share market price, fair value in the amount of R$142 million were recognized in the year ended December 31, 2016.

**Acquisitions and disposals**

On December, 2016, the bank repurchased one of its energy trading entity, which had been sold on October 2015. The completion of the repurchase is subject to regulatory approvals and both transactions did not impact BTG Pactual’s results.

On November 2016, BTG Pactual, together with its joint-venture partner, has entered into definitive agreements to sell 100% of the equity interests in Maybrooke Holdings S.A. (“Maybrooke”), the holding company of Ariel Re, for an estimated cash consideration of US$235 million. BTG Pactual does not expect any material gain or loss arising from the transaction. Additional information about the transaction is described on note 27.

On November 2016, the Bank has entered into definitive agreements to acquire 70% of the shares of Enforce Gestão de Ativos S.A. ("Enforce"), which operates in the recovery of corporate loan portfolios. The completion of the transaction is subject to regulatory approvals.

On November 1, 2016, BTG Pactual sale 100% of BSI to EFG International (“EFG”), a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration comprises (i) CHF575 million in cash, (ii) 86.2 million EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG, which generated a result in the amount of CHF454 million, recorded on “Income from discontinued operations”. EFG’s stake were accounted for using the equity pick up method. BSI's purchase transaction and the subsequent sale are subject to price adjustments, or indemnity for non-compliance to the transaction, including the execution of the guarantees provided by EFG shares deposits of Bank property in related account. Obligations or rights will be recognized as their effects become quantifiable and probable. The bank expect’s to incur any material losses on the sale transaction, any liabilities with material risks related to the BSI sale, is related to rights from BSI purchase.

On February 2016, BSI sold its remaining equity interest, equivalent to 49%, in B-Source, a business process outsourcer (“BPO”).

On April 20, 2016, BTG Pactual informed its shareholders and the market in general that on this date purchase and sale agreements were entered into, whereby CNP Assurances S.A. undertook to acquire BTG Pactual’s entire interest in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. for the total amount R$700 million, subject to certain adjustments in order to reflect the Companies’ performance until the date of completion of said transactions plus any dividends to be distributed to the their respective shareholders until said completion date, in accordance with the relevant agreements. Additional information about the transaction is described on note 32.

On April, 2015, the Bank through one of its subsidiaries, converted debentures in the amount of R$986 million, issued by Rede D'Or, and received shares equivalent to 21.1% of its equity, which generated a goodwill in the amount of R$650 million. In May, 2015, Rede D'Or received a capital increase which diluted the Bank interest to 19.4% and generated an equity pickup gain of R$269 million, net of proportional goodwill amortization. Additionally, during the year ended December 31, 2015, BTG Pactual sold its remaining investment in Rede D'Or and recognized an gain of R$2.7 Billion. Also, the sale contracts contain terms that might change the receivable amount of the Bank, in case the share price of an initial public offering does not reach a certain price. On December 31, 2016, the Bank estimated that the value of these terms is zero.

On December 31, 2015, the Bank entered into a sale commitment of its full ownership in Recovery do Brasil Consultoria S.A ("Recovery"), by the total amount of R$1.2 billion, as per described: (i) transfer of ordinary shares, equivalents to 81.94% of Recovery share capital; (ii) transfer of shares issued by Fundo de Investimento em Direitos Creditórios NPL I ("FIDC NPL I"), equivalents to 69.34% of the fund's total investment, and; (iii) transfer of debentures not convertible issued by Renova Companhia Securitizadora de Créditos Financeiros S.A. ("Renova"). On the same date, the referred assets were transferred to held for sale, measured at fair value. The transaction generated a gain of R$560 million. On February 17, 2016, the sale transaction was approved by Conselho Administrativo de Defesa Econômica (CADE) and on March 31, 2016 the transaction was settled.

BTG Pactual Group has entered into a joint venture to establish a reinsurance business operating through a number of regulated reinsurance entities. As part of the growth strategy of the joint venture, as at July 10, 2014, the Bank acquired 100% of the shares of Ariel Re (Holdings) Limited's operations ("Ariel"), a non-life international reinsurance group, based in London and Bermuda, that specializes in property catastrophe reinsurance. On January 12, 2015, the acquisition of Ariel was approved by the Brazilian Central Bank and on February 3, 2015, it was settled. In April 2015, the transfer of 50% of interest on Ariel to the joint venture was concluded.

On July 14, 2014, Banco BTG Pactual entered into a definitive share purchase agreement of BSI, a Swiss financial institution subsidiary of Generali Group. On September 30, 2015, the acquisition was concluded and the aggregate consideration paid by Banco BTG Pactual was CHF1,248 million (R$4,935 million) as per the exchange rate on the date of acquisition, and it consisted of: (i) CHF1,048 (R$4,162 million) in cash totally paid in September 2015, and (ii) shares in the amount of CHF200 million (R$773 million). The shares issuance, mentioned above, was approved by the Brazilian Central Bank on November 3, 2015.

In addition, Generali NV used part of the cash proceeds CHF50 million (R$203 million) to fund the acquisition of a corresponding number of equity interests of BTG Pactual Participations needed to form units of the BTG Pactual Group.

## 3. Presentation of the financial statements

### a. Basis for preparation

The Company's interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

### b. Judgments and significant accounting estimates

In the process of preparing The Company's interim condensed consolidated financial statements, management exercised judgment and used estimates to calculate certain amounts recognized in the financial statements. The more material application of the exercise of judgment and use of estimates occurs in:

Going concern

Management evaluated the Bank and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, Management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

Fair value of the financial instruments

When the fair value of financial assets and liabilities accounted in the balance sheet may not be derived from an active market, it is determined by using several valuation methodologies that include the use of mathematic models. The inputs of these models are derived from observable data of the market whenever possible, but, when market data are not available, judgment is required to establish the fair value. The judgments include liquidity considerations and variable models such as volatility of long-term derivatives and discount rates, prepayment fees and assumptions on default of bonds containing assets as guarantee.

Impairment losses regarding loans and receivables

The Bank and its subsidiaries' review individually significant loans and receivables on each balance sheet date to evaluate if impairment losses must be recorded in the income statement. Management's judgment is required to estimate the value and timing of cash flows in order to determine impairment losses. To estimate these cash flows, the Bank and its subsidiaries make judgments with respect to client's financial condition and the realizable value net of any guarantee. These estimates are based on assumptions involving several factors and, for this reason, the actual results may vary, creating future changes in the provision.

Impairment of financial assets available for sale and held to maturity.

The Bank and its subsidiaries' review any debt instruments classified as investments available for sale or held to maturity at each financial statement date to evaluate any impairment. This requires judgments similar to the individual evaluation of loans and receivables.

The Bank and its subsidiaries also record impairment in any investments classified as available for sale or held to maturity for which there was a significant or prolonged write-off of the fair value, below its cost. The determination of what is deemed "significant" or "prolonged" requires judgment. To reach this judgment, the Bank evaluates, among others factors, the historical variation of share prices, as well as the duration and extent to which the investment's fair value is lower than its cost.

Deferred tax assets

Deferred tax assets are recognized on tax losses to the extent that is probable that future taxable income will be available against which the losses may be used. Judgment is required to determine the amount of future deferred tax assets that must be recognized, based on the probable flow of future taxable income and together with tax planning strategies, if any.

**c. Revised IFRS pronouncements**

The following standards were issued but are not yet effective for December 31, 2016:

- **Accounting standards applicable for period ended December 31, 2016**

IASB Annual Improvement Cycle (2012-2014) – Annually IASB makes minor amendments to a series of pronouncements to clarify the standards and avoid double interpretation. In this cycle IFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations", IFRS 7 – "Financial Instruments: Disclosures", IAS 19 – "Employee Benefits", and IAS 34 – "Interim Financial Reporting" were reviewed. Effective for annual periods beginning on January 1, 2016.

Amendment to IFRS 11 – "Joint Arrangement" – The change establishes criteria for recognition of acquisition of joint operations, which activity constitutes one business, according to the methodology established in IFRS 3 – Business Combinations. Effective for the years beginning on January 1, 2016 and early adoption is permitted by IASB. Impacts of this change will occur only if there is an acquisition of a joint operation that constitutes a business.

Amendment to IAS 16 – "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – The amendment clarifies the base principle for depreciation and amortization as being the expected standard of consumption of future economic benefits embodied in the asset. Effective for annual periods beginning on January 1, 2016, with early adoption permitted by IASB.

Amendment to IAS 1 – "Presentation of Financial Statements" – The amendments are aimed at encouraging companies to identify which information is sufficiently material to be disclosed in the financial statements. It also clarifies that materiality is applicable to the full set of financial statements, including the notes to the financial statements, and it is applicable to any and all disclosure requirements of the IFRS standards. Effective for periods beginning on January 1, 2016. Main effects identified are related to the disclosure of accounting policies and judgment of materiality in the notes to the financial statements.

Amendments to IAS 28, IFRS 10 and IFRS 12: “Investment Entities: Applying Consolidation Exception”: This document comprises guidance for applying the Investment Entities concept. Effective for annual periods beginning on January 1, 2016.

No material impacts arising from these changes on the consolidated financial statements of BTG Pactual were identified.

- **Accounting standards recently issued and applicable in future periods**

The following pronouncements will become applicable for periods after the date of these consolidated financial statements and were not early adopted:

IFRS 9 – Financial Instruments – This standard replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 applies to financial instruments and will be adopted retrospectively at its effective date, on January 1, 2018. This standard is structured to cover the pillars (I) classification and measurement of financial assets (II) impairment, and (III) hedge accounting. Among the amendments, the items below may have the most significant impacts:

Classification and measurement of financial assets: the classification of financial assets should depend on two criteria: the entity´s business model for managing its financial assets and the characteristics of the contractual cash flow of financial assets.
Impairment: The new standards introduced the expected loss approach and classification into three phases.
Hedge accounting: The hedge accounting requirements are closed aligned with risk management and should be applied on a prospective basis.

IFRS 9 is in process of implementation by BTG Pactual, and an evaluation of the possible impacts resulting from the adoption of this standard has been conducted and will be completed through its effective date.

IFRS 15 – “Revenue from Contracts with Customers” – The pronouncement replaces IAS 18 and IAS 11, as well as interpretations related thereto (IFRICs 13, 15 and 18). It requires that revenue is recognized in a way that shows the transfer of assets or services to the client for an amount that reflects the company’s expectation of having in consideration the rights to these assets or services. This standard is effective for annual periods beginning on January 1, 2018. No material impacts arising from the adoption of this standard were identified.

IFRS 16 – “Leases” – The pronouncement replaces IAS 17 - Leases, and related interpretations (IFRIC 4, SIC 15 and SIC 27). It eliminates the accounting for operating lease agreements for the lessee, presenting only one lease model, that consists of: (a) recognizing leases which terms exceeds 12 months and with substantial amounts; (b) initially recognizing lease in assets and liabilities at present value; and (c) recognizing depreciation and interest from lease separately in the result. For the lessor, accounting will continue to be segregated between operating and financial lease. This standard is effective for annual periods beginning on January 1, 2019. Possible impacts arising from the adoption of this standard are being assessed and will be completed by the date this standard is effective.

(In thousands of reais)

Amendment to IFRS 10 – "Consolidated Financial Statements" and IAS 28 – "Investments in Associates and Joint Ventures" – The amendments refer to an inconsistency between IFRS 10 and IAS 28 requirements, when addressing the sale or contribution of assets between an investor and its associate or joint venture. The effective date has not been defined by IASB yet. No material impacts arising from the adoption of this standard were identified.

**d. Consolidated financial statements**

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE). Control exists where the Company has the power to govern the financial and operating policies of the entity, is exposed to variable returns from its involvement with the investees and has the ability to use its power to affect these returns; generally conferred by holding a majority of voting rights.

The accounting policies adopted for the recording of operations and assessment of the rights and obligations of the Bank, subsidiaries, directly and indirectly and investment funds included in the consolidation were applied uniformly. All intra-group balances, transactions, income and expenses are eliminated on consolidation.

The following table lists the principal subsidiaries of the Bank, held directly and indirectly, including investment funds consolidated in the financial statements.

| | | Equity interest - % | |
|---|---|---|---|
| | Country | 2016 | 2015 |
| **Direct subsidiaries** | | | |
| BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários | Brazil | 99.99 | 99.99 |
| BTG Pactual Corretora de Títulos e Valores Mobiliários S.A. | Brazil | 99.99 | 99.99 |
| BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários | Brazil | 99.99 | 99.99 |
| BTG Pactual Holding Participações S.A. | Brazil | 99.99 | 99.99 |
| BTG Pactual Comercializadora de Energia Ltda. | Brazil | 99.90 | 99.90 |
| BTG Pactual Holding Internacional S.A. | Brazil | 99.99 | 99.99 |
| BTG Pactual Overseas Corporation | Cayman | 100.00 | 100.00 |
| BW Properties S.A. | Brazil | 71.28 | 71.28 |
| BTG Pactual Holding de Seguros Ltda. | Brazil | 99.99 | 99.99 |
| BTG Pactual S.A. Comisionista de Bolsa | Colombia | 99.70 | 99.70 |
| BTG Pactual Chile International Ltd. | Chile | 100.00 | 100.00 |
| BTG Pactual TTG Participações S.A. | Brazil | 100.00 | 100.00 |
| Banco BTG Pactual Luxembourg S.A. | Luxembourg | 100.00 | 100.00 |
| BTG Pactual Corretora de Seguros Ltda. | Brazil | 100.00 | 100.00 |
| Banco Sistema S.A. | Brazil | 99.84 | 99.84 |
| **Indirect subsidiaries** | | | |
| BTG Pactual Gestora de Investimentos Alternativos Ltda. | Brazil | 99.98 | 99.98 |
| BTG Pactual WM Gestão de Recursos Ltda. | Brazil | 99.99 | 99.99 |
| BTG Pactual Gestora de Recursos Ltda. | Brazil | 99.99 | 99.99 |
| BTG Pactual Corporate Services Ltda. | Brazil | 99.99 | 99.99 |
| BTG Pactual Serviços Energéticos Ltda. | Brazil | 100.00 | 100.00 |
| BTG Pactual NY Corporation | USA | 100.00 | 100.00 |
| BTG Pactual Global Asset Management Limited | Bermuda | 100.00 | 100.00 |
| BTG Pactual Europe LLP | UK | 100.00 | 100.00 |
| BTG Pactual Asset Management US, LLC | USA | 100.00 | 100.00 |
| BTG Pactual US Capital, LLC | USA | 100.00 | 100.00 |
| BTG Pactual Asia Limited | Hong Kong | 100.00 | 100.00 |
| BTG Global Asset Management (UK) Limited | UK | 100.00 | 100.00 |

