

# **Consolidated Financial Statements of Prudential Conglomerate**

**Banco BTG Pactual S.A. and subsidiaries**

June 30, 2019

With independent auditors' report of consolidated financial statements of prudential conglomerate.

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

Consolidated financial statements of prudential conglomerate

June 30, 2019

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São Paulo Corporate Towers  
Av. Presidente Juscelino Kubitschek, 1.909  
Vila Nova Conceição  
04543-011 - São Paulo - SP - Brasil

Tel: +55 11 2573-3000  
ey.com.br

**A free translation from Portuguese into English of the independent auditor's report on consolidated financial statements of the Prudential Conglomerate prepared in accordance with Resolution No. 4280 of the National Monetary Council and additional regulations of the Central Bank of Brazil together with the criteria for preparation and accounting practices described in Note 3 and in Reais (R\$).**

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## **INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS OF THE PRUDENTIAL CONGLOMERATE**

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

### **Opinion**

We have audited the consolidated financial statements of the Prudential Conglomerate of Banco BTG Pactual S.A. and subsidiaries (Bank), which comprise the consolidated balance sheet of the prudential conglomerate as of June 30, 2019 and the consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Prudential Conglomerate present fairly, in all material respects, the consolidated financial position of the Prudential Conglomerate of Banco BTG Pactual S.A. and its subsidiaries as at June 30, 2019, its consolidated operating performance and cash flows for the the six-month period then ended, in accordance with the standards of preparation of the consolidated financial statements of the Prudential Conglomerate set forth by Resolution n° 4280 of the National Monetary Council and additional regulations of the Central Bank of Brazil to the preparation of these special purpose consolidated financial statements, as described in Note n° 3 to the referred statements.

### **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 of the Prudential Conglomerate*" section of our report. We are independent of the Bank and of its subsidiaries in accordance with the relevant ethical requirements established in the Accountant's Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Emphasis of matters**

### *Basis of preparation of consolidated financial statements of the Prudential Conglomerate*

As described in the note n° 3 to the financial statements, the consolidated financial statements of the Prudential Conglomerate were prepared by Bank's management to comply with the requirements of Resolution n° 4280 of the National Monetary Council and additional regulations of Central Bank of Brazil. Accordingly, our report on these consolidated financial statements was prepared solely with the purpose of complying with these specific requirements and may thus not be appropriate for other purposes. Our opinion is not qualified with respect to this matter.

### Foreign subsidiary equity pickup

As mentioned on the consolidated financial statements footnote n°13, the Bank holds investments on EFG International ("EFG"), but has no timely access on the financial information of this subsidiary before its consolidated financial statements is released. Therefore, the equity pickup is recognized in a period longer than allowed by the rules from the Central Bank of Brazil, as well as any adjustment recorded by EFG will only be considered in a later period by the Bank. Our opinion is not qualified in respect of this matter.

### Tax credits recorded in jointly-controlled subsidiary

At June 30, 2019, the jointly-controlled subsidiary Banco PAN S.A. records income tax and social contribution credits totaling R\$ 2.9 billion, substantially recognized based on study of the current and future scenarios approved by the Board of Directors. The key assumptions used in such study were macroeconomic indicators disclosed in the market. Realization of such tax credits depends on materialization of such projections and of the business plan, as approved by the management bodies of Banco PAN S.A. Our opinion is not qualified in respect of this matter.

## **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit for the current period. These matters were addressed in the context of our audit of the consolidated financial statements of the prudential conglomerate as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on accompanying consolidated financial statements.

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

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

#### *How our audit addressed the matter*

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 adequacy of the disclosures on footnotes 8 and 9 to the Bank's consolidated financial statements.

Based on the evidence obtained from the procedures performed on these complex and illiquid financial instruments and derivatives, which were consistent with management evaluation, we considered that the criteria and assumptions adopted by management on the fair value measurement of these complex and illiquid financial instruments and derivatives were adequate in the context of the consolidated financial statements for the Prudential Conglomerate taken as a whole.

#### Allowance for loan losses

The Bank has a corporate credit portfolio, for which management uses its judgment in determining the allowance for loan losses in accordance with the CMN Resolution no. 2682/1999. We consider it as a key audit matter, due to the subjectivity involved in the determination of the allowance for loan losses, which requires the considerations of, among other factors, recoverable value of corresponding loans, both at the individual-loan and economic-group levels, financial-economic of counterparties, assessment of underlying guarantees, and credit-renegotiations.



#### *How our audit addressed the matter*

Our audit procedures included, among others, the understanding of the process established by management, and tests of details related to: (i) the totality and integrity of the database; (ii) determination of levels of provision by borrowers and subsequently the rating, through models and assumptions adopted by management, based on data and market assumptions, when available; (iii) measurement of guarantees; (iv) monitoring of renegotiated transactions; and (v) the adequacy of footnote disclosures. In addition, we evaluated the adequacy of the disclosures on footnote 10 to the Bank's consolidated financial statements.

Based on the evidence obtained from the procedures performed on allowance for loan losses, which was consistent with management evaluation, we considered that the criteria and assumptions used by management on measurement and accounting were adequate in the context of the consolidated financial statements taken as a whole.

#### Related party transactions

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

#### *How our audit addressed the matter*

Our audit procedures included, among others, the understanding of the Bank's policies and procedures for identifying and mapping transactions with related parties, as well as obtaining formal representation by management with respect to the identification of all related parties with the Bank. Additionally, we audited, on a sample basis, the transactions among related parties and the respective eliminations, when applicable, on the consolidated financial statements. In addition, we evaluated the adequacy of the disclosures on footnote 24 to the Bank's consolidated financial statements.

Based on the evidence obtained from the procedures performed on related party transactions, which were consistent with management evaluation, we considered that management policies and criteria in identifying and recognizing these transactions were adequate in the context of the consolidated financial statements taken as a whole.

#### Information technology (IT) environment

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



#### *How our audit addressed the matter*

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.

Our tests over design and operation of the information technology general controls considered relevant to the audit provided support to the nature, time and extent of our audit substantive testing.

#### **Other matters**

##### *Separate financial statements*

The Bank has prepared a full set of individual financial statements for the six-month period then ended June 30, 2019 in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, on which we issued an unqualified audit opinion, dated August 12, 2019.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the standards of preparation of the consolidated financial statements of the Prudential Conglomerate set forth by Resolution n° 4280 of the National Monetary Council and additional regulations of the Central Bank of Brazil to the preparation of these special purpose consolidated financial statements, as described in Note n° 3 to the referred statements, 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 or to cease operations, or has no realistic alternative but to do so.

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



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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements for the Prudential Conglomerate prepared in accordance with the standards of preparation of the consolidated financial statements of the Prudential Conglomerate set forth by Resolution n° 4280 of the National Monetary Council and additional regulations of the Central Bank of Brazil, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements for the Prudential Conglomerate.

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:

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 to cease to continue as a going concern.



- Evaluated 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.

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

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and that we communicated to them all relationships and other matters that may be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significant in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless the law or regulation precludes public disclosure about the matter or when in extremely rare circumstances we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, August 30, 2019.

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

  
Renata Zanotta Calçada  
Partner

A free translation from Portuguese into English of the consolidated financial statements of prudential conglomerate prepared in accordance with the standards to the preparation of the consolidated financial statements of prudential conglomerate set forth by Resolution nº 4280/13 of CMN and additional regulations of BACEN to the preparation of these special purpose financial statements as described in note 3.

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated balance sheets of prudential conglomerate

As at June, 30  
(In thousands of reais)

	Note	30/06/2019	30/06/2018
Assets			
Current assets		130,371,672	124,854,899
Cash at banks	6	1,719,343	2,698,065
Short-term interbank investments	7	48,511,159	49,043,327
Open market investments		47,079,241	47,582,516
Interbank deposits		1,431,918	1,460,811
Securities and derivative financial instruments		28,581,891	36,675,642
Own portfolio	8	16,755,891	13,328,269
Subject to repurchase agreements	8	1,950,841	13,421,669
Subject to unrestricted repurchase agreements	8	336,241	19,187
Derivative financial instruments	9	4,434,086	6,627,602
Subject to guarantees	8	5,104,832	3,278,915
Interbank transactions		2,040,158	2,037,024
Deposits in the Central Bank of Brazil		2,039,213	2,037,024
Restricted credits – National Housing System		945	-
Loans	10	7,846,647	6,474,258
Loans		7,918,372	6,692,706
Assigned loans		181	296,223
Allowance for loan losses		(71,906)	(514,671)
Other receivables		41,607,031	27,894,674
Foreign exchange portfolio	11	32,645,301	16,240,571
Income receivable	12	1,083,489	802,126
Securities trading and brokerage	11	7,103,925	9,246,827
Sundry	12	1,032,880	1,628,583
Allowance for losses on other receivables		(258,564)	(23,433)
Other assets		65,443	31,909
Other assets		4,236	4,718
Prepaid expenses		61,207	27,191
Long-term-assets		28,708,051	21,376,053
Long-term interbank investments	7	519,813	204,760
Open market investments		519,813	204,760
Securities and derivative financial instruments		6,050,909	3,202,770
Own portfolio	8	3,036,841	1,126,931
Derivative financial instruments	9	1,516,657	1,300,736
Subject to repurchase agreements	8	31,108	568,139
Subject to guarantees	8	1,466,303	206,964
Interbank transactions		167,931	210,269
Restricted credits – National Housing System		167,931	210,269
Loans	10	13,014,451	9,581,233
Loans		13,824,801	9,857,859
Assigned loans		3,806	29,390
Allowance for loan losses		(814,156)	(306,016)
Other receivables		8,745,304	8,004,469
Sundry	12	8,750,018	8,279,998
Allowance for losses on other receivables		(4,714)	(275,529)
Other assets		209,643	172,552
Other assets		267,291	241,952
Prepaid expenses		24,205	11,878
Provision for losses		(81,853)	(81,278)
Permanent assets		11,604,519	9,642,180
Investments		11,448,583	9,480,179
Investments in associates and jointly controlled entities - in Brazil	13	2,856,785	6,456,559
Investments in associates and jointly controlled entities - abroad	13	8,574,562	3,001,424
Other investments		22,213	25,992
Allowance for losses		(4,977)	(3,796)
Property and equipment in use		61,835	68,945
Property in use		-	261
Other property and equipment in use		259,973	263,965
Accumulated depreciation		(198,138)	(195,281)
Intangible assets	14	94,101	93,056
Other intangible assets		320,013	408,372
Accumulated amortization		(225,912)	(315,316)
Total assets		170,684,242	155,873,132