(In thousands of reais)

| | Country | Equity interest - % 2016 | 2015 |
|---|---|---|---|
| BTG Pactual Resseguradora S.A. | Brazil | 100.00 | 100.00 |
| BTG Pactual Vida e Previdência S.A. | Brazil | 100.00 | 100.00 |
| Infra IX Empreendimentos e Participações S.A | Chile | 100.00 | - |
| BTG Pactual Chile SPA | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Capital S.A. | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Capital S.A. Corredores de Bolsa | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Capital S.A. Administradora General de Fondos | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Inversiones Limitada | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Servicios Financieros S.A. | Chile | - | 100.00 |
| Inmobiliaria BTG Pactual Chile Limitada | Chile | 100.00 | 100.00 |
| BTG Pactual Chile Servicios Empresariales Limitada | Chile | 100.00 | 100.00 |
| BTG Pactual Chile S.A. Administración de Activos | Chile | 100.00 | 100.00 |
| BTG Pactual Chile International Corp. | Chile | 100.00 | 100.00 |
| BTG Pactual Seguros de Vida | Chile | - | 100.00 |
| BTG Pactual Holding Delaware LLC | USA | 100.00 | 100.00 |
| BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa | Peru | 100.00 | 100.00 |
| BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion | Peru | 100.00 | 100.00 |
| BTG Pactual Perú S.A.C. | Peru | 100.00 | 100.00 |
| BTG Pactual Sociedad Fiduciaria (Colômbia) S.A. | Colombia | 100.00 | 100.00 |
| Laurel Sociedad Gestora Profissional S.A.S | Colombia | 94.50 | 94.50 |
| BTGP Corp SAS | Colombia | 100.00 | 100.00 |
| BTGP S.A. | Colombia | - | 100.00 |
| BTG Pactual E&P S.a.r.l. | Luxembourg | - | 100.00 |
| BTG Pactual Oil & Gas S.a.r.l. | Luxembourg | 100.00 | 100.00 |
| Engelhart CTP Holding (UK) LTD | UK | 100.00 | 100.00 |
| Engelhart CTP (Brazil) SA | Brazil | - | 100.00 |
| Engelhart CTP (UK) LLP | UK | - | 99.99 |
| Engelhart CTP (Singapore) PTE LTD | Singapore | - | 100.00 |
| Engelhart CTP (Switzerland) SA | Switzerland | - | 100.00 |
| Engelhart CTP Holding (US) LLC | USA | - | 100.00 |
| Engelhart CTP (US) LLC | USA | - | 100.00 |
| Engelhart CTP (Kenya) Limited | Kenya | - | 100.00 |
| Engelhart CTP (South Africa) Proprietary Limited | South Africa | - | 100.00 |
| Engelhart CTP (Argentina) SA | Argentina | - | 100.00 |
| Engelhart Warehousing (Singapore) PTE Limited | Singapore | - | 100.00 |
| Engelhart CTP (Shanghai) CO LTD | China | - | 100.00 |
| Engelhart Warehousing (US) LLC | USA | - | 100.00 |
| Engelhart Warehousing (UK) Limited | UK | - | 100.00 |
| Engelhart CTP Trading (US) LLC | USA | - | 100.00 |
| Engelhart CTP (Ukraine) | Ukraine | - | 100.00 |
| Engelhart CTP (Italy) SRL | Italy | - | 100.00 |
| Engelhart CTP (Costa Rica) S.r.l. | Costa Rica | - | 100.00 |
| Engelhart CTP (Colombia) SAS | Colombia | - | 100.00 |
| Engelhart CTP (Rus) Limited Liability Company | Russia | - | 100.00 |
| Engelhart CTP Absolute Return Limited | Cayman | - | 100.00 |
| TTG Brasil Investimentos Florestais Ltda. | Brazil | - | 100.00 |
| BTG Pactual Timberland Investments Group LLC | USA | 100.00 | 100.00 |
| BTG Pactual Casa de Bolsa, S.A. de C.V. | Mexico | 100.00 | 100.00 |
| Bamerindus Participações e Empreendimentos S.A. | Brazil | 100.00 | 100.00 |
| Bastec Tecnologia e Serviços Ltda. | Brazil | 99.84 | 99.84 |
| BTG Pactual Corretora de Resseguros Ltda. | Brazil | 99.84 | 99.84 |
| BTG Pactual UK Holdco Limited | UK | 100.00 | 100.00 |
| BTG Pactual Family Office S.A. de C.V. | Mexico | 100.00 | 100.00 |
| **Investment funds** | | | |
| Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior | Brazil | 100.00 | 100.00 |
| BTG Pactual International Portfolio Fund SPC - CLASS C | Cayman | 100.00 | 100.00 |
| Nala Fundo de Investimento em Participações | Brazil | - | 100.00 |
| BTG Pactual Global Fund LP | Cayman | 100.00 | 100.00 |
| Fundo de Investimento em Direitos Creditórios Não Padronizados Caixa BTG Pactual Multisegmentos | Brazil | - | 100.00 |
| BTG Pactual Gewinnstrategie Fundo de Investimento Multimercado Crédito Privado | Brazil | - | 100.00 |

(In thousands of reais)

| | Country | Equity interest - % 2016 | 2015 |
|---|---|---|---|
| Fundo de Investimento em Participações Quartzo | Brazil | - | 100.00 |
| BTGP Latam Fund LLC | Cayman | 100.00 | 100.00 |
| BTG Pactual Oil & Gas FIQ FIP | Brazil | 100.00 | 100.00 |
| BTG Pactual Mall Fundo de Investimento Imobiliário | Brazil | - | 100.00 |
| Fundo de Investimento Imobiliário BTG Pactual Shopping | Brazil | - | 100.00 |
| BTG Pactual Fundo de Investimento Imobiliário Ametista | Brazil | 100.00 | 100.00 |
| Warehouse Fundo de Investimento em Participação | Brazil | 100.00 | 100.00 |
| Caravelas Fundo de Investimento em Ações | Brazil | - | 56.00 |
| BTG Pactual Absolute Return III Master Fund LP | Cayman | - | 100.00 |
| CCF Ltd | Cayman | - | 100.00 |
| CCMF Ltd | Cayman | - | 100.00 |
| FI Imobiliario Property Invest | Brazil | - | 100.00 |
| BTG CMO FIM CP – IE | Brazil | - | 100.00 |
| BTG Pactual Real Estate Fund Ltd | Cayman | 100.00 | 100.00 |
| B-2 Fundo de Investimento Multimercado | Brazil | - | 100.00 |
| BTG Pactual Absolute Return III Limited | Brazil | 100.00 | 100.00 |
| BTG Pactual Intl Port Fund II SPC – Class Commodities | Cayman | 100.00 | 100.00 |
| FIDC NP Alternative Assets I | Brazil | 100.00 | - |

(i) Management decided to no longer consolidate the balance sheets of Engelhart CTP and their subsidiaries as at September 30, 2016 due to: (i) the separation of Engelhart CTP were substantially concluded as a result of regulatory approvals obtained till then; (ii) the completion of both transactions was deemed highly probable as at September 30, 2016; and (iii) the presentation of their balances on the consolidated balance sheets of Banco BTG Pactual or the combined balance sheets of BTG Pactual Group would conflict with the objective to provide relevant information for the market.

### e. Functional currency

The items included in the Bank’s financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R$), which is the functional currency of the controller, the Bank. Assets and liabilities were translated into reais at the rate prevailing at the reporting date, while income and expense accounts were translated at the average rate of the month.

The financial statements of 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.

The foreign exchange effects of the conversion of foreign subsidiaries are recorded in the statement of other comprehensive income, as well as hedge transactions, when applicable.

### Seasonality of transactions

Considering the activities that the Bank is involved in, the nature of these transactions is neither cyclic nor seasonal. Consequently, the Bank does not provide disclosures about seasonality in these notes to the interim condensed consolidated financial statements for the year ended on December 31, 2016.

## 4. Significant accounting practices

The most significant accounting practices adopted by the Bank and by its direct and indirect controlled companies are the following:

**a) Financial instruments**

(i) Recognition date

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

(ii) 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. All financial instruments are initially measured at fair value plus transaction costs, except in cases where assets and liabilities are recorded at fair value through profit or loss.

(iii) Derivatives financial instruments

Derivative financial instruments are recorded at the 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 consolidated income statement in “Net results with financial instruments”.

Embedded derivatives in other financial instruments, such as the convertible feature of an instrument, are treated as separate derivatives and recorded at the fair value if their economic characteristics and risks are not closely related to those in the host contract, as long as the host contract is not held for trading or designated at fair value through profit and loss. The embedded derivatives separated from principal are held at the fair value in the portfolio with fair value changes recognized in the consolidated income statement.

(iv) Financial assets and liabilities held for trading

Financial assets or liabilities held for trading are recorded in the balance sheet at the fair value. Variations in fair value, interest revenue, expenses and dividends are recorded in expenses “Net gains on financial instruments”.

Included in this classification are: debt instruments, shares, positions sold and loans to customer which have been acquired specifically for the purpose of short term sale or repurchase.

(v) 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 and loss on initial recognition is only possible when one the following criteria are 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 has one (or more) embedded derivative(s), which significantly modifies the cash flows that would be required by the agreement.

Financial assets and liabilities at the fair value through profit and loss are recorded in the consolidated balance sheet at fair value. Valuation changes in the fair value and earned or incurred interests are recorded as "Net gains on financial instruments", while dividend revenues are recognized as "Other operating income" when the right to payment is established.

(vi) Available for sale financial assets

Financial assets available for sale include shares, quotas and debt instruments. Shares and quotas classified as available for sale are those not classified as held for trading or designated at the fair value through profit or loss. Debt instruments in this category are those to be held for an indefinite period of time and may be sold in response to need for liquidity or in response to changes in market conditions.

After initial recognition, available for sale financial instruments are measured at fair value with unrealized gains or losses recognized directly in the statement of comprehensive income. Upon the realization of the available for sale financial instruments, the unrealized gains or losses, previously recognized in the statement of comprehensive income, are transferred to the income statement, under the heading "Net gains on financial instruments".

Losses on the impairment of these financial instruments are recognized in the income statement and removed, when applicable, from the statement of comprehensive income.

(vii) "Day 1" profit or loss

When the transaction value is different from the fair value of other observable current market transactions with the same instrument or based on a valuation technique, whose variables include only observable market data, the difference between the transaction value and fair value ("Day 1" profit or loss) is immediately recognized in "Net gains on financial instruments". In cases where the fair value is determined using unobservable market data, the difference between operation price and model value is recognized in the income statement during the term of operation or when variables may be observable or, also, when the financial instrument is derecognized.

(viii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets or liabilities with fixed or determinable payments and defined maturities, for which there is positive intention and ability to hold until maturity. Held-to-maturity financial assets are initially recorded at their fair value plus directly attributable costs, and are subsequently measured at amortized cost using the effective interest rate method, less any reductions in the recoverable value.

(ix) Bank receivables and loans and receivables

Bank receivables and loans and receivables include financial assets with fixed or determinable payments that are not listed in an active market, except for:

- Those for which the intention is to sell immediately or in the short-term and those initially designated at the fair value through profit and loss; or

- Those initially designated as available for sale; or

- Those whose total investment will not be substantially recovered, except for reasons of credit deterioration.

After initial measurement, bank receivables and loans and receivables are measured at amortized cost using the effective interest rate method, net of the provision for losses with impairment.

(x) Financial liabilities carried 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.

**b) Derecognition of assets and financial liabilities**

(i) Financial assets

A financial asset (or applicable part of a financial asset or a group of assets similar) is derecognized when the right to receive the cash flow of the asset expired or the Bank transferred the right to receive cash flows of the asset or has assumed the obligation to pay any cash flow received, at total amount, without material delay, to a third party due to a transfer agreement, and if: (i) there is substantial transfer of all risks and benefits of the asset; or (ii) there is no substantial transfer or withholding retention of all risks and benefits of the asset, but there is transfer of control on such asset.

When the bank and its subsidiaries transfer the right to receive an asset cash flow or have entered in an on-lending agreement, and have not substantially transferred or retained all asset risks and benefits, or have not also transferred the control on such asset, an asset is recognized to the extent of the bank and its subsidiaries have continuing involvement in the assets. As a result, the assets transferred and referred liabilities are measured based on the retained rights and obligations of the bank and its subsidiaries.

(ii) Financial liabilities

A financial liability is derecognized when the obligation with respect to the liability is removed, cancelled or expired. When an existing financial liability is replaced by another from the same creditor on substantially different terms, or terms of the existing liability are substantially modified, the change or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the book value is recognized in profit or loss.

**c) Open Market investments (repurchase and resale agreements)**

Amounts sold with repurchase agreements at a future date are not derecognized from the balance sheet as the risks and rewards are substantially retained by the consolidated entity. Corresponding cash received is recognized in the balance sheet as an asset with a return obligation, including interest appropriated as a liability in “open market funding” The difference between purchase and repurchase price is treated as interest expense and is appropriated pursuant to term of the agreement, using the effective interest rate method. When the counterparty has the right to sell or to re-offer the instruments as collateral, instruments are classified as held for trading in the consolidated balance sheet

Conversely, securities acquired with agreements to sell (reverse repo) at a future date are not recognized in the balance sheet. The amount paid, including appropriated interest, is recorded on the balance sheet as open market investments, reflecting the economic essence of the operation as a loan receivable. The difference between purchase and repurchase price is registered as interest income and is appropriated pursuant to term of the agreement, according to effective interest rate method. If securities acquired from reverse repo are subsequently sold to third parties, the obligation of returning the amounts is registered as a short sale, included in financial liabilities at the fair value in result and measured at the fair value with any gain or loss included in net profit with financial instruments at the fair value.

**d) Securities lending and borrowings**

Transactions of securities lending and borrowings are generally secured by other bonds or by cash. The transfer of the security to the counterparty is only reflected on the balance sheet if the risks and benefits of title are also transferred. Advanced cash or cash received as guarantee is registered as an asset or liability.

Securities lending transactions are not recognized on the balance sheet, except if they have been sold to third parties and, in this case, the obligation of returning the security is registered as trading financial liability with gains or losses including in the “Net results with financial instruments ".

**e) Determining fair value**

Financial instruments are measured according to the fair value measurement hierarchy described below:

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

Level 2: Price quotations observed in active markets for financial 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 Bank determines a reasonable level for the input. Financial instruments primarily include certain unlisted equity shares mainly derived from our merchant banking activities, debt securities (debentures) from non-public companies and energy derivatives where valuation depends upon unobservable inputs. No gain or loss is recognized on the initial recognition of a financial instrument 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. |
| Debt securities (debentures) | Standard models and comparable prices. | Probability of default, loss severity and yield, prepayment and recovery rates. |
| Energy derivatives | Models based on Decomp and Newwave systems data. | GDP, hydro reservoir levels and rain forecast. |

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.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

**f) Impairment of financial assets**

Impairment losses on financial assets not recorded at fair value are immediately recognized when there is objective evidence of loss. The book value of these assets is reduced with the use of provisions and expected losses from future events are not recognized. Provisions for impairment of financial assets not recorded at fair value are valued and calculated individually and collectively and are recognized in the statement of income.

<u>(ii) Financial assets available-for-sale</u>

In case of any impairment losses related to financial assets available for sale, considering acquisition cost and the current fair value, such losses will be recognized on consolidated statements of income against other comprehensive income. However, if in a subsequent year occurs 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 loss.

The main evidence of impairment for financial assets 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, reduced liquidity of the asset due to financial difficulties of the lender.

<u>(ii) Financial assets accounted at amortized cost</u>

For financial assets accounted at amortized cost (as amounts receivable from banks, loans and advances to clients), the Bank individually evaluates if there is objective evidence of impairment.

If there is objective evidence that a loss from impairment was incurred, the amount of the loss is measured by the difference between the book value of the asset and the present value of estimated future cash flows. The asset is reduced by a provision and a corresponding loss is recognized in the income statement. Interest income is still recognized based on the net book value and is calculated based on the original discount rate with interest income recorded as 'interest income'.

Loans and related provisions are written-off when there is no likelihood of recovery and guarantees were sold or transferred to the Bank and its subsidiaries. If the estimated amount of loss from impairment increases or decreases due to an event that occurred after the impairment was recognized, the impairment previously recognized is increased or reduced by adjusting the provision balance. If a future write-off is later recovered, the amount is credited to 'Provisions for credit Losses'.

The present value of the estimated future cash flows are discounted by the original effective interest rate, If a loan has a variable interest rate, the discount rate to measure any loss with impairment to the recoverable value is the current effective interest rate. The calculation of the present value of the estimated future cash flows of financial assets provided as guarantee reflects the cash flow that may result from the settlement less costs to purchase and sell the collateral, even if the settlement is not likely.

### 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) Recognition of income and expenses

Income is recognized to the extent that it is probable that the economic benefit is transferred to the Bank and that the income may be reliably measured. The criteria of recognition specified as follows must be complied with before the income is recognized:

(i) Interest income and expenses

For all financial instruments measured at amortized cost, financial assets that accrue interest classified as available for sale the interest income or expenses are recorded using the effective interest rate method, which is the rate that discounts the future receipts or payments estimated by the estimated life of the financial instrument, or, when appropriate, a shorter period to the net book value of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are part of the effective rate, but does not include credit losses based on future events. The measurement of the financial asset or liability is adjusted if the bank changes the payment and receipt estimates. The remeasurement adjustment is calculated based on the original interest rate and the adjustment to book value is recorded as "Other operational income (expenses)". However, for reclassified financial assets for which the bank subsequently increases its estimate of future cash receipt, the effect of the increase is recognized as an adjustment in the actual rate from the date of the change in estimate.

Interest income (expense) is recognized as incurred, using the effective interesting rate method.

Once the recorded value of a financial asset or a group of similar financial assets are written-off due to an impairment loss, the interest income continues to be recognized by using the interest rate used to discount the future cash flow used to measure the impairment loss.

(ii) Fee and commission income

The Bank and its subsidiaries recognize fees and commission income due to several types of services that it provides to its clients. Revenue from fees can be segregated into the following categories:

- Revenues with fees and commissions earned from services provided in a given period:

  Fees and commissions realized with provision of services throughout the period are recorded over the same period. These revenues include commission and management fees of assets, custody and other management fees, custody, and administration of investment funds.

  Revenues with fees of loans in which the credit is likely to be used - and other fees related to credit - are deferred (together with any incremental costs) and recognized as an adjustment to the actual interest rate of the loan. When the use of credit from a loan is not probable, revenue of fees of loans is recognized over the period of the loan using the straight-line method.

- Fees from services rendered relating to executed transactions:

  Fees resulting from trading or interest in trading with third parties, such as, for example, share purchase agreement or other bonds or purchase or sale of a business, are recognized at the end of a transaction. Fees or components of rates that are related to specific performance are recognized after meeting specific criteria.

(iii) 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.

**i) Cash and cash equivalents**

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

**j) Non-current assets held for sale**

Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell and are not depreciated. Into this category are classified assets that are intended for sale which must be highly probable to occur in less than a year, and Management has committed to sell such assets.

Assets are reclassified out of non-current assets held for sale due to changes to a plan of sale and when the sale is no longer considered highly probable. As a result of the reclassification, the asset will be adjusted to any depreciation or revaluation measured at the lower of its carrying amounts before the classification as held for sale, or its recoverable amount.

**k) Investment property**

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

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

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

**l) Investment in associates and jointly controlled entities**

Investments in associates and jointly controlled entities comprise entities over which the Group has significant influence or joint control over operating and financial policies. These investments are initially recognized at the acquisition cost and subsequently evaluated by the equity method. The investments in associates and jointly controlled entities include the identified goodwill in any purchase net of any accrued impairment.

The participation of the Bank and its subsidiaries' interests in the profit or loss of its associates and jointly controlled entities is recognized in the "Share of profit in associates and jointly controlled entities". Any movements in the equity reserves of these entities are recognized directly in other comprehensive income.

**m) Property, plant and equipment**

Property, plant and equipment are accounted for at cost excluding expenditures with maintenance, minus accumulated depreciation and impairment. Changes in the estimated useful life or depreciation method are treated as changes in accounting estimates.

Depreciation is calculated using the straight line method in order to write items down to a residual value over their estimated useful life.

Property, plant and equipment are written-off on disposal or when future economic benefits are no longer expected in its use. Any gain or loss generated on the asset's disposal (calculated as the difference between the disposal proceeds and the asset's book value) is recognized as 'other operating income' in the statements of income when the asset is disposed.

**n) Business Combination and goodwill**

Business combinations are accounted for using the acquisition method. The method involves recognizing identifiable assets (including intangible assets previously unrecognized) and liabilities (including contingent liabilities but excluding future restructuring) of the business acquired at fair value. Shares issued as part of the consideration transferred are measured at fair value at the issuance date. Any excess of the consideration transferred over the fair value of the net identifiable assets acquired is recognized as goodwill. If the consideration transferred is lower than the fair value of the net identifiable assets acquired, the discount on the acquisition is recognized directly in the income statement in the year of the acquisition.

After initial recognition, goodwill is measured at the cost minus any impairment loss relating to its recoverable amount. Goodwill is reviewed for impairment on an annual basis, or more often, if events or changes in circumstances indicate that the book value may be below the recoverable value.

**o) Intangible Assets**

Intangible assets are recorded at cost and include acquired assets and computer software. An intangible asset is recognized only when its cost can be reliably measured and it is likely that the future economic benefits expected which are assigned to them shall be carried out.

The amortization expenses of intangible assets with definite useful lives (from 5 to 10 years) are recognized in the income statement in administrative expenses, consistent with the function of the intangible asset. The intangible assets with indefinite useful lives are not amortized but tested annually to identify possible impairment losses, which are recognized in the income statement by the carrying amount of the asset that exceeds its recoverable value.

**p) Impairment of nonfinancial assets**

Investments in associates and jointly controlled entities 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)).

**q) Financial guarantees provided**

In the ordinary course of business, the bank and its subsidiaries grant financial guarantees, through letters of credit, guarantees and sureties. Financial guarantees are initially recognized in the financial statements (in 'other liabilities’) based on the premium amount and are amortized throughout the agreement term. Subsequent to initial recognition, liabilities are measured at the greater of the amount initially recognized less, when appropriate, the value of accumulated amortization recognized in the income and the best estimate of the costs required to settle any financial obligation created by this guarantee.

**r) Contingent assets and liabilities**

Provisions are recognized when the bank 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, tax and social security obligations 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

Provisions - are recognized in the financial statements when, based on the opinion of legal advisors and the administration, 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.

**s) Taxes**

Allowances for income tax and social contribution are recognized based on accounting profit, adjusted for additions and deductions provided for by tax law. Deferred income tax and social contribution are calculated on the value of temporary differences and tax loss carry forwards, and are recognized when the realization of those amounts are deemed probable. For income tax the rate used is 15% plus a 10% allowance on annual taxable income exceeding R$240 and 20% for social contribution.

Deferred tax assets and liabilities are measured at the tax rate which is expected to be applicable in the year in which the asset is realized or the liability is settled, based on the tax rates (and tax law) that were enacted on the balance sheet date.

Current tax and deferred tax related to items recognized directly in the shareholders' equity are also recognized in the shareholders' equity and not in the income statement.

Deferred tax assets and liabilities are presented net if there is a legal or contractual right to offset current tax assets against current tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

**t) Dividends and interest on shareholders' equity (ISE) of shares**

Dividends and interest on shareholders' equity are recognized as a liability and deducted from the net equity when approved by the Bank's shareholders. Dividends on the interim dates are deducted from the net equity when declared and are not subject to further decision of the Bank.

**u) Earnings per share**

Earnings per share is calculated by dividing net income attributable to common and preferred shareholders by the weighted average of common and preferred shares outstanding in each financial year. The weighted average number of common and preferred shares is calculated based on the periods in which the shares were in circulation.

**v) 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 investment banking and so no segment information is disclosed.

**w) Discontinued Operations**

In accordance with IFRS 5, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and:

(In thousands of reais)

(1) Represents either a separate major line of business or a geographical area of operations;
(2) Is part of a single co-ordinated plan to dispose a separate major line of business of geographical area of operations; or
(3) Is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.

The result from discontinued operations is stated at a single amount, separated from other revenues and expenses, after income from continuous operations and net of tax. The income statement, balance sheet and net cash flows attributed to discontinued operations are stated in Note 17.

## 5. Risk management

The Bank's committee structure allows for the inputs from the entire organization and ensures that the decisions are implemented easily and effectively. The main committees involved in risk management activities are: (i) Management Committee, which approves policies, defines overall limits and is ultimately responsible for managing risks, (ii) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products, (iii) Credit Risk Committee, which is responsible for approving new loans according to the guidelines set forth by the Bank's Risk Committee, (iv) Market Risk Committee, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (v) Operational Risk Committee, which assesses the main operational risks for the internal policies and regulatory risks established, (vi) AML (Anti Money Laundering) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering, (vii) CFO Committee, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure, (viii) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. We believe that the involvement of the Committees (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas.

### a. Operating limits

| | 2016 | 2015 |
|---|---|---|
| Prudential Reference Shareholders' Equity | 17,672,754 | 19,658,799 |
| Consolidation adjustments (i) | 54,465 | 54,465 |
| Reference Shareholders' Equity Consolidated | 17,727,219 | 19,713,264 |
| Tier I | 16,216,254 | 22,348,819 |
| Common Equity | 11,924,484 | 17,206,110 |
| Complementary Equity | 4,291,770 | 5,142,708 |
| Tier II | 3,421,161 | 3,977,264 |
| Reference Shareholders' Equity (PR) - (a) | 19,637,415 | 26,326,083 |
| Required Reference Shareholders' Equity (PRE) | 9,571,425 | 18,742,699 |
| Total exposure risk-weighted - (b) | 91,156,431 | 18,742,699 |
| Credit risk | 55,813,608 | 13,766,340 |

(In thousands of reais)

| | 2016 | 2015 |
|---|---|---|
| Operational risk | 3,385,968 | 83,440 |
| Market risk | 31,956,855 | 4,892,919 |
| | | |
| Basel ratio - (a/b*11%) | 21.6% | 15.5% |
| Tier I capital | 17.8% | 13.1% |
| Tier II capital | 3.8% | 2.3% |
| | | |
| Fixed assets ratio | 77.1% | 69.9% |
| Fixed assets to equity capital ratio | 9,813,329 | 13,156,602 |
| Status for fixed assets to equity capital ratio | 7,567,019 | 9,193,675 |
| Amount of margin or insufficient | 2,246,310 | 3,962,927 |

(i) Operating limits are calculated based on Prudential Reference Shareholders' Equity, in accordance with Bacen accounting pratices.

The resolutions 4.192/13 and 4.278/13 issued by the CMN regulates the requirements on Minimum Required Capital for Tier I and Additional Capital and Resolution 4.193/13 institute the Additional for the Main Capital. Credit risk was calculated based on the Circular BACEN 3.644/13, 3.652/13, 3.679/13 and 3.696/14, market risk based on Circulars 3.634, 3.635, 3.636, 3.637, 3.638, 3.639, 3.641 e 3.645, 2013 and Circulars-Letters 3.310/08 and 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13 and Circular-Letter 3.625/13.

The Bank has chosen the basic indicator approach to measure operating risk.

As at year ended December 31, 2016 and 2015 the Bank was in compliance with all operating limits.

**b. Market risk**

VaR is the potential loss of value of the trading positions due to adverse movements in the market during a defined period within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Bank's positions at market risk. The Bank uses a historical simulation for calculation of VaR, applying real distributions and correlation amongst assets, not using Greek approximations and standard distributions. VaR may be measured in accordance with different periods, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one-day period, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses a stress test models as a complement to VaR method for its daily risk activities.
The table below contains the Bank's and its subsidiaries' daily average VaR for the periods ended:

| In millions of R$ | 2016 | 2015 | 2014 |
|---|---|---|---|
| Daily average VaR | 141.3 | 125.6 | 73.0 |

## c. Credit risk

All of the Bank's and its subsidiaries' counterparties are subject to credit risk analyses focusing mainly on an assessment of their paying ability, based on simulations of cash flows, debt leverage and schedule, asset quality, interest coverage and working capital. Qualitative aspects, such as strategic guidance, business sector, expert areas, efficiency, regulatory environment and market share, are regularly assessed and used to supplement the credit analysis process. The Bank's counterparties credit limits and its subsidiaries are established by the Credit Committee and are regularly reviewed. The measurement and monitoring of the total risk to which the Bank and its subsidiaries are exposed cover all the financial instruments that may generate counterparty risks, such as private equity, derivatives, guarantees given and possible settlement risks.