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

# BANCO BTG PACTUAL S.A. and subsidiaries

## Consolidated balance sheets of prudential conglomerate

As at June, 30

(In thousands of reais)

	Note	30/06/2019	30/06/2018
Liabilities			
Current liabilities		118,897,915	111,459,923
Deposits	15	25,188,440	17,275,075
Demand deposits		500,828	448,586
Interbank deposits		311,459	161,359
Time deposits		24,376,153	16,665,130
Open market funding	15	41,978,239	52,844,564
Own portfolio		2,004,518	12,921,472
Third-party portfolio		35,496,291	26,277,659
Unrestricted portfolio		4,477,430	13,645,433
Funds from securities issued and accepted	15	4,185,423	3,288,000
Real estate, mortgage, credit and similar notes		2,408,244	3,144,017
Securities issued abroad		1,665,469	106,662
Certificates of structured transactions		111,710	37,321
Interbank transactions		5,581	6,295
Unsettled receipts and payments		5,581	6,295
Interdependencies transactions		66,465	144,844
Unsettled third party assets		66,465	144,844
Loans and onlending	15	685,420	4,027,752
Loans abroad		588,107	1,805,995
Loans in Brazil		-	48,420
Onlending in Brazil		97,313	2,173,337
Derivative financial instruments	9	6,159,933	6,643,816
Derivative financial instruments		6,159,933	6,643,816
Other liabilities		40,628,414	27,229,577
Collection and payments of tax and similar charges		20,784	5,958
Foreign exchange portfolio	11	31,390,373	15,833,100
Social and statutory	16	471,030	354,994
Tax and social security	16	449,679	257,105
Securities trading and brokerage	11	5,532,327	8,466,938
Subordinated debt	15	1,395,466	1,623,089
Sundry	16	1,368,755	688,393
Long-term liabilities		31,158,114	25,121,776
Deposits	15	1,024,801	1,402,948
Interbank deposits		93,234	16,585
Time deposits		931,567	1,386,363
Open market funding	15	537,267	1,932,627
Own portfolio		-	663,163
Third-party portfolio		314,348	2,963
Unrestricted portfolio		222,919	1,266,501
Funds from securities issued and accepted	15	12,222,871	8,445,432
Real estate, mortgage, credit and similar notes		9,151,088	4,322,479
Securities issued abroad		2,980,595	4,023,629
Certificates of structured transactions		91,188	99,324
Loans and onlending	15	3,110,930	1,286,636
Loans abroad		404,060	696,329
Onlending in Brazil		2,706,870	590,307
Derivative financial instruments	9	1,815,038	1,105,885
Derivative financial instruments		1,815,038	1,105,885
Other liabilities		12,447,207	10,948,248
Tax and social security	16	16,306	52,523
Subordinated debt	15	3,929,947	4,213,018
Debt instrument eligible to capital	15	5,832,969	3,559,807
Sundry	16	2,667,985	3,122,900
Deferred income		155,052	115,906
Non-controlling interest		93,910	11,013
Shareholders' equity	19	20,379,251	19,164,514
Capital		7,392,092	7,392,092
Capital Reserve		652,515	652,515
Fair value of assets available for sale		35,752	279,292
Income reserves		10,864,410	9,905,991
Treasury shares		(128,544)	(277,325)
Retained earnings		1,563,026	1,211,949
Total Liabilities and Shareholders' equity		170,684,242	155,873,132

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of income of prudential conglomerate

Semester ended June 30

(In thousands of reais, except net income per share)

	Note	30/06/2019	30/06/2018
Financial income		5,415,188	3,978,559
Loans		835,725	566,451
Securities		3,539,279	2,057,465
Derivative financial instruments		950,201	1,092,024
Foreign Exchange		50,067	224,721
Mandatory investments		39,916	37,898
Financial expenses		(3,640,197)	(3,654,123)
Funding operations		(3,106,270)	(2,070,825)
Borrowing and onlending		(405,987)	(1,508,873)
Allowance for loan losses and other receivables	10	(127,940)	(74,425)
Net financial income		1,774,991	324,436
Other operating income (expenses)		702,400	1,009,796
Income from services rendered	20	1,153,817	861,170
Personnel expenses		(308,784)	(304,697)
Other administrative expenses	23	(442,314)	(516,514)
Tax charges		(170,895)	(83,355)
Equity in the earnings of associates and jointly controlled entities	13	496,558	958,195
Other operating income	21	138,069	250,281
Other operating expenses	22	(164,051)	(155,284)
Operating income		2,477,391	1,334,232
Non-operating income		41,246	135,686
Income before taxation and profit sharing		2,518,637	1,469,918
Income tax and social contribution	18	(398,845)	(33,265)
Provision for income tax		(27,681)	(542,081)
Provision for social contribution		(89,712)	(406,888)
Deferred income tax and social contribution		(281,452)	915,704
Statutory profit sharing		(470,359)	(206,539)
Non-controlling interest		(2,840)	(7,283)
Net income for the semester		1,646,593	1,222,831
Interest on equity	19	-	353
Weighted average numbers of share outstanding		2,637,236,572	2,778,465,411
Net income per share - R\$		0.88	0.44