The maximum exposures of the financial assets divided by geographic region are as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Brazil | United States | Europe | Others (i) | Total |
| **Asset** | | | | | |
| Cash and balances at Central Bank | 1,963,263 | 268,843 | 85,371 | 319,677 | 2,637,154 |
| Financial assets at fair value through profit or loss | | | | | |
| Financial Assets held for trading (i) | 13,745,156 | 3,497,780 | 42,523 | 1,412,515 | 18,697,974 |
| Financial assets designated at fair value through profit and loss | 14,725,208 | - | - | - | 14,725,208 |
| Derivative financial instruments | 19,675,962 | 6,873,470 | 7,039 | 49,305 | 26,605,776 |
| Loans and Receivables | | | | | |
| Open market investments | 4,006,850 | - | - | 194,745 | 4,201,595 |
| Amounts receivable from banks | 510,924 | 1,412,250 | - | 19,402 | 1,942,576 |
| Other loans and receivables | 10,767,508 | 1,136 | 70,136 | 428,985 | 11,267,765 |
| Available-for-sale financial assets | 129,932 | - | - | - | 129,932 |
| Held-to-maturity financial assets | 4,939,003 | - | - | - | 4,939,003 |
| Non-current assets held for sale | - | - | 494,808 | 1,781,685 | 2,276,493 |
| **Total** | **70,463,806** | **12,053,479** | **699,877** | **4,206,314** | **87,423,476** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Brazil | United States | Europe | Others (i) | Total |
| **Asset** | | | | | |
| Cash and balances at Central Bank | 1,632,239 | 2,123,576 | 955,578 | 343,484 | 5,054,877 |
| Financial assets at fair value through profit or loss | | | | | |
| Financial Assets held for trading (i) | 9,467,665 | 597,029 | 251,845 | 1,317,243 | 11,633,782 |
| Financial assets designated at fair value through profit and loss | 9,542,553 | - | - | - | 9,542,553 |
| Derivative financial instruments | 34,321,391 | 725,748 | 5,661,784 | 584,335 | 41,293,258 |
| Loans and Receivables | | | | | |
| Open market investments | 7,673,205 | 7,790 | - | 329,514 | 8,010,509 |
| Other loans and receivables | 12,371,263 | 17,825 | 362,274 | 4,196,214 | 16,947,576 |
| Amounts receivable from banks | 312,193 | 3,548,611 | - | - | 3,860,804 |
| Available-for-sale financial assets | 353,721 | - | - | - | 353,721 |
| Held-to-maturity financial assets | 5,128,734 | - | - | - | 5,128,734 |
| Non-current assets held for sale | - | - | - | - | - |
| **Total** | **80,802,964** | **7,020,579** | **7,231,481** | **6,770,790** | **101,825,814** |

(In thousands of reais)

The table below provides the main exposures to credit risk based on accounting values and classified by economic activity of the counterparties:

| | 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Governments** | **Financial institutions** | **Services** | **Investment funds** | **Individuals** | **Industry** | **Energy** | **Rural** | **Other (i)** | **Total** |
| **Asset** | | | | | | | | | | |
| Cash and balances at Central Bank | 1,940,166 | 696,988 | - | - | - | - | - | - | - | 2,637,154 |
| Financial assets at fair value through profit or loss | | | | | | | | | | |
| Financial Assets held for trading | 9,147,660 | 1,108,296 | 106,598 | 2,747,250 | - | 1,201,230 | 1,240,331 | 116 | 3,146,493 | 18,697,974 |
| Financial assets designated at fair value through profit and loss | 14,725,208 | - | - | - | - | - | - | - | - | 14,725,208 |
| Derivative financial instruments | - | 23,879,049 | - | - | 5,503 | 8,318 | 831,889 | 4,114 | 1,876,903 | 26,605,776 |
| Loans and Receivables | | | | | | | | | | |
| Open market investments | - | 2,510,447 | - | 1,609,001 | - | - | - | - | 82,147 | 4,201,595 |
| Other loans and receivables | - | 547,224 | 6,500,044 | 594,683 | 798,335 | 339,246 | 377,868 | 147,271 | 1,963,094 | 11,267,765 |
| Amounts receivable from banks | - | 1,942,576 | - | - | - | - | - | - | - | 1,942,576 |
| Available-for-sale financial assets | - | - | - | 129,932 | - | - | - | - | - | 129,932 |
| Held-to-maturity financial assets | - | 4,939,003 | - | - | - | - | - | - | - | 4,939,003 |
| Non-current assets held for sale | - | - | 494,808 | - | - | 1,781,685 | - | - | - | 2,276,493 |
| **Total** | **25,813,034** | **35,623,583** | **7,101,450** | **5,080,866** | **803,838** | **3,330,479** | **2,450,088** | **151,501** | **7,068,637** | **87,423,476** |

| | 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Governments** | **Financial institutions** | **Services** | **Investment funds** | **Individuals** | **Industry** | **Energy** | **Rural** | **Other (i)** | **Total** |
| **Asset** | | | | | | | | | | |
| Cash and balances at Central Bank | 1,594,810 | 3,460,067 | - | - | - | - | - | - | - | 5,054,877 |
| Financial assets at fair value through profit or loss | | | | | | | | | | |
| Financial Assets held for trading | 6,126,471 | 495,567 | 1,113,071 | 775,190 | - | 581,348 | 944,079 | 70,202 | 1,527,854 | 11,633,782 |
| Financial assets designated at fair value through profit and loss | 9,542,553 | - | - | - | - | - | - | - | - | 9,542,553 |
| Derivative financial instruments | - | 29,977,700 | 46,532 | 715,051 | 19,595 | 160,479 | 3,516,990 | 37,063 | 6,819,848 | 41,293,258 |
| Loans and Receivables | | | | | | | | | | |
| Open market investments | 2,888,419 | 2,186,851 | - | 2,597,593 | - | - | - | - | 337,646 | 8,010,509 |
| Other loans and receivables | 326,436 | 732,228 | 7,153,587 | 51,660 | 626,388 | 686,955 | 4,646,936 | 333,671 | 2,389,715 | 16,947,576 |
| Amounts receivable from banks | - | 3,860,804 | - | - | - | - | - | - | - | 3,860,804 |
| Financial assets available for sale | - | - | - | 353,721 | - | - | - | - | - | 353,721 |
| Held-to-maturity financial assets | - | 5,128,734 | - | - | - | - | - | - | - | 5,128,734 |
| Non-current assets held for sale | - | - | - | - | - | - | - | - | - | - |
| **Total** | **20,478,689** | **45,841,951** | **8,313,190** | **4,493,215** | **645,983** | **1,428,782** | **9,108,005** | **440,936** | **11,075,063** | **101,825,814** |

(i) Represents primarily exposure at tradable shares and investment funds quotes.

(In thousands of reais)

Financial assets that are due without event of loss or individually due with event of loss are covered partially or in whole by guarantees. The disclosure of main guarantees is described on Note 12.

In December 31, 2016 and 2015 the Bank does not have any overdue or impaired financial instruments, whose terms have been renegotiated considered material.

**d. Liquidity analysis of assets**

In volatile markets or when trading in a security is hindered in the market, the liquidity position of the Company's portfolio can be reduced. In such cases, the Company may not be able to sell certain assets, which could adversely affect its ability to balancing its portfolio or to meet redemption requests. In addition, such circumstances may force the Company to sell assets at low prices, adversely affecting its performance. If there is no other market participants to sell them at the same time, the Company may not be able to sell these assets or avoid losses related to them. If the Company establishes substantial losses in trading, the need for liquidity could increase considerably while its access to liquidity could be hindered. Together with a recession in the market, the counterparties of the Company could incur in losses, weakening their financial condition and increasing the credit risk of the Company to them.

According to its policy, the Company regularly monitors its liquidity position. The table below summarizes the expected discounted cash flows for financial assets held for trading and contractual discounted cash flows for the other assets, to the Company and its subsidiaries for the year ended on December 31:

| | 2016 | | |
|---|---|---|---|
| | Under 12 months | Over 12 months | Total |
| **Asset** | | | |
| Cash and balances at Central Bank | 2,637,154 | - | 2,637,154 |
| Financial assets at fair value through profit or loss | | | |
| Financial Assets held for trading | 18,697,974 | - | 18,697,974 |
| Financial assets designated at fair value through profit and loss | 14,608,512 | 116,696 | 14,725,208 |
| Derivative financial instruments | 25,592,812 | 1,012,964 | 26,605,776 |
| Loans and Receivables | | | |
| Open market investments | 4,201,547 | 48 | 4,201,595 |
| Other loans and receivables | 4,390,422 | 6,877,343 | 11,267,765 |
| Amounts receivable from banks | 1,942,576 | - | 1,942,576 |
| Financial assets available for sale | - | 129,932 | 129,932 |
| Held-to-maturity financial assets | 778,490 | 4,160,513 | 4,939,003 |
| Non-current assets held for sale | 2,276,493 | - | 2,276,493 |
| Deferred tax assets | - | 4,919,258 | 4,919,258 |
| Discontinued operations - assets | - | - | - |
| Other assets | 5,641,590 | 5,896,950 | 11,538,540 |
| Investment in associates and jointly controlled entities | - | 6,339,045 | 6,339,045 |
| Property, plant and equipment | - | 92,688 | 92,688 |
| Intangible assets | - | 1,094,594 | 1,094,594 |
| **Total Assets** | **80,767,570** | **30,640,031** | **111,407,601** |

(In thousands of reais)

| | 2015 | | |
|---|---|---|---|
| | **Under 12 months** | **Over 12 months** | **Total** |
| **Asset** | | | |
| Cash and balances at Central Bank | 5,054,877 | - | 5,054,877 |
| Financial assets at fair value through profit or loss | | | |
| Financial Assets held for trading | 11,633,782 | - | 11,633,782 |
| Financial assets designated at fair value through profit and loss | 9,371,202 | 171,351 | 9,542,553 |
| Derivative financial instruments | 35,676,689 | 5,616,569 | 41,293,258 |
| Loans and Receivables | | | |
| Open market investments | 8,010,509 | - | 8,010,509 |
| Other loans and receivables | 6,202,458 | 10,745,118 | 16,947,576 |
| Amounts receivable from banks | 3,858,611 | 2,193 | 3,860,804 |
| Financial assets available for sale | 87,751 | 265,970 | 353,721 |
| Held-to-maturity financial assets | 865,716 | 4,263,018 | 5,128,734 |
| Deferred tax assets | - | - | - |
| Other assets | - | 6,269,711 | 6,269,711 |
| Income reserves | 90,082,776 | - | 90,082,776 |
| Investment in associates and jointly controlled entities | 29,290,224 | 7,424,405 | 36,714,629 |
| Property, plant and equipment | - | 6,581,991 | 6,581,991 |
| Intangible assets | - | 244,119 | 244,119 |
| | - | 1,279,023 | 1,279,023 |
| **Total Assets** | **200,134,595** | **42,863,468** | **242,998,063** |

## e. Liquidity risk

The table below summarizes the contractual discounted cash flows for the liabilities and the shareholders' equity, to the Bank and its subsidiaries, for the year ended December 31, 2016 and 2015:

| | 2016 | | |
|---|---|---|---|
| | **Under 12 months** | **Over 12 months** | **Total** |
| **Liabilities** | | | |
| Financial Liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | 6,020,750 | - | 6,020,750 |
| Derivative financial instruments | 22,995,297 | 1,208,063 | 24,203,360 |
| Financial Liabilities carried at amortized cost | | | |
| Amounts payable to banks | 171,806 | 54,329 | 226,135 |
| Open market funding | 20,654,602 | 105,956 | 20,760,558 |
| Other financial liabilities carried at amortized cost | 15,216,520 | 17,791,571 | 33,008,091 |
| Tax liabilities | 393,718 | 1,761,295 | 2,155,013 |
| Other liabilities | 5,716,626 | 2,157,162 | 7,873,788 |
| **Total liabilities** | **71,169,319** | **23,078,376** | **94,247,695** |

| | 2015 | | |
|---|---|---|---|
| | **Under 12 months** | **Over 12 months** | **Total** |
| **Liabilities** | | | |
| Financial Liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | 6,018,716 | - | 6,018,716 |
| Derivative financial instruments | 34,011,943 | 5,282,791 | 39,294,734 |
| Financial Liabilities carried at amortized cost | | | |
| Amounts payable to banks | 1,386,037 | 89,330 | 1,475,367 |
| Open market funding | 14,231,882 | 30,140 | 14,262,022 |
| Other financial liabilities carried at amortized cost | 26,259,676 | 30,119,670 | 56,379,346 |
| Tax liabilities | 1,353,748 | 2,134,158 | 3,487,906 |
| Other liabilities | 3,535,239 | 13,938,009 | 17,473,248 |
| **Total liabilities** | **86,797,241** | **51,594,098** | **138,391,339** |

(In thousands of reais)

The table below presents the undiscounted cash flows for “Financial liabilities carried at amortized cost”. We are not presenting undiscounted cash flows for “Financial Liabilities at fair value through profit or loss”.

| | 2016 | | |
|---|---|---|---|
| | **Under 12 months** | **Over 12 months** | **Total** |
| **Financial liabilities carried at amortized cost** | | | |
| Amounts payable to banks | 171,806 | 54,329 | 226,135 |
| Open market funding | 20,714,190 | - | 20,714,190 |
| Other financial liabilities carried at amortized cost | 19,622,845 | 48,522,465 | 68,145,310 |

| | 2015 | | |
|---|---|---|---|
| | **Under 12 months** | **Over 12 months** | **Total** |
| **Financial liabilities carried at amortized cost** | | | |
| Amounts payable to banks | 1,402,514 | 129,477 | 1,531,991 |
| Open market funding | 17,035,340 | 2,858,413 | 19,893,753 |
| Other financial liabilities carried at amortized cost | 31,039,535 | 34,695,602 | 65,735,137 |

### f. Operating risk

In line with the BACEN guidelines and the Basel Committee concepts, an operating risk management policy applicable to the Bank and to its local and foreign subsidiaries was defined.

The policy establishes a set of principles, procedures and tools that enable risk management to be permanently adjusted to the nature and complexity of products, services, activities, processes and systems.

The Bank and its subsidiaries have a culture in managing operational risk, which takes into account the assessment, monitoring, simulation and validation of risks, based on consistent internal controls. The mechanisms for managing and controlling operational risks are continually improved with a view to comply with the requirements of regulatory agencies, rapidly adjusting to changes and anticipating future trends, among which the New Basel Capital Accord propositions are to be highlighted.

## 6. Cash and balance at Central Bank

The composition of this account is presented below:

| | 2016 | 2015 |
|---|---|---|
| Cash at banks | 674,192 | 3,460,067 |
| Balance at Central Bank | 1,962,962 | 1,594,810 |
| **Total** | **2,637,154** | **5,054,877** |

(In thousands of reais)

# 7. Assets and liabilities at fair value through profit and loss

## a. Financial assets held for trading

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| Own portfolio | 12,518,302 | 13,121,147 | 6,685,374 | 6,002,423 |
| Federal government bonds | 5,272,131 | 5,273,562 | 840,893 | 764,266 |
| Brazilian foreign debt securities | 9,031 | 9,031 | 2,083 | 2,083 |
| Debentures/Eurobonds (i) | 8,803 | 8,803 | 303,496 | 276,046 |
| Bank certificates of deposit | 108 | 108 | 19,507 | 19,507 |
| Bank credit certificate | - | - | - | - |
| Investment fund quotes | | | | |
| Shares | 120,085 | 130,060 | 21,355 | 21,355 |
| Multimarket | 1,831,314 | 1,935,931 | 408,948 | 226,790 |
| FIDC - Credit Rights | 5,892 | 5,892 | 1,734 | 1,734 |
| Real Estate | 4,563 | 4,563 | 7,343 | 7,343 |
| Equity Investment fund | 697,547 | 717,826 | 186,542 | 466,493 |
| Shares | 999,232 | 2,118,770 | 3,356,318 | 2,708,854 |
| Financial bills | - | - | 70,202 | 70,202 |
| Other | 14,534 | 14,476 | 4,110 | 4,023 |
| Certificate of real estate receivables | - | - | 193,990 | 176,678 |
| Foreign government bonds | 466,758 | 475,606 | 524,500 | 522,183 |
| Foreign private securities | | | | |
| Corporate bonds | 972,296 | 972,296 | 733,321 | 723,834 |
| Other | 2,116,008 | 1,454,223 | 11,032 | 11,032 |
| | | | | |
| Unrestricted portfolio | 184,286 | 185,449 | 593,661 | 591,054 |
| Federal government bonds | 184,286 | 185,449 | 593,661 | 591,054 |
| | | | | |
| Subject to repurchase agreements | 2,949,169 | 3,038,362 | 2,960,010 | 2,964,402 |
| Federal government bonds | 2,385,399 | 2,385,787 | 2,676,435 | 2,676,769 |
| Bank credit certificate | - | - | - | - |
| Foreign government bonds | 93,069 | 181,874 | 162,169 | 162,169 |
| Debentures / Eurobonds (i) | - | - | 63,404 | 48,681 |
| Other | 10,076 | 10,076 | - | - |
| Foreign private securities | | | | |
| Corporate bonds | 460,625 | 460,625 | 58,002 | 76,783 |
| | | | | |
| Subject to guarantees | 2,403,725 | 2,353,016 | 2,311,519 | 2,075,903 |
| Federal government bonds | 1,603,156 | 1,604,497 | 1,649,538 | 1,654,445 |
| Investment fund quotes | | | | |
| Multimarket | 244,978 | 244,978 | 171,338 | 171,338 |
| Bank certificates of deposit | 64,887 | 64,886 | 8,350 | 8,350 |
| Other | 2,033 | 2,033 | 1,790 | 1,790 |
| Shares | 474,962 | 422,913 | 480,503 | 239,980 |
| Foreign government bonds | | | | |
| Other | 13,709 | 13,709 | - | - |
| | | | | |
| | 18,055,482 | 18,697,974 | 12,550,564 | 11,633,782 |

(i) Substantially securities issued by Brazilian companies.