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Statements of changes in shareholders' equity of prudential conglomerate

Semester ended June 30

(In thousands of reais, except for dividends and interest on equity per share)

	Note	Capital	Capital reserve	Income reserves				Fair value adjustments	Treasury shares	Retained earnings	Total	
				Special earnings reserve	Legal	Unrealized	Statutory					Total
Balances as at December 31, 2017		7,392,092	652,515	-	1,181,507	2,803,820	6,417,364	10,402,691	114,992	(93,063)	-	18,469,227
Own shares acquired	19b	-	-	-	-	-	-	-	-	(184,262)	-	(184,262)
Interest on equity received by on shares repurchase		-	-	-	-	-	-	-	-	-	353	353
Changes in fair value of assets available for sale		-	-	-	-	-	-	-	(88,108)	-	-	(88,108)
Changes in fair value of assets available for sale - jointly controlled		-	-	-	-	-	-	-	215,968	-	-	215,968
Exchange variation of investments		-	-	-	-	-	-	-	1,034,849	-	-	1,034,849
Foreign Investment hedge		-	-	-	-	-	-	-	(998,409)	-	-	(998,409)
Intermediate interest on equity (R\$0.22 per share)	19	-	-	600,000	-	-	(600,000)	-	-	-	-	-
Adjustments by previous years		-	-	-	-	-	(507,935)	(507,935)	-	-	-	(507,935)
Net income for the semester		-	-	-	-	-	-	-	-	-	1,222,831	1,222,831
Net income allocation		-	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	-	11,235	-	-	11,235	-	-	(11,235)	-
Balances as at June 30, 2018		<u>7,392,092</u>	<u>652,515</u>	<u>600,000</u>	<u>1,192,742</u>	<u>2,803,820</u>	<u>5,309,429</u>	<u>9,905,991</u>	<u>279,292</u>	<u>(277,325)</u>	<u>1,211,949</u>	<u>19,164,514</u>
Balances as at December 31, 2018		7,392,092	652,515	-	1,245,452	2,672,775	6,852,992	10,771,219	103,187	(128,544)	-	18,790,469
Changes in fair value of assets available for sale		-	-	-	-	-	-	-	(74,014)	-	-	(74,014)
Changes in fair value of assets available for sale - jointly controlled		-	-	-	-	-	-	-	8,843	-	-	8,843
Currency translation adjustments		-	-	-	-	-	-	-	(26,995)	-	-	(26,995)
Foreign Investment hedge		-	-	-	-	-	-	-	24,731	-	-	24,731
Intermediate interest on equity (R\$0.22 per share)	19	-	-	600,000	-	-	(600,000)	-	-	-	-	-
Adjustments by previous years		-	-	-	-	-	9,624	9,624	-	-	-	9,624
Net income for the semester		-	-	-	-	-	-	-	-	-	1,646,593	1,646,593
Net income allocation		-	-	-	-	-	-	-	-	-	-	-
Legal reserve		-	-	-	83,567	-	-	83,567	-	-	(83,567)	-
Balances as at June 30, 2019		<u>7,392,092</u>	<u>652,515</u>	<u>600,000</u>	<u>1,329,019</u>	<u>2,672,775</u>	<u>6,262,616</u>	<u>10,864,410</u>	<u>35,752</u>	<u>(128,544)</u>	<u>1,563,026</u>	<u>20,379,251</u>

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of cash flows of prudential conglomerate

Semester ended June 30

(In thousands of reais)

	Note	30/06/2019	30/06/2018
Operating activities			
Net income for the semester		1,646,593	1,222,831
Adjusts to net income		537,537	(1,136,114)
Equity pick up from associates and jointly controlled entities	13	(496,558)	(958,195)
Interest expense with subordinated debt		744,475	728,561
Deferred income tax and social contribution	18	281,452	(915,704)
Permanent assets exchange variation	14	(14,532)	(13,538)
Depreciation and amortization	23	22,700	22,762
Adjusted net income for the semester		2,184,130	86,717
Increase/decrease in operational activities			
Short-term interbank investments		10,673,524	(9,377,037)
Securities and derivative financial instruments		(4,223,675)	(8,811,858)
Loans		(2,815,001)	(2,218,759)
Other receivables and other assets		(18,695,779)	(5,393,929)
Interbank transactions		(573,681)	(542,744)
Interdependencies transactions		(8,461)	120,488
Other liabilities		15,425,951	5,652,197
Deferred income		48,271	33,759
Deposits		4,469,801	8,700,536
Open market funding		6,874,848	20,726,883
Loans and onlending		(1,173,260)	611,434
Cash provided by by operating activities		12,186,668	9,587,687
Investing activities			
Sale of other investment		2,313	(1,382)
Sale of investments		1,151,744	121,399
Dividends and interest on equity received		-	168,255
Acquisition / sale of property and deferred charges		(13,863)	(7,982)
Acquisition / sale of intangible assets		(2,081)	12,658
Cash provided by investing activities		1,138,113	292,948
Financing activities			
Acquisition / sale of treasury shares		-	(184,262)
Funds from securities issued and accepted		2,622,452	2,055,945
Subordinated debt and debt instrument eligible to equity		1,568,222	(693,194)
Non-controlling interest		74,648	14,794
Interest on equity		(604,500)	(608,622)
Cash provided by / (used in) financing activities		3,660,822	584,661
Increase in cash and cash equivalents		16,985,603	10,465,296
Balance of cash and cash equivalents	26		
At the beginning of the semester		27,195,007	23,169,579
At the end of the semester		44,180,610	33,634,875
Increase in cash and cash equivalents		16,985,603	10,465,296
Non-cash transaction			
Acquisition / Increase/ Transfer of equity interests		-	161,499
Changes in fair value of assets available for sale in jointly controlled entities		(74,014)	(88,108)

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

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

Notes to the consolidated financial statements of prudential conglomerate  
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(In thousands of reais, otherwise indicated)

### **1. Operations**

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

Transactions are conducted by a group of institutions fully participating in the financial market, and may be intermediated by other institutions from the BTG Pactual Group.

The Bank have units listing on B3 S.A. in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank.

#### **Application for Level 2 Adherence:**

In order to reaffirm its commitment to continuous improvement of its governance and alignment with best practices in the market, BTG Pactual requested B3 to join B3's special Corporate Governance Level 2 listing segment. B3 approved the potential entry to Level 2, conditioned to (i) the conclusion of the Offering, (ii) Units, in free circulation, representing at least 21% of its capital stock, and (iii) the free float recomposition, as necessary, within 18 months from May 28, 2019.

### **2. Corporate reorganization and acquisitions**

#### **Corporate events**

On June 2019, BTG Pactual issued a secondary public offering of 55.2 million book-entry, non-par registered share deposit certificates of 1 common share and 2 class A preferred shares issued by the Bank. and held by BTG Pactual Holding S.A. ("Holding"). On June 2019, the Bookbuilding procedure was concluded, with the establishment of a unit price of R\$46.00, resulting in a total restricted offer amount of R\$2,5 billion (including green shoe).

On June 17, 2019, the Holding held operations in Units representing shares issued by the Bank : (i) 34,598,868 common shares issued by the Bank, corresponding to 2% of the Bank's common shares; and (ii) 69,197,736 Bank Class A preferred shares corresponding to 12.43% of the Bank Class A preferred shares and corresponding to 7.64% of the Bank preferred shares. Holding interest represents approximately 3.94% of the total shares issued by the Bank. On the same date, BTG Pactual Holding Financeira Ltda. ("Holding Financeira"), carried out transactions in shares issued by the Bank, a position equivalent to: (i) 89.93% of the Bank's common shares: and (ii) 100% of the Bank Class B preferred shares and 38.56% of the preferred shares issued by the Bank. Holding Financeira represents approximately 68.34% of the Bank's total shares.

The Bank and BTG Pactual Holding intend to transfer approximately 25% of the common equity of EFG International AG ("EFG"), currently held by the Bank to BTG Pactual Holding S.A.. After this transaction, the Bank will hold approximately 5% of EFG's common equity. The transaction is subject to the applicable

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

Notes to the consolidated financial statements of prudential conglomerate

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regulatory approvals, which will be in two stages: (i) approval for the transfer of a portion corresponding to approximately 10% of EFG's common equity, along with Bank liabilities of approximately R\$830 million, the terms and conditions of which are already being analyzed by the applicable regulatory authorities, and (ii) approval for the transfer of an additional portion of approximately 15% of EFG's common equity, after submission to the applicable regulatory authorities.

On October 26, 2018, BTG Pactual concluded a corporate reorganization through which 1,502,975,267 common shares and 449,356,340 Class B preferred shares of its issuance and held by BTG Pactual Holding S.A. - current direct controlling shareholder of the Bank - were contributed to the capital of BTG Pactual Holding Financeira Ltda., a company in which BTG Pactual Holding S.A. holds approximately 99.9% of the quotas representing its share capital, and whose corporate purpose is exclusively the equity interest in financial institutions and other institutions authorized by the Central Bank of Brazil.

The corporate reorganization aims to align BTG Pactual Holding S.A. structure, as provided for in applicable legislation, and did not entail any change in its participation in the Bank.