(In thousands of reais)

**b. Financial liabilities held for trading**

| | 2016 | 2015 |
|---|---|---|
| Short position in securities | 4,744,283 | 5,900,406 |
| Loan of securities | | |
| Shares | 1,276,467 | 118,310 |
| | **6,020,750** | **6,018,716** |

**c. Financial assets designated at fair value through profit and loss**

Financial assets designated at fair value through profit or loss is basically represented by short-term repurchase agreements are measured at fair value once it significantly reduces the inconsistent treatment that would occur in the measurement of these assets in the recognition of gains and losses.

The amortized cost of such transactions is represented by the amount of R$12,151,569 and R$9,419,041, as at December 31, 2016 and 2015, respectively.

**d. Derivatives financial instruments**

The Bank actively engages in risk intermediation transactions involving derivative financial instruments, providing necessary hedge for their own needs and its clients aiming to reduce market, currency and interest rate risk exposures. Certain derivatives may be associated with operations involving securities or rights and obligations.

The risk underlying these operations is managed by strict control policies, the establishment of strategies, definitions of limits, among other monitoring techniques. The limits of risk exposure are determined by the Risk Committee and by type of instrument and counterparty concentration, among others.

Transactions conducted in Brazil are traded, registered or held in custody by BM&F BOVESPA and CETIP S.A. – OTC Clearing House; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at December 31, 2016 and 2015, the Bank does not have derivative financial instruments classified as hedge accounting.

(In thousands of reais)

The composition of this account is presented below:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost (i) | Market | Cost (i) | Market |
| Futures | | | | |
| Long position | - | - | 59,176 | 59,176 |
| Short position | - | - | (41,362) | (41,362) |
| Swaps | | | | |
| Long position | 664,797 | 942,947 | 1,406,301 | 1,901,213 |
| Short position | (1,002,794) | (1,229,630) | (3,538,070) | (3,196,556) |
| Credit derivatives | | | | |
| Long position | 16,244 | 16,244 | 4,167 | 4,167 |
| Short position | (1,065) | (1,065) | (22,819) | (22,819) |
| Non-deliverable forward - NDF | | | | |
| Long position | 3,499,295 | 3,498,253 | 4,671,706 | 4,529,602 |
| Short position | (1,974,051) | (1,975,585) | (3,114,707) | (3,104,400) |
| Deliverable forward - DF | | | | |
| Long position | 5,899,820 | 5,815,376 | 19,306,230 | 19,204,631 |
| Short position | (5,869,431) | (5,869,431) | (19,218,017) | (18,611,918) |
| Security forwards | | | | |
| Long position | 209,890 | 209,875 | 353,813 | 353,813 |
| Short position | (209,963) | (216,556) | (353,648) | (353,648) |
| Options market | | | | |
| Long position | 1,415,271 | 1,427,627 | 2,654,301 | 3,473,653 |
| Short position | (449,653) | (352,611) | (1,480,961) | (2,171,313) |
| Exchange portfolio | | | | |
| Long position | 14,695,454 | 14,695,454 | 11,767,003 | 11,767,003 |
| Short position | (14,558,482) | (14,558,482) | (11,792,718) | (11,792,718) |
| Long position | **26,400,771** | **26,605,776** | **40,222,697** | **41,293,258** |
| Short position | **(24,065,439)** | **(24,203,360)** | **(39,562,302)** | **(39,294,734)** |

(i) Refers to book value receivable (received) / payable (paid).

We show below the notional value of derivative operations. The receivable leg and payable leg are presented separately for Swap, NDF and DF derivatives in the table below:

| | 2016 | 2015 |
|---|---|---|
| Futures market | | |
| Long position | 81,712,301 | 64,910,392 |
| Currency | 6,766,707 | 3,063,003 |
| Interest rate | 74,840,749 | 27,151,507 |
| Commodities | - | 34,018,152 |
| Index | - | 677,730 |
| Equities | 22 | - |
| Other | 104,823 | - |
| Short position | 18,262,714 | 113,146,444 |
| Currency | 70 | 9,330,260 |
| Interest rate | 18,070,715 | 53,157,681 |

(In thousands of reais)

| | 2016 | 2015 |
|---|---|---|
| Commodities | 7,549 | 49,980,773 |
| Index | - | 677,730 |
| Equities | 22 | - |
| Other | 184,358 | - |
| | | |
| Swap | | |
| Long position | 63,801,633 | 79,050,901 |
| Currency | 2,116,247 | 3,418,165 |
| Interest rate | 61,192,473 | 71,284,933 |
| Index | - | 604,938 |
| Equities | 246,295 | 123,872 |
| Commodities | 63,156 | 3,382,081 |
| Federal government bonds | 744 | - |
| Other | 182,718 | 236,912 |
| | | |
| Short position | 63,801,633 | 79,050,901 |
| Currency | 10,766,256 | 3,383,477 |
| Interest rate | 46,826,281 | 67,356,077 |
| Index | 4,078,690 | 1,384,147 |
| Equities | 1,499 | 442,109 |
| Commodities | - | 4,012,950 |
| Federal government bonds | 744 | - |
| Other | 2,128,163 | 2,472,141 |
| | | |
| Credit Derivatives | | |
| Long position | 543,618 | 136,668 |
| Sovereign | 505,161 | 136,668 |
| | 38,457 | - |
| | | |
| Short position | 93,048 | 182,868 |
| Sovereign | 11,570 | - |
| Corporate | 81,478 | 182,868 |
| | | |
| Non-deliverable forward - NDF | | |
| Long position | 41,500,091 | 69,421,066 |
| Currency | 20,355,769 | 37,019,547 |
| Commodities | 21,028,246 | 29,886,784 |
| Interest rate | 116,076 | 2,514,735 |
| | | |
| Short position | 41,500,091 | 69,421,066 |
| Currency | 16,402,183 | 38,965,831 |
| Commodities | 21,028,246 | 29,889,504 |
| Interest rate | 4,069,662 | 565,731 |
| | | |
| Deliverable forward - DF | | |
| Long position | 11,921,236 | 62,430,911 |
| Currency | 11,921,236 | 38,778,383 |
| Commodities | - | 15,172,313 |
| Interest rate | - | 8,480,215 |
| | | |
| Short position | 11,921,236 | 62,430,911 |
| Currency | 11,921,236 | 38,778,383 |
| Commodities | - | 9,038,825 |
| Interest rate | - | 14,613,703 |
| | | |
| Security forwards | | |
| Long position | 210,070 | 354,132 |
| Interest rate | - | 289,798 |
| Government bonds | 210,070 | 64,334 |
| | | |
| Short position | 210,070 | 354,132 |
| Interest rate | 210,070 | 64,334 |
| Government bonds | - | 289,798 |
| | | |
| Options market | | |
| Call option | 14,294,032 | 15,202,918 |
| Equities | 411,248 | 415,893 |
| Commodities | - | 5,342,524 |
| Index | - | 30,255 |

(In thousands of reais)

| | 2016 | 2015 |
|---|---|---|
| Currency | 7,849,901 | 9,343,960 |
| Interest rate | 5,957,476 | - |
| Other | 75,407 | 70,286 |
| Put option | 24,313,372 | 17,620,753 |
| Equities | 878,183 | 395,404 |
| Commodities | - | 8,740,920 |
| Index | 3,818 | - |
| Currency | 7,984,634 | 8,480,207 |
| Interest rate | 15,112,500 | - |
| Other | 334,237 | 4,222 |
| Call option | 9,989,808 | 15,830,967 |
| Equities | 255,232 | 299,972 |
| Commodities | - | 4,711,397 |
| Index | - | 25,212 |
| Currency | 9,570,051 | 10,724,100 |
| Interest rate | - | - |
| Others | 164,525 | 70,286 |
| Put option | 22,975,619 | 11,846,001 |
| Equities | 201,889 | 701,270 |
| Commodities | - | 4,059,595 |
| Index | 4,257 | - |
| Currency | 7,072,728 | 7,085,136 |
| Interest rate | 15,106,000 | - |
| Others | 590,745 | - |
| Exchange Portfolio | | |
| Long position | 11,726,861 | 9,389,979 |
| Currency | 11,726,861 | 9,389,979 |
| Short position | 11,617,558 | 9,086,028 |
| Currency | 11,617,558 | 9,086,028 |

Guarantee margins in transactions traded on BM&FBovespa and other stock exchanges with derivatives comprises federal government and sovereign bonds totaling R$4,419,256 (December 31, 2015 – R$8,449,268) and shares in the amount of R$422,913 (December 31, 2015 – R$254,030). From the total amount, approximately R$489,939 refers to additional margin deposited, as requested by BM&F Bovespa, due to volatility observed in function of events previously described, in Note 1.

### e. Reclassification of securities

Management classifies securities according to its trading intention. No reclassifications or changes in intention were made by Management during the period.

## 8. Available-for-sale financial assets

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Market | Cost | Market |
| Investment fund quotes | | | | |
| Equity Investment fund | 129,932 | 129,932 | 353,721 | 353,721 |
| | 129,932 | 129,932 | 353,721 | 353,721 |

(In thousands of reais)

# 9. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps – cash flows are discounted to present value based on yield curves that reflect the appropriate risk factors. These yield curves can be drawn mainly based on observed prices in negotiations on the BM&F, the Brazilian government bonds traded in the secondary market or derivatives and securities traded abroad. These yield curves can be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock indices, etc.).

- Futures and forwards – Prices obtained in exchanges or using the same criteria as described above for swaps.

- Options – the fair values of such instruments are determined based on mathematical models (like Black & Scholes) that are fed with data implied volatility, yield curve of interest rates and the fair value of the underlying asset. All these data are obtained using different sources (usually prices of brokers and brokerage firms, Bloomberg, Reuters).

- Credit derivatives – the fair values of such instruments are determined based on mathematical models embodied in the market that are fed with data from the issuer's credit spread and yield curve of interest rates. Such data are obtained using different sources (usually at market prices, Bloomberg, Reuters).

- Financial instruments held for trading – the fair values of bonds are calculated based on prices published by ANBIMA. Fair values of corporate debt securities are calculated based on secondary market prices, the price of similar assets and market visibility areas that have commercial bank. The shares are calculated based on prices provided by BOVESPA. The investment funds are valued considering prices of shares issued by the custodian.

- Financial assets measured at fair value through profit and loss – fair values of financial instruments is estimated based on the cash flows discounted to present value based on yield curves that reflect the appropriate risk factors.

The table below summarizes the fair value hierarchy of the financial instruments, classified based on the measurement methods adopted by the Bank:

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Asset** | | | | |
| Financial Assets held for trading | 16,433,060 | 1,266,666 | 998,248 | 18,697,974 |
| Financial assets designated at fair value through profit and loss | - | 14,725,208 | - | 14,725,208 |
| Available-for-sale financial assets | - | - | 129,932 | 129,932 |
| Derivative financial instruments | 995,935 | 22,819,136 | 2,790,705 | 26,605,776 |
| **Liability** | | | | |
| Financial liabilities held for trading | 6,020,750 | - | - | 6,020,750 |
| Derivative financial instruments | 1,297,296 | 21,210,629 | 1,695,435 | 24,203,360 |

(In thousands of reais)

| | 2015 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Asset** | | | | |
| Financial Assets held for trading | 9,388,565 | 2,089,888 | 155,329 | 11,633,782 |
| Financial assets designated at fair value through profit and loss | - | 9,542,553 | - | 9,542,553 |
| Available-for-sale financial assets | - | 279,663 | 74,058 | 353,721 |
| Derivative financial instruments | 14,790,205 | 22,946,199 | 3,556,854 | 41,293,258 |
| **Liability** | | | | |
| Financial liabilities held for trading | 6,018,716 | - | - | 6,018,716 |
| Derivative financial instruments | 15,722,615 | 20,780,514 | 2,791,605 | 39,294,734 |

There were no reclassifications between Level 1 and 2 for the year ended December 31, 2016 and 2015.

The movement on financial instruments classified as Level 3 in the year ended December 31, 2016 and 2015 are presented below:

| | **Derivative financial instruments** | **Financial assets held for trading** | **Financial assets available for sale** | **Total** |
|---|---|---|---|---|
| At December 31, 2014 | 478,249 | 1,028,562 | 939,547 | 2,446,358 |
| Acquisition / sales | 202,149 | (879,262) | 87,751 | (589,362) |
| Gain/losses | 84,851 | 6,029 | (953,240) | (862,360) |
| At December 31, 2015 | 765,249 | 155,329 | 74,058 | 994,636 |
| Acquisition / sales | 178,705 | 842,360 | - | 1,021,065 |
| Gain/losses | 151,316 | 559 | 55,874 | 207,749 |
| At December 31, 2016 | 1,095,270 | 998,248 | 129,932 | 2,223,450 |

- **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.

- **Financial assets held for trading**

Financial assets held for trading are initially recognized at fair value, and transactions costs are recorded on income statement.

- **Financial assets available for sale**

Financial assets available-for-sale are initially recognized at fair value, which is the cash consideration including any transaction costs and, subsequently, are measured at fair value with gains and losses being recognized in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized.

(In thousands of reais)

## 10.Open market investments and funding

The amounts presented below are basically overnight, and indexed to local and foreign benchmark interest rate.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Own funds | 1,615,683 | 7,792,687 | 5,657,591 | 8,017,992 |
| Third-party funds | 2,585,912 | 12,967,871 | 2,352,918 | 6,244,030 |
| Short position | - | - | - | - |
| | 4,201,595 | 20,760,558 | 8,010,509 | 14,262,022 |

The collateral received in repurchase agreements above and on financial assets designated at fair value through profit and loss (Note 7c) amounts to R$4,325,498 (December 31, 2015 - R$19,560,075), whereas the collateral granted amounts to R$20,760,581 (December 31, 2015 - R$25.067.958).