On November 2017, Banco Pan S.A. approved a capital increase in the amount of R\$400 million. Caixa Participações S.A. ("CaixaPar") assigned to the Bank its rights to subscribe the capital increase and has entered into call/put options over 50% of the capital increase. The Shareholders Agreement of Banco Pan S.A. will not be modified hence CaixaPar and BTG Pactual remain as co-controllers of Banco Pan S.A.. The capital increase was concluded on February, 2018.

On April 20, 2018, Banco Pan SA informed its shareholders and the market in general that the capital increase of the company authorized by its Board of Directors was approved by the Central Bank of Brazil on February 7, 2018. After the capital increase, BTG Pactual now holds approximately 577,662 shares issued by Banco Pan SA, corresponding to 50.6% of its Capital Stock.

On March 13, 2019, Caixapar notified the exercise of the right to acquire 50% of the shares subscribed by the Bank on November 2017, so that the total capital stock of the Company will be: (i) 41.7% for CAIXAPAR; (ii) 41.7% for BTG Pactual and (iii) 16.6% for minority shareholders.

### **Acquisitions and disposals**

After the issuance of EFG International ("EFG") financial statements for the year ended December 31, 2017, on February 27, 2018, BTG Pactual became aware of EFG decision to change its accounting practices to reflect certain adjustments in its accounting practices with prospective adoption effects. Due to these changes, the EFG recognized a reduction in its shareholders' equity corresponding to CHF493.9 million, which consequently caused a negative effect on BTG Pactual shareholders' equity in the amount of R\$503 million as a reduction of the Statutory Reserve.

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

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

### **3. Presentation of the financial statements of prudential conglomerate**

The consolidated financial statements of prudential conglomerate were prepared with the specific purpose for attending the requirements of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN), according to specific procedures established by CMN's Resolution no. 4,280, of October 31, 2013, and Circular no. 3,701, of March 13, 2014.

On this same date basis, in addition to the consolidated financial statements of prudential conglomerate, the Management prepared the consolidated financial statements of Bank and its subsidiaries, which was prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the National Monetary Council (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable, published on August 12, 2019.

The Bank's consolidated financial statements of prudential conglomerate comprise entities discriminated in Resolution nº 4,280/13, which the Bank holds direct or indirect control, including: financial institutions, institutions authorized to operate by the Central Bank, consortium administrators, companies of commodities operation by request to the Central Bank, payment institutions, credit institutions and investment funds.

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires Management to use its judgment to determine and record accounting estimates. Assets and liabilities subject to these estimates and assumptions primarily relate to deferred income tax assets and liabilities, to the allowance for loan losses and other receivables, the provision for taxes and contributions with suspended eligibility, the provision for contingent liabilities and the fair value measurement of financial instruments. The settlement of transactions involving these estimates may result in amounts that differ from those estimated due to inaccuracies inherent to its determination. The Bank and its subsidiaries periodically review these estimates and assumptions.

The consolidated financial statements were approved by Bank's Management on August 29, 2019, and they contain a true and fair view of the development and results of the Bank. Management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, Management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

#### **a. Consolidated financial statements of prudential conglomerate**

In the consolidated financial statements of prudential conglomerate all intercompany balances of assets and liabilities, revenues, expenses and unrealized profit were eliminated, and were included the portions of net income (loss) and shareholders' equity relating to non-controlling interest.

Goodwill calculated on the acquisition of investment in subsidiaries is recognized in intangible assets, whereas negative goodwill of investments in subsidiaries is recognized as deferred income. Goodwill and negative goodwill calculated on the acquisition of jointly controlled entities are recognized in investments.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

The subsidiaries and investment funds consolidated on the financial statements of prudential conglomerate, are as follows:

	Country	Equity interest - %	
		30/06/2019	30/06/2018
<b>Direct subsidiaries</b>			
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 International S.A.	Brazil	99.99	99.99
Banco BTG Pactual Luxembourg S.A.	Luxembourg	100.00	100.00
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
Banco Sistema S.A.	Brazil	99.91	99.84
BTG Pactual (UK) Limited		100.00	-
<b>Indirect subsidiaries</b>			
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
Banco BTG Pactual Chile 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 SPA	Chile	100.00	100.00
BTG Pactual Chile S.A.	Chile	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 S.A. Comisionista de Bolsa	Colombia	99.70	99.70
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	99.70	94.50
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	100.00
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	Mexico	100.00	100.00
BTG Pactual Argentina S.A.	Argentina	100.00	100.00
<b>Investment funds</b>			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Absolute Return Master Fund	Cayman	100.00	100.00
BTG Pactual SICAV - Mexico Equity Fund	Luxembourg	94.44	-
BTG Pactual SICAV- Latin America Equity Fund	Luxembourg	95.07	-
BTG Pactual Fondo Alfa Concentrado S.A. de C.V.	Mexico	94.98	-
BTG Pactual Absoluto Global Equities Inst FIA IE	Brazil	100.00	-
BTG Pactual Absoluto Global Equities FIA	Brazil	88.33	-
BTG Pactual Absoluto Global Equities	Brazil	84.06	-
SEEDLING FIP	Brazil	100.00	-
FIDC NP Alternative Assets I	Brazil	100.00	100.00
BTG Pactual ARF Equities Brasi FIA IE	Brazil	100.00	100.00
BTGP Int Fund II SPC - BTGPH Corp Hedge	Brazil	100.00	100.00
BTG PACTUAL RED FIP - MULT. INV.	Brazil	100.00	100.00
FIM CP Energy	Brazil	51.48	51.48
FIM CP Vitória Fidelis	Brazil	100.00	100.00
FIDC NP Alternative Assets III	Brazil	100.00	-
FIDC NP Alternative Assets II	Brazil	100.00	100.00

The following subsidiaries are not consolidated in these financial statements because they are not in compliance with the consolidation requirements of Circular No. 4280/13:

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

	Country	Equity interest - %	
		30/06/2019	30/06/2018
<b>Direct subsidiaries</b>			
BW Properties S.A.	Brazil	75.54	75.54
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
BTG Pactual Holding Participações S.A.	Brazil	99.99	99.99
BTG Pactual Chile International Ltd.	Cayman	100.00	100.00
BTGP-BSI Limited	UK	100.00	100.00
Enforce Gestão de Ativos S.A.	Brazil	70.00	70.00
BTG Pactual Corretora de Resseguros Ltda.	Brazil	100	100
ZB Consultoria Ltda	Brazil	99.99	99.99
<b>Indirect subsidiaries</b>			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Global Asset Management (UK) Limited	UK	100.00	100.00
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	100.00	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos	Chile	100.00	100.00
Infra IX Empreendimentos e Participações S.A.	Brazil	-	100.00
BTG Pactual Holding Delaware LLC	USA	100.00	100.00
BTG Pactual Seguros de Vida	Chile	100.00	100.00
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual E&P S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxembourg	100.00	100.00
Engelhart CTP Absolute Return Limited	Cayman	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	USA	100.00	100.00
BSPE Participações e Empreendimentos S.A.	Brazil	-	99.84
Bastec Tecnologia e Serviços Ltda.	Brazil	99.84	99.84
BTG Pactual UK Holdco Limited	UK	100.00	100.00
BTG Pactual Family Office S.A. de C.V.	Mexico	-	100.00
Newco SEG Holding S.A.	Brazil	-	100.00
TTG Forestry Services LLC	USA	100.00	100.00
N.A.S.S.P.E Empreendimentos e Participações S.A.	Brazil	-	100.00
BTG Pactual Real Estate Luxembourg Holding S.A.	Luxembourg	-	100.00
BTG Pactual RE Income S.A.	Colombia	100.00	100.00
BTG Pactual Chile Asesorias Financieras	Chile	100.00	100.00
PFC Consultoria e Assessoria Empresarial Eireli	Brazil	100.00	100.00
Lutece Holdings Ltd.	Bermudas	100.00	100.00
Lutece Investment Management Ltd.	Bermudas	100.00	100.00
BTG Pactual Seguros S.A.	Brazil	100.00	-
BTG Pactual Reinsurance Ltd.	Cayman	100.00	-
BTG Pactual Holding EFG Ltd.	Brazil	100.00	-

### b. Functional currency

The items included in the Bank's and subsidiaries' financial statements are measured using the currency of the main economic environment in which the Bank operates (functional currency). The consolidated financial statements are presented in Reais (R\$), which is the functional currency of the Bank.

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

Notes to the consolidated financial statements of prudential conglomerate

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(In thousands of reais, otherwise indicated)

The assets and liabilities of subsidiaries with a functional currency other than the Brazilian Real are translated as follows: (i) Assets and liabilities are translated at the closing rate at the balance sheet date. (ii) Income and expenses are translated at monthly average exchange rates. (iii) Equity in the earnings of subsidiaries abroad is recognized as follows: for those with functional currency equal to Real; Income for the period: for those with functional currency equal to Real: a) Income for the period; portion related to the subsidiary's effective income; and b) stockholders' equity: portion related to foreign exchange adjustments arising from the translation process, net of tax effects.

The effects of foreign exchange variations on investments abroad are distributed in the fair value adjustments in the shareholders' equity.

### **4. Significant accounting practices**

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

#### **a. Cash and cash equivalents**

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

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

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

#### **c. Securities**

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068/01 of November 8, 2001, under the following categories:

##### **i. Trading securities**

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

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

Notes to the consolidated financial statements of prudential conglomerate

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### **ii. Available for sale securities**

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

### **iii. Held-to-maturity securities**

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

According to BACEN Circular Letter 3068/01, trading securities are recorded in the balance sheet, in current assets, regardless of their maturity.

### **d. Derivative financial instruments**

These are classified according to management's intention, on the transaction date, considering whether such transactions are for hedge or not.

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

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

- **Market risk hedge:** financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in the statements of income.
- **Cash flow hedge:** the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.