## 11.Amounts receivable from/payable to banks

The composition of this account is presented below:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Ativo | Passivo | Ativo | Passivo |
| Interbank deposits | 530,326 | 226,135 | 312,193 | 1,475,367 |
| Investments in foreign currency – Overnight | 1,412,250 | - | 3,548,611 | - |
| | 1,942,576 | 226,135 | 3,860,804 | 1,475,367 |

## 12.Other loans and receivables

### a. Composition

The composition of this account is presented below:

| | 2016 | | |
|---|---|---|---|
| | Balance | Allowance | Total |
| Loans | 6,455,431 | (500,124) | 5,955,307 |
| Debentures | 1,501,736 | (442,741) | 1,058,995 |
| Promissory notes | 30,546 | - | 30,546 |
| Certificate of real estate receivables | 372,761 | - | 372,761 |
| CRA | - | - | - |
| Financing | 874,382 | (132,457) | 741,925 |
| FINAME/BNDES | 2,643,857 | (13,018) | 2,630,839 |
| Foreign currency advances | 215,508 | - | 215,508 |
| Fund for Compensation of Salary Variations (FCVS) | 155,660 | - | 155,660 |
| Securities and credits receivable (i) | 106,224 | - | 106,224 |
| | 12,356,105 | (1,088,340) | 11,267,765 |

(In thousands of reais)

| | 2015 | | |
|---|---|---|---|
| | Balance | Allowance | Total |
| Loans | 8,425,626 | (1,251,356) | 7,174,270 |
| Debentures | 4,455,689 | (181,045) | 4,274,644 |
| Promissory notes | 121,250 | - | 121,250 |
| Certificate of real estate receivables | 747,897 | (173,816) | 574,081 |
| CRA | 363,182 | - | 363,182 |
| Financing | 1,648,571 | (134,145) | 1,514,426 |
| FINAME/BNDES | 2,424,105 | (35,481) | 2,388,624 |
| Foreign currency advances | 3,489 | - | 3,489 |
| Fund for Compensation of Salary Variations (FCVS) | 326,436 | - | 326,436 |
| Securities and credits receivable (i) | 400,470 | (193,296) | 207,174 |
| | 18,916,715 | (1,969,139) | 16,947,576 |

(i) Refers to the acquisition of credit rights.
(ii) Refers to the acquisition of credit portfolios and financing of vehicles through Investment Funds in Credit Rights (FIDC). The evaluation of these portfolios is performed based on the internal return rate (IRR).

The amount of guarantees received for credit operations at December 31, 2016 and 2015, was R$8,385,645 and R$15,345,639, respectively.

### b. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics in the fiscal years were as follows:

| | 2016 | 2015 |
|---|---|---|
| Opening balances | (1,969,139) | (1,901,272) |
| Reversal/(recording) of allowance (i) | (700,189) | (516,041) |
| Exchange rate variation | 399,443 | 182,753 |
| | 402,913 | - |
| Contigencies transfer provision | - | 113,278 |
| Credits written off as loss (ii) | 778,632 | 152,143 |
| Closing balances | (1,088,340) | (1,969,139) |

(i) As at December 31, 2016, included R$216,404 (December 31, 2015 - R$150,256) relating to provision for stand-by letters and guarantees granted, which was recorded as other liabilities (Note 20).
(ii) In December 2016, the Bank has offsetted the presentation of allowance for loan losses with the loans and receivables acquired by FIDCs, which corresponded substantially to the remaining difference between the contractual rights acquired and the value paid on the date of the acquisition, in order to present the net exposure to these loans and receivables.

### c. Renegotiation/recovery of credits written off as loss

As at the year ended December 31, 2016, the amount of R$1,230,379 were due to credit renegotiation (December 31, 2015 – R$1,482,587). Also in the year ended December 31, 2016 there were R$50,605 corespondent to recovery of credits written off loss (December 31, 2015 – R$1,414).

(In thousands of reais)

### d. Credit risk

The credit risk of these transactions is presented below.

| Risk Level | 2016 | 2015 |
|---|---|---|
| Low | 6,777,706 | 10,376,403 |
| Medium | 3,170,995 | 4,854,670 |
| High | 2,407,404 | 3,685,642 |
| Total | 12,356,105 | 18,916,715 |

The Bank follows an internal loan ratings system that complies with requirements of the Central Bank of Brazil; based on such ratings, for purposes of this footnote, the bank has further grouped the loans into low, medium and higher risk. Low risk included ratings AA and A, medium B and C and high from D to H.

## 13.Held-to-maturity financial assets

| | 2016 | 2015 |
|---|---|---|
| Subject to repurchase | | |
| Federal government bonds | 2,575,247 | 4,062,419 |
| Subject to guarantees | | |
| Federal government bonds | 2,363,756 | 1,066,315 |
| | 4,939,003 | 5,128,734 |

The Bank has the financial capacity to maintain these assets to maturity. If measured at fair value, held-to-maturity securities would be reported with a negative adjustment of R$36,279(December 31, 2015 – negative R$183,963).

## 14.Other financial liabilities carried at amortized cost

### a. Summary

| | 2016 | 2015 |
|---|---|---|
| Deposits | 7,464,635 | 16,447,272 |
| Funds from securities issued and accepted | 10,335,748 | 19,560,472 |
| Loans and onlending | 3,619,516 | 6,812,614 |
| Obligations related to transferred loans | - | 492,317 |
| Subordinated debts | 11,588,192 | 13,066,671 |
| | 33,008,091 | 56,379,346 |

(In thousands of reais)

### b. Deposits

| | 2016 | 2015 |
|---|---|---|
| Demand deposits | 7,335,615 | 540,049 |
| Time deposits | 129,020 | 15,907,223 |
| | 7,464,635 | 16,447,272 |

(i) Include time deposit with special guarantee from FGC, with maturity until December 29,2017. The deposits were indexed to interest referenced rates (DCI) between 100% p.a and 120 % p.a.

On December 4, 2015 a Memorandum of Understanding with the FGC was executed to extend a credit line up to the amount of R$6,0 billion, guaranteed by part of the Bank loan portfolio (basically Debentures and Bank Credit Certificate) and personally guaranteed by the controlling shareholders (Top Seven Partners); such collateral represents 120% of the credit line. On October 19, 2016, the financial assistance line obtained from Fundo Garantidor de Créditos – FGC, had its outstanding amount fully paid.

### c. Funds from securities issued and accepted

| | 2016 | 2015 |
|---|---|---|
| Securities – Brazil | 7,841,677 | 12,958,012 |
| Financial bills | 6,865,263 | 11,349,903 |
| Mortgage bonds/letters of credit for agribusiness | 964,695 | 1,590,027 |
| Certificates of structured transactions | 11,719 | 18,082 |
| Securities – abroad | 2,494,071 | 6,602,460 |
| Medium term notes | 2,351,264 | 6,295,976 |
| Fixed rate notes | 142,807 | 306,484 |
| | 10,335,748 | 19,560,472 |

As at December 31, 2016, securities in Brazil were basically indexed o interest referenced rates (CDI) between 88% and 112% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.2% p.a. (December 31, 2015 – indexed to (CDI) between 86% and 113% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 7.8% p.a.).

On December 31, 2016, securities abroad have rates between 1.45% p.a. and 8.0 % p.a. (December 31, 2015 – between 1.2% p.a. and 7% p.a.).

### d. Loans and onlending

| | 2016 | 2015 |
|---|---|---|
| Loans abroad | 843,172 | 3,599,236 |
| Foreign currency | 63,552 | 160,767 |
| Loans abroad | 779,620 | 3,438,469 |
| Loans - Brazil | 163,771 | 817,332 |
| Loans | 163,771 | 817,332 |
| Onlending in Brazil – official institution | 2,612,573 | 2,396,046 |
| FINAME/BNDES | 2,612,573 | 2,396,046 |
| | 3,619,516 | 6,812,614 |

(In thousands of reais)

On December 31, 2016, loans and onlending have rates of 0.25% p.a. and 6.4% a.a. (December 31, 2015 – between 0.73% p.a. and 6% p.a.).

### e. Subordinated debt

| | 2016 | | | | | 2015 |
|---|---|---|---|---|---|---|
| Nome do papel - moeda | Valor Principal (moeda original) | Emissão | Vencimento | Remuneração a.a. | Saldo contábil | Saldo contábil |
| Letras financeiras - R$ (i) | 4,161,000 | 15/04/2011 | 15/04/2021 | Inflação + taxa pré | 5,842,192 | 6,084,767 |
| Notas subordinadas - US$ | 800,000 | 28/09/2012 | 15/09/2022 | 5.75% | 1,440,798 | 1,821,507 |
| Notas subordinadas elegíveis a capital - US$ (ii) | 1,300,000 | 12/09/2014 | Perpétuo (opção de liquidação em 2019) | 8.75% | 4,305,202 | 5,160,397 |
| **Total** | | | | | 11,588,192 | 13,066,671 |

(i) Financial bills have different maturities and have interests and principal generally amortized every six months.
(ii) During the year ended December 31, 2016, gains in the amount of R$43,619 (December 31, 2015 – R$67.108) were was recognized by the Bank, as a result of notes acquired below bar.

## 15. Other assets

The composition of this account is presented below:

| | 2016 | 2015 |
|---|---|---|
| Court deposits | 1,739,441 | 1,739,039 |
| Taxes recoverable to offset | 711,826 | 1,555,598 |
| Debtors/creditors – pending settlement (i) | 1,875,932 | 8,427,517 |
| Investment properties | 780,447 | 697,256 |
| Sundry debtors – local | 3,315,871 | 5,236,651 |
| Services provided receivable | 536,294 | 916,889 |
| Management fee and performance fees receivable for funds and investment portfolios | 290,405 | 778,060 |
| Cash from records and settlement | 868,149 | 1,157,060 |
| Dividends and bonifications | 17,493 | 3,947 |
| Prepaid expenses | 514,152 | 243,901 |
| Securities trading and brokerage | 38,105 | 2,524,984 |
| Advance to suppliers | 19,829 | 1,059,222 |
| Commodities physical inventories | - | 10,198,083 |
| Miscellaneous | 830,596 | 2,176,422 |
| | 11,538,540 | 36,714,629 |

(i) Line item "Debtors/creditors – pending settlement" basically represents the amounts pending settlement within the respective terms related to the purchase and sale of securities and agreements of financial assets performed at BMF&BOVESPA, and, if abroad, with first-class brokers, for own account or third parties and values pending settlement within financial assets sale.

(In thousands of reais)

# 16.Investments in associates and jointly-controlled entities

| | Associates and jointly-controlled entities | | | | | |
|---|---|---|---|---|---|---|
| | Shareholders Equity | | Income | | Interest | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| In Brazil | | | | | | |
| Banco Pan S.A. | 3,412,162 | 3,643,797 | (237,238) | 8,052 | 40.35% | 40.35% |
| Warehouse 1 Empreendimentos Imobs S.A. | 29,758 | 40,974 | 673 | (5,621) | 35.00% | 35.00% |
| Max Casa XIX Empreendimentos Imobs S.A. | 2,679 | 23,848 | 4,879 | 4,125 | 50.00% | 50.00% |
| ACS Omicron Empreendimentos Imobs S.A. | 5,705 | 9,624 | (452) | 1,344 | 44.74% | 44.74% |
| Pan Seguros S.A. | 650,611 | 673,962 | 4,542 | 3,292 | 51.00% | 51.00% |
| Pan Corretora S.A. | 67,612 | 59,961 | 10,387 | 10,030 | 51.00% | 51.00% |
| Abroad | | | | | | |
| BTG Pactual Holding S.A.R.L. | 4,373,293 | 5,257,130 | 467,898 | 1,030,763 | 40.00% | 80.00% |
| Maybroke Holding S.A. | 984,727 | 1,192,369 | (10,471) | (36,348) | 50.00% | 50.00% |
| Engelhart CTP Griup S.A. | 4,565,815 | - | (154,929) | - | 30.06% | 0.00% |
| EFG International | 6,411,200 | - | - | - | 30.00% | 0.00% |

(In thousands of reais)

| | Changes in relevant investments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | Aquisition / Increase/ (Sales) | Dividends paid | Exchange rate | Equity in earnings of subsidiaries from 2016 | Fair value adjustments | 2016 | Equity in earnings of associates - 2015 |
| In Brazil | | | | | | | | |
| Banco Pan S.A. | 1,371,176 | - | - | - | (58,990) | 2,260 | 1,314,446 | 56,401 |
| Warehouse 1 Empreendimentos Imobs S.A. | 14,340 | - | (700) | - | (3,226) | - | 10,414 | (1,300) |
| Max Casa XIX Empreendimentos Imobs S.A. | 11,924 | (7,740) | (1,889) | - | (955) | - | 1,340 | 2,447 |
| ACS Omicron Empreendimentos Imobs S.A. | 4,306 | - | - | - | (1,753) | - | 2,553 | 1,901 |
| Vivere Soluções e Serviços S.A. | - | (5,022) | - | - | 5,022 | - | - | (3,863) |
| Pan Corretora S.A. | 30,580 | - | - | - | 3,902 | - | 34,482 | 4,098 |
| Pan Seguros S.A. | 347,772 | - | (16,009) | - | 51 | (5) | 331,809 | (291) |
| Rede D'OR São Luiz S.A. (i) | - | - | - | - | - | - | - | 230,057 |
| Other | - | 7,820 | - | - | - | - | 7,820 | - |
| Abroad | | | | | | | | |
| BTG Pactual Holding S.A.R.L. | 4,205,704 | (1,810,547) | (126,186) | (797,436) | 277,783 | - | 1,749,318 | (825,460) |
| Maybroke Holding S.A. | 596,189 | (494,904) | - | (99,436) | (1,849) | - | - | (15,824) |
| Engelhart CTP Group S.A. | - | 1,548,417 | (162,905) | - | (13,255) | - | 1,372,257 | - |
| EFG International | - | 1,081,305 | - | (3,987) | 437,288 | - | 1,514,606 | - |
| Other non consolidation BSI entities | - | - | - | - | - | - | - | 28,863 |
| | 6,581,991 | 319,329 | (307,689) | (900,859) | 644,018 | 2,255 | 6,339,045 | (522,971) |

| | Changes in relevant investments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | Aquisition / Increase/ (Sales) | Dividends paid | Exchange rate | Equity in earnings of subsidiaries - 2015 | Fair value adjustments | 2015 | Equity in earnings of associates - 2014 |
| In Brazil | | | | | | | | |
| Banco Pan S.A. | 1,315,957 | - | (2,003) | - | 56,401 | 821 | 1,371,176 | (246,479) |
| Warehouse 1 Empreendimentos Imobs S.A. | 38,614 | (5,075) | (17,899) | - | (1,300) | - | 14,340 | 25,243 |
| Max Casa XIX Empreendimentos Imobs S.A. | 18,866 | (7,000) | (2,389) | - | 2,447 | - | 11,924 | 1,549 |
| ACS Omicron Empreendimentos Imobs S.A. | 7,774 | (4,251) | (1,118) | - | 1,901 | - | 4,306 | 2,408 |
| BR Properties S.A. | 4,738 | (4,738) | - | - | - | - | - | (683) |
| Rede D'OR São Luiz S.A. (i) | 1,020,128 | (1,250,185) | - | - | 230,057 | - | - | - |
| Vivere Soluções e Serviços S.A. | 5 | 3,858 | - | - | (3,863) | - | - | (8,937) |
| Pan Corretora S.A. | 26,482 | (30,580) | - | - | 4,098 | - | - | - |
| Pan Seguros S.A. | 347,772 | (347,771) | - | - | (291) | 290 | - | 12,324 |
| Abroad | | | | | | | | |
| BTG Pactual Holding S.A.R.L. | 3,632,684 | - | (276,049) | 1,674,529 | (825,460) | - | 4,205,704 | 577,133 |
| Maybroke Holding S.A. | - | 266,442 | - | 345,571 | (15,824) | - | 596,189 | - |
| Other non consolidation BSI entities (iii) | - | (28,863) | - | - | 28,863 | - | - | - |
| | 6,413,020 | (1,408,163) | (299,458) | 2,020,100 | (522,971) | 1,111 | 6,203,639 | 362,558 |

(In thousands of reais)

(i) Note 1.
(ii) Note 2.

## 17.Non-current Assets Held for Sale and Discontinued Operations

Maybrooke Holding S.A. and BTG Pactual Holding S.A.R.L. have fulfilled the requirements for presentation as non-current assets held for sale and BSI have fulfilled the requirements for presentation as a discontinued operation.

**Discontinued Operations**

On November 1, 2016, BTG Pactual sale 100% of BSI to EFG International ("EFG"), a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration comprises (i) CHF575 million in cash, (ii) 86.2 million EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG, which generated a result in the amount of CHF454 million, recorded on "Income from discontinued operations". EFG's stake were accounted for using the equity pick up method. BSI's purchase transaction and the subsequent sale are subject to price adjustments, or indemnity for non-compliance to the transaction, including the execution of the guarantees provided by EFG shares deposits of Bank property in related account. Obligations or rights will be recognized as their effects become quantifiable and probable. The bank expect's to incur any material losses on the sale transaction, any liabilities with material risks related to the BSI sale, is related to rights from BSI purchase.

**Non-current Assets Held for Sale**

The amount of the investments recognized in Maybroke Holding S.A. and BTG Pactual Holding S.A.R.L corresponds to R$2,276,493. The Bank do not expect that Maybroke Holding S.A. and BTG Pactual Holding S.A.R.L are going to be sold for less than such amount, which represents its carrying amount, therefore no impairment losses were expected as of December 31, 2016.

## 18.Intangible assets and goodwill

| | Changes in Intangible assets | | | | |
|---|---|---|---|---|---|
| | **2015** | **Acquisitions / sale** | **Amortization expenses / derecognition** | **Exchange variation** | **2016** |
| Goodwill | **564,406** | **353,930** | **(165,909)** | **(54,676)** | **697,751** |
| Cost | 853,133 | 353,930 | - | (114,449) | 1,092,614 |
| Impairment | (288,727) | - | (165,909) | 59,773 | (394,863) |
| Other intangible assets | **714,617** | **(142,587)** | **(156,123)** | **(19,064)** | **396,843** |
| Cost | 648,788 | (277,485) | - | (31,194) | 340,109 |
| Intangible BTG Pactual Chile | 245,698 | - | - | - | 245,698 |
| Amortization | (179,869) | 134,898 | (156,123) | 12,130 | (188,964) |
| | 1,279,023 | 211,343 | (322,032) | (73,740) | 1,094,594 |

(In thousands of reais)

| | Changes in Intangible assets | | | | |
|---|---|---|---|---|---|
| | 2014 | Acquisitions | Amortization expenses / derecognition | Exchange variation | 2015 |
| **Goodwill** | **483,824** | **-** | **(41,212)** | **121,794** | **564,406** |
| Cost | 662,448 | - | (2,808) | 193,493 | 853,133 |
| Impairment | (178,624) | - | (38,404) | (71,699) | (288,727) |
| **Other intangible assets** | **667,601** | **48,850** | **(52,954)** | **51,120** | **714,617** |
| Cost | 539,146 | 48,850 | (487) | 61,279 | 648,788 |
| Intangible BTG Pactual Chile | 245,698 | - | - | - | 245,698 |
| Amortization | (117,243) | - | (52,467) | (10,159) | (179,869) |
| | 1,151,425 | 48,850 | (94,166) | 172,914 | 1,279,023 |

The amortization periods for intangible assets not originated in business combinations are 5 years.

## 19.Tax Liabilities

The composition of this account is presented below:

| | 2016 | 2015 |
|---|---|---|
| Deferred: | | |
| Deferred social contribution and income tax | 145,341 | 443,941 |
| Deferred PIS and COFINS | 5,429 | 70,649 |
| Current: | | |
| Tax and contributions to be collected | 282,360 | 211,729 |
| Tax and contribution payable | 98,144 | 1,277,852 |
| Suspended-payment taxes and others tax liabilities (note 21) | 1,623,739 | 1,483,735 |
| | 2,155,013 | 3,487,906 |

## 20.Other Liabilities

The composition of this account is presented below:

| | 2016 | 2015 |
|---|---|---|
| Cash from records and settlement | 392,195 | 1,108,797 |
| Debtors/creditors – pending settlement (i) | 2,722,232 | 4,821,592 |
| Other securities trading and brokerage | 1,098,377 | 763,051 |
| Employees' profit sharing | 307,640 | 1,002,030 |
| Provision for payables | 183,765 | 600,715 |
| Payable for acquisition of assets and rights (ii) | 1,084,923 | 1,041,588 |
| Provision for contingent liabilities (Note 21) | 442,505 | 659,980 |
| Allowance for guarantees | 216,404 | 150,256 |
| Payable collateral in physical commodities | - | 5,209,221 |
| Trade payables for commodities | - | 1,141,893 |
| Dividends and interest on equity | 1,149,913 | 875,780 |
| Others | 275,834 | 98,345 |
| | 7,873,788 | 17,473,248 |

(i) Line item "Debtors/creditors – pending settlement" basically represents the amounts pending settlement within the respective terms related to the purchase and sale of securities and agreements of financial assets performed at BMF&BOVESPA, and, if abroad, with first-class brokers, for own account or third parties.
(ii) Refers to amounts payable for the acquisition of investments (substantially Banco Pan S.A. and Banco Sistema S.A.)

## 21.Contingent assets and liabilities and legal obligations

The Bank's and its subsidiaries' Management evaluate existing contingencies in relation to legal proceedings filed against these entities and recognizes a provision to cover probable losses on such proceedings, whenever necessary. Management's judgment is based on the opinion of its external legal counsel regarding the expected outcome for each proceeding.

**a. Contingent assets**

As at December 31, 2016 and 2015, the Bank did not record contingent assets.

**b. Contingent liabilities classified as probable losses and legal obligations**

**i. Labor provisions**

Comprise lawsuits filed by former employees, mostly claiming overtime and salary parity. The contingencies are accrued based on an analysis of the potential loss amounts, considering the current stage of the lawsuit and the opinion of external and internal legal counsel.

**ii. Civil provisions**

For civil lawsuits with chances of unfavorable outcome (pain and suffering and pecuniary injury, among others requesting condemning judgments), contingency amounts are accrued based on the opinion of internal and external legal counsel.

**iii. Tax and social security provisions**

Tax and social security provisions are represented by legal and administrative proceedings of federal, state and municipal taxes, regarding legal obligations and contingent liabilities. The provisions are recognized based on the opinion of internal and external legal counsel and the court level to which each proceeding was submitted.

**c. Breakdown and changes in provisions in the year**

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions recognized for such proceedings at December 31, 2016 are appropriate to cover any losses arising therefrom. The provisions recognized and their changes in the years are as follows:

(In thousands of reais)

| | 2016 | | | | 2015 |
|---|---|---|---|---|---|
| | Tax | Civil | Labor | Total | Total |
| Balance at the beginning of the period | 1,483,735 | 630,484 | 29,496 | 2,143,715 | 2,141,233 |
| Recognition | 181,101 | 163,788 | 29,428 | 374,317 | 523,613 |
| Write-off | (41,097) | (386,776) | (23,915) | (451,788) | (521,131) |
| Balance at the end of the period | 1,623,739 | 407,496 | 35,009 | 2,066,244 | 2,143,715 |
| | | | | | |
| Suspended-payment taxes and other taxes contingencies | | | | 1,623,739 | 1,483,735 |
| Provision for contingent liabilities | | | | 442,505 | 659,980 |

The nature of the main provisions is presented below:

**i. Suspended payment taxes and other taxes liabilities (Note 19)**

The Bank and its subsidiaries' have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by the internal and external counsel is fully recorded in provision. The main legal disputes are the following:

COFINS ("Social security financing tax") - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

PIS ("Social integration program tax") - Challenge of the levy of PIS established by Constitutional Amendments 10 of 1996 and 17 of 1997.

CSL ("Social contribution tax") - Challenge of CSL payment required from financial institutions in the period from 1996 to 1998 at rates higher than those applied to legal entities in general, opposing the constitutional principle of equality.

As at December 31, 2016, Banco BTG Pactual and its subsidiaries were parties to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R$992 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

- Lawsuits relating to the demutualization and IPO of BM&F Bovespa, challenging the taxation of PIS and Cofins on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R$20 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.

(In thousands of reais)

- In October 2012, we received a tax assessment, which in December 31, 2016 totaled R$2,324 million alleging that our use of the amortization of certain goodwill to reduce the amount of the IRPJ and CSLL taxes payable by us was inappropriate. Such goodwill was originated in connection with the acquisition of us by UBS in 2006, and in the acquisition by BTG in 2009. The amortization of such goodwill occurred from February 2007 to January 2012, although the tax assessment solely relates to the IRPJ and CSLL tax returns for the calendar years 2007, 2008 and 2009. The Bank presented a defense against this tax assessment. On February 2013, a first instance decision was issued, providing for a partial reduction of the tax assessment amount. On June 03, 2015, a second instance decision was issued, which canceled the isolated fine in the amount of R$330 million, as of December 31, 2016. Based on our analysis of applicable case law, including in recent similar cases, we believe that the tax assessment is without merit and that we will ultimately prevail in its appeal. In addition, on December 2015, the Bank received other tax assessment in the amount of R$1,810 million, which refers to 2010 and 2011, alleging that our use of the goodwill originated in the acquisition of Pactual by UBS, held on 2006, and in the buyback of Pactual by BTG, on 2009. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Accordingly, in no event we expect to incur any material losses in connection with this matter.

**ii. Provision for other contingent liabilities**

As at December 31, 2016, BTG Pactual and its subsidiaries were part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

## 22.Income tax and social contribution

The reconciliation of income tax and social contribution expenses with the figure obtained by applying the tax rate on income before these taxes is as follows:

| Income tax and social contribution | 2016 | 2015 |
|---|---|---|
| Tax base | 4,125,591 | (4,280,543) |
| Income before taxes | 5,515,591 | (3,365,789) |
| Interest on equity | (1,390,000) | (914,754) |
| Total charge of income tax and social contribution at the current rates | (2,511,819) | 932,108 |
| Permanent (additions) / deductions in taxation calculation | 384,834 | 141,827 |
| Equity in the earnings of subsidiaries and associated companies in Brazil | 118,994 | (182,176) |
| Foreign earnings | 82,975 | 137,903 |
| Gains on foreign gains | 147,621 | (203,245) |
| Other Permanent (additions) / deductions | 35,244 | 389,345 |
| Temporary (additions) / deductions on the taxation calculation | 1,585,199 | (3,153,557) |
| Reversal of provision for goodwill on the acquisition of investments | 224,351 | 213,110 |
| Interest on equity | (401,328) | 119,280 |

(In thousands of reais)

| Income tax and social contribution | 2016 | 2015 |
|---|---|---|
| Marked-to-market evaluation of securities and derivatives | 1,762,381 | (3,055,211) |
| Allowance for loan losses | (201,891) | (440,018) |
| Tax contingencies and provision for suspended-payment taxes | (4,502) | 13,763 |
| Other provisions | 206,188 | (4,481) |
| | - | 401,654 |
| Offset of tax loss carry forwards - current and deferred liability - Brazil | (252,565) | (27,832) |
| Current tax expense and social contribution | (794,351) | (1,705,800) |
| Temporary differences | | |
| Recognition / (reversal) of the period | (837,408) | 3,165,564 |
| Recognition on goodwill on investments | 362,217 | - |
| Recognition of loss on investment abroad | 30,382 | 396,533 |
| Recognition of tax loss carry forward | 532,049 | 314,281 |
| Offset of tax loss carry forwards - Abroad | (110,989) | 545,025 |
| | 17,467 | 565,090 |
| (Expenses) / revenues from deferred taxes | (6,282) | 4,986,493 |
| Total (expenses) / revenues | (800,633) | 3,280,693 |

Changes in deferred tax assets presented in "Other credits – Sundry" (Note 12(b)), are as follows:

| Income tax and social contribution | 2015 | Recognition | Realization (i) | 2016 |
|---|---|---|---|---|
| Tax loss carryforwards | 827,919 | 633,964 | (284,426) | 1,177,457 |
| Interest on equity | - | 400,500 | - | 400,500 |
| Allowance for loan losses | 837,221 | 238,353 | (264,793) | 810,781 |
| Marked-to-market evaluation of securities and derivatives | 3,417,727 | 15,166,041 | (16,840,787) | 1,742,981 |
| Interest on equity | 150,228 | - | (133,381) | 16,847 |
| Tax contingencies and provision for suspended-payment taxes | 183,844 | 4,218 | - | 188,062 |
| Other temporary differences | 731,567 | 163,771 | (314,910) | 580,428 |
| | 6,148,506 | 16,606,847 | (17,838,297) | 4,917,056 |
| Reflected on stockholder's equity | | | | |
| Marked-to-market evaluation of securities and derivatives | 14,045 | - | (11,843) | 2,202 |
| Others | 107,160 | - | (107,160) | - |
| | 6,269,711 | 16,606,847 | (17,957,300) | 4,919,258 |

| Income tax and social contribution | 2014 | Recognition | Realization (i) | 2015 |
|---|---|---|---|---|
| Tax loss carryforwards | 239,956 | 622,000 | (57,483) | 804,473 |
| Interest on equity | 119,280 | - | (119,280) | - |
| Allowance for loan losses | 381,675 | 528,889 | (165,981) | 744,583 |
| Marked-to-market evaluation of securities and derivatives | 301,640 | 15,157,294 | (12,172,935) | 3,285,999 |
| Interest on equity | 267,505 | - | (129,310) | 138,195 |
| Effect of interest rate | 68,013 | - | (68,013) | - |
| Tax contingencies and provision for suspended-payment taxes | 213,913 | - | (30,069) | 183,844 |
| Other temporary differences | 172,838 | 527,626 | (14,610) | 685,854 |
| Tax increase effect - 5% CSLL | - | 305,558 | - | 305,558 |
| | 1,764,820 | 17,141,367 | (12,757,681) | 6,148,506 |
| Reflected on stockholder's equity | | | | |
| Marked-to-market evaluation of securities and derivatives | - | 14,045 | - | 14,045 |
| Others | - | 107,160 | - | 107,160 |
| | 1,764,820 | 17,262,572 | (12,757,681) | 6,269,711 |

(i) On December 31, 2016, the amount of R$388,700 (December 31, 2015 – R$587.981), refers to recovery paid taxes from investments abroad
(ii) Changes above refers exclusiviley to income tax and social contribution deferred tax assets.

(In thousands of reais)

The present value of tax credits, based on the expected realization of deferred tax assets, is as follows:

| Description | Tax credits on temporary differences | Tax loss carry forwards | Total |
|---|---|---|---|
| 2017 | 1,903,085 | 297,435 | 2,200,520 |
| 2018 | 1,418,858 | 329,295 | 1,748,153 |
| 2019 | - | 421,306 | 421,306 |
| 2020 | - | 281,740 | 281,740 |
| 2021 onwards | 216,680 | 50,859 | 267,539 |
| Total | 3,538,623 | 1,380,635 | 4,919,258 |
| **Present value** | 2,795,845 | 904,092 | 3,699,937 |

As at December 31, 2016 tax credits in the amount of R$900,948 (December 31, 2015 – R$1,323,501), from tax losses calculated between the period of 1993 and 2010, were not recorded on the subsidiary, Banco Sistema S.A. (formely named Banco Bamerindus do Brasil S.A.). These tax credits will be registered, when they attend regulatory aspects and demonstrate realization perspective, in accordance with the management studies and analysis and BACEN standards.

Deferred income tax and social contribution liabilities amounts to R$78,535 (December 31, 2015 - R$410,370).

On May 21, 2015, Provisional Measure nº 675 (MP 675/15) was published which increased the rate of the Social Contribution on Net Profit of the financial and insurance sectors from 15% to 20% of taxable profit, from September 1, 2015.

## 23.Shareholders’ equity

### a. Capital

As at December 31, 2016, fully subscribed and paid in capital consists of 3,406,544,075 shares (December 31, 2015 – 2,756,103,006), of which 1,352,401,464 common shares (December 31, 2015 – 1,404,405,002), 431.840.524 class A preferred shares (December 31, 2015 – 535,847,600), 815,850,404 class B preferred shares (December 31, 2015 – 815,850,404), all no-par, registered shares.

At Special General Meeting held on September 6, 2016, was approved capital increase, through the capitalization of statutory reserves, in the amount of R$4,000,000, with issuance of 817,526,483 class C preferred shares, by way of stock dividend, both nominative and without par value, which R$40.000 to capital and R$3.960.000 to capital reserve.

At Special General Meeting held on September 15, 2015, was approved capital increase of R$773,663, with issuance of 33,634,410 common shares and 67,268,820 Class A preferred shares, both nominative and without par value.

(In thousands of reais)

The capital can be increase through deliberation of Special Shareholders' Meeting, up to global timit of 10.000.000.000 billion shares.

The common shares have right to one vote each in the deliberations of the General Assembly and participate on equal terms with the Class A Preferred Shares and Class B preferred shares in the distribution of profits.

Preferred shares Class A and B have no right to vote and have priority in capital reimbursement, without premium, and participate on equal terms with the common shares in the profits distribution.

The Class A Preferred Shares shall have the right to be included in acquisition public offer due to transfer of control of the Company, provided their holders to receive a minimum amount per share equal to 80% (eighty percent) of the amount paid by common share of the control block.

The Class B preferred shares are convertible into common shares, upon request by writing to the holder or the Company without deliberation and board or shareholders meeting, provided that (i) such conversion occurs at the time of issuance of new shares by the Company whether or not within the limit of authorized capital (unless the shareholder converting the shares is BTG Pactual Holding S.A.) (ii) upon conversion, BTG Pactual Holding S.A. (or its successor in any capacity, including by virtue of merger, division or other corporate reorganization) continues to hold directly or indirectly, more than 50% of common shares issued by the Company and (iii) conversion is in accordance with the Company's shareholders' agreement. Class B preferred shares can be convertible into Class A preferred shares at the request of its holder, and provided that (i) the Company is a public company with shares listed on stock exchanges and (ii) conversion is in accordance with the Company's shareholders' agreement.

The share movements on the years are presented below:

| Banco BTG Pactual | Quantity | | | | |
|---|---|---|---|---|---|
| | | Preferred | | | |
| | Commom | Class A | Class B | Class C | Total |
| Outstanding at December 31, 2015 | 1,404,405,002 | 535,847,600 | 815,850,404 | - | 2,756,103,006 |
| Outstanding at December 31, 2016 | 1,718,895,529 | 431,840,524 | 449,356,339 | 806,451,683 | 3,406,544,075 |

**b. Treasury shares**

During the year ended December 31, 2016, the Bank repurchased 137,483,124 shares, in the amount of R$593,285, and canceled 119,792,424 shares, in the amount of R$654,845, due to approved program.

**c. Legal reserve**

This reserve is established at the rate of 5% of net income for the exercise, before any other allocation, limited to 20% of the capital.

**d. Statutory reserve**

In outstanding with the bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of the capital.

**e. Unrealized income reserve**

Established considering undistributed dividends obtained in foreign branch.

**f. Profit distribution**

The shareholders are entitled to minimum dividends of 1% on net income in accordance with Article 202 of Law 6404/76.

As at February 25, 2015, the Bank has approved the distribution of dividends, in the amount of R$106,130, equivalent to R$0.04 per share, which refers to prior periods. The payment of such dividends, occurred on March 10, 2015.

As at August 05, 2015, the Bank has approved the distribution of dividends in the amount of R$47,324, equivalent to R$0.2 per share. The payment of such dividends, occurred on August 20, 2015.

As at June 30, 2015 the Bank has accrued R$500,000 (June 30, 2015 - R$422,000), relating to interest on equity, equivalent to R$0.19 (June 30, 2015 - R$0.16) per share, which generated R$225,000 (June 30, 2015 - R$168,800) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2016, and the payment occurred on November 9, 2016.

As at December 29, 2016 the Bank has accrued R$890,000 (December 31, 2015 - R$492,754), relating to interest on equity, equivalent to R$0.32 (December 31, 2015 - R$0.18) per share, which generated R$400,500 (December 31, 2015 - R$197,102) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on December 29, 2016.

**g. Other comprehensive income**

During the year ended December 31, 2016 comprises: (i) the fair value changes in the financial assets available for sale from jointly controlled entities totaling a R$1,751 (December 31, 2015 – (R$4,170)); (ii) the fair value changes in the financial assets available for sale totaling (R$105,609) (December 31, 2015 – R$18,501) and; (iii) the translations differences between assets and liabilities of foreign subsidiaries whose functional currency is other than the Reais totaling (R$2,386,585) (December 31, 2015 – R$5,109,634).

## 24. Earnings per share

Income per share basic and diluted is calculated dividing the net income by the weighted average shares outstanding during the year. In the year ended December 31, 2016 and 2015 there were no events that caused dilution.

(In thousands of reais)

| | 2016 | 2015 |
|---|---|---|
| Net income | 4,734,682 | 736,814 |
| Weighted average per thousand ordinary shares outstanding for the year | 1,718,895,529 | 1,401,882,874 |
| Weighted average per thousand preferred shares outstanding for the year | 881,196,863 | 1,346,653,748 |
| Earnings per share – básic and diluted - R$ | | |
| Common shares | 1.82 | 0.27 |
| Preferred shares | 1.82 | 0.27 |

# 25.Net interest income and net gains on financial instruments

## a. Net interest income

| Interest revenues | 2016 | 2015 |
|---|---|---|
| Other loans and receivables | 1,490,562 | 3,112,375 |
| Open market funding and held-to-maturity financial assets | 3,011,979 | 4,562,674 |
| Income from compulsory investments in Brazilian Central Bank | 202,123 | 126,341 |
| | 4,704,664 | 7,801,390 |

| Interest expense | 2016 | 2015 |
|---|---|---|
| Open market funding | (2,344,101) | (5,248,904) |
| Time deposits | (1,024,100) | (639,383) |
| Interbank deposit | (978,116) | (708,106) |
| Notes issued | (121,356) | (2,386,208) |
| Borrowings and loans | (504,343) | (5,702,820) |
| | (4,972,016) | (14,685,421) |

## b. Net gains on financial instruments

| | 2016 | 2015 |
|---|---|---|
| Derivatives | 3,762,835 | 2,491,219 |
| Financial assets at fair value through profit and loss | 2,427,839 | 1,492,420 |
| | 6,190,674 | 3,983,639 |

(In thousands of reais)

# 26.Fees and commissions

| | 2016 | 2015 |
|---|---|---|
| Management and performance fee from investment funds and portfolios | 641,285 | 1,550,623 |
| Brokerage | 133,682 | 192,566 |
| Technical services | 416,998 | 621,481 |
| Commission on the placement of securities | 144,675 | 221,402 |
| Guarantees | 226,422 | 235,395 |
| Other services | 33,336 | 46,977 |
| | 1,596,398 | 2,868,444 |

# 27.Other operating income / (expenses)

| | 2016 | 2015 |
|---|---|---|
| Adjustment to inflation of court deposits | 581,772 | 299,304 |
| Reversal of allowances - other | 2,902 | 117,720 |
| Recovery of charges and expenses | 923,971 | 562,192 |
| Recovery of charges and expenses | 4,644 | 17,447 |
| Reimbursement of clients | (179,446) | (175,364) |
| Discounts granted in renegotiation | (19,754) | (5,327) |
| Discounts granted in renegotiation | (76,419) | (303,727) |
| Adjustment of amounts payable for acquisition of assets (i) | (147,352) | (247,009) |
| Net expenses of phisycal commodities | (233,671) | (272,766) |
| Fair value of investment properties | (201,449) | 61,025 |
| Warehousing revenues | 79,794 | 51,943 |
| Earnings in sale of investments | 940,124 | 3,044,625 |
| Other provisiom | 58,456 | (96,224) |
| Other provisiom | (271,812) | (542,679) |
| | 1,461,760 | 2,511,160 |

(i) Refers to amounts payable for acquisition of assets (mainly Banco Pan S.A. and Banco Sistema S.A.).
(ii) Refers mainly to the reversal of contingencies as described on footnote 21.

# 28.Other administrative expenses

| | 2016 | 2015 |
|---|---|---|
| Outsourced services and consulting | (401,474) | (486,679) |
| Telecommunications and data processing | (288,472) | (366,165) |
| Leases and condominiums | (105,283) | (133,997) |
| Travel and lodging | (54,667) | (106,694) |
| Expenses of the financial system | (161,352) | (328,943) |
| Advertising and Public Relations | (27,868) | (51,060) |
| Depreciation and amortization | (59,564) | (100,937) |
| Other | (191,540) | (111,973) |
| | (1,290,220) | (1,686,448) |

(In thousands of reais)

## 29.Personnel Expenses

| | 2016 | 2015 |
|---|---|---|
| Direct compensation | (1,168,699) | (1,594,468) |
| Benefits | (721,731) | (955,976) |
| Charges | (141,144) | (175,768) |
| Other personnel expenses | 71,502 | (7,491) |
| | (1,960,072) | (2,733,703) |

## 30.Related parties

Institutions comprising the BTG Pactual Group invest their cash and cash equivalents mainly in funding products offered by the Bank. Related-party balances, carried at arm's length, are reflected in the following accounts:

| | Parent company | | Assets/Liabilities | | Revenues/Expenses | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Assets** | | | | | | |
| Open market investments | - | - | 527,100 | 630,001 | 527,100 | 630,001 |
| Interbank investments deposits | - | - | 435,000 | 310,000 | 435,000 | 310,000 |
| Securities | - | - | 237,547 | 223,402 | 237,547 | 223,402 |
| Derivative financial instruments | 8,275 | - | 3,658 | - | 11,933 | - |
| Loans and Receivables | 987,295 | 515,237 | 971,297 | 3,663,406 | 1,958,592 | 4,178,643 |
| **Liabilities** | | | | | | |
| Interbank deposits | (58) | (190) | - | - | (698,430) | (1,571,659) |
| Time deposits | (108,658) | (2,493) | (7,747) | (783,336) | (116,405) | (785,829) |
| Open market funding | - | (1,473) | - | - | - | (1,473) |
| Securities issued abroad | - | - | (1,723,067) | (2,334,584) | (1,723,067) | (2,334,584) |
| Derivative financial instruments | (483) | - | (13,399) | (346,714) | (13,882) | (346,714) |
| Sundry | - | (102,916) | (3,658) | - | (3,658) | (102,916) |
| **Statements of income** | | | | | | |
| Financial income | 74,431 | 70,286 | 471,955 | 369,892 | 546,386 | 440,178 |
| Financial expenses | (6,887) | (9,264) | (163,175) | (449,965) | (170,062) | (459,228) |
| Other operating income | - | - | 271 | 105,214 | 271 | 105,214 |

(i) Subsidiaries of BTG Pactual Participations Ltd.
(ii) Subsidiaries of BTG MB Investments, LP.

As of December 31, 2016, transactions with related parties have no guarantees given and received. Additionally, the Bank did not record any allowance or provision for doubtful debts for the year ended December 31, 2016 and 2015.

Total compensation paid to key management personnel totaling this period R$5,460 (December 31, 2015 – R$68,930) which is considered short term benefit.

(In thousands of reais)

# 31.Other information

## a. Deposits

The interbank deposits and time deposits issued at market rates had the following weighted average maturities:

| | 2016 | 2015 |
|---|---|---|
| Interbank deposits | 753 | 892 |
| Time deposits | 621 | 519 |

## b. Cash and cash equivalents

| | 2016 | 2015 |
|---|---|---|
| Cash and balances at Central Bank | 2,637,154 | 5,054,877 |
| Amounts receivable from banks | | |
| Interbank deposits | 530,326 | 327,742 |
| Overnight investments | 1,412,250 | 3,533,062 |
| Open market investments | 4,201,596 | 5,079,218 |
| **Balances at the end of period** | 8,781,326 | 13,994,899 |

## c. Commitments and responsibilities

The Bank and its subsidiaries' main commitments and responsibilities are as follows:

| | 2016 | 2015 |
|---|---|---|
| Co-obligation and risks for guarantees granted | 35,969,487 | 47,235,738 |
| Responsibility for the management of futures and investment portfolio (i) | 160,360,167 | 293,199,570 |
| Securities | 33,533,341 | 35,765,526 |
| Securities under custody | 1,117,738,333 | 1,106,442,487 |
| Securities trading and brokerage | 1,324,544,222 | 1,879,311,558 |
| Loans contract to release | 297,675 | 940,768 |
| Commitments to be released | 47,700 | 128,280 |

(i) Recognized by the sum of the equity values of funds and investment portfolios

The item "Co-obligations and risks for guarantees granted" mainly comprises guarantees granted or assets allocated to exchange trading securities.

The item "Securities under custody" reflects third-party public and private security positions under custody with SELIC, CETIP S.A. and BM&FBovespa S.A.

The item "Securities trading and brokerage" represents amounts from derivatives purchase and sale agreements related to third-party transactions.

The item “Loans contracted to release” register amounts related to loans contracted with clients to release.

The item “Commitments to be released” register amounts related to the financial commitments of the Bank with its investees.

## 32.Subsequent events

On January 2017, the shareholders of BTG Pactual and BTG Pactual Comercializadora Ltda. approved, without qualification, the merger of BTG Comercializadora by the Bank. Completion of the merger is subject to regulatory approvals.

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

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

On February 2, 2016, given that it is impossible to comply with some conditions precedent, the sale transactions of the interest entirely held by BTG Pactual in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to CNP Assurances S.A. will therefore not be concluded.

On February 6, 2017, the sale transaction of Maybrooke equity interest was settled.