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

Notes to the consolidated financial statements of prudential conglomerate

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

### **e. Fair value of securities, derivative financial instruments and other rights and obligations**

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

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

Assets and liabilities resulting from swap and currency forward transactions of non-delivery forward agreements (NDF) are recognized in assets and liabilities at their carrying amount, with adjustments to fair value, recorded in income (loss).

The notional amount of the agreements recorded in memorandum accounts.

### **f. Financial instruments – net presentation**

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

### **g. Sale or transfer of financial assets with substantial retention of risks and benefits**

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

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

Notes to the consolidated financial statements of prudential conglomerate  
June 30, 2019  
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### **h. Loans and other receivables (operations with credit characteristics)**

Recorded at present value, calculated on a “*pro rata die*” basis on the index variation and on the agreed interest rate, updated up to 59<sup>th</sup> day of default, provided the expected receipt. As from the 60<sup>th</sup> day, the recognition in income (loss) occurs at the time of the effective receipts of installments. Renegotiated transactions are maintained at least in the same level in which they were classified before the renegotiation and, if they had already been written off, they are fully provisioned and gains are recorded in the results when actually received.

### **i. Allowance for loan losses**

Recognized based on an analysis of loan risk losses at an amount deemed as sufficient to cover probable losses, pursuant to CMN Resolution 2682, of December 21, 1999, among which:

- Allowances are recorded for loans, based on the classification of the client’s risk, based on the periodical analysis of client quality and of activity industries and not only upon default.
- Considering exclusively the default, written of loans against losses are carried after 360 days from the credit due date or after 540 days, for transactions with maturity over 36 months.
- The allowance for loan losses and other receivables is estimated based on the analysis of transactions and specific risks presented in each portfolio, in accordance with the criteria established by CMN Resolution 2682/99.

### **j. Investment property**

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

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

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

### **k. Investments**

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

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

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

### **I. Foreign currency translation**

See note 3b.

### **m. Goodwill and negative goodwill**

Goodwill and negative goodwill are calculated based on the difference between the acquisition amount paid and the net carrying amount of the net assets acquired.

Goodwill and negative goodwill, recorded according to the basis of expected future results of the acquired subsidiaries, is amortized according to cashflow projections underlying the transaction or, when the investment is written off, by disposal or impairment, before projections are achieved.

Negative goodwill is recognized in investments for jointly controlled entities, and in deferred income to subsidiaries.

### **n. Property and equipment in use and deferred charges**

These are stated at cost. Depreciation is calculated on a straight-line basis based on the economic useful lives of the assets. Deferred charges correspond mainly to leasehold improvements. Amortization is calculated using the straight-line basis over the estimated period of usage and/or disposal.

### **o. Intangible assets**

Corresponds to acquired rights that have as their subject intangible assets destined to the entities' maintenance or used for such purpose, in accordance with CMN Resolution 3642, of November 26, 2008. Comprised by (i) goodwill paid in acquisition transferred to intangible asset due to incorporation of acquirer's equity by the acquired, or consolidation of the company, (ii) for acquired rights of assets management contracts, and (iii) softwares and improvements in third part property. Amortization is calculated using the straight-line basis over the period in which the rights generate benefits.

### **p. Impairment on non-financial assets**

Whenever there is clear evidence that the assets are measured at an unrecoverable amount, it is recorded as loss in the income or loss. This procedure is performed at least at the end of each fiscal year.

Assets subject to impairment are deducted, when applicable, of provision for losses that is calculated according to the lower of value in use and fair value less costs to sell the assets. The main estimates used in determining the provision are: expectation of future cash flows, discount rates, illiquidity, among others.

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

Notes to the consolidated financial statements of prudential conglomerate

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(In thousands of reais, otherwise indicated)

### **q. Income tax and social contribution**

The provisions for income tax and social contribution are recorded based on book income adjusted by additions and deductions provided by the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R\$240, and 15% for social contribution of financial institutions and 9% for non-financial institutions.

### **r. Contingent assets and liabilities, and legal, tax and social security obligations**

Recognized according to the criteria described below:

#### **i. Contingent assets**

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

#### **ii. Contingent liabilities**

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions or disclosure.

#### **iii. Legal obligation – tax and social security**

Legal liabilities refer to lawsuits challenging the legality or constitutionality of certain taxes and contributions. The amount under dispute is measured and recorded.

#### **s. Earnings per share**

Calculated based on weighted average shares outstanding for the period.

#### **t. Revenue recognition**

Revenues and expenses are recorded under the accrual method.

## BANCO BTG PACTUAL S.A. and subsidiaries

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### 5. Risk management

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

The Bank monitors and controls risk exposure through several and different supplemental internal systems, including credit, financial, operational, compliance, tax and legal systems. The Bank believes that the involvement of the Committees/areas (including their subcommittees) with management and continuous risk control promotes a strict risk control culture in the organization as a whole. The Bank's commissions comprise senior members of the business units and senior members of the control departments, which do not depend on the business areas. Further details on risk management can be found at [www.btgpactual.com.br/ri](http://www.btgpactual.com.br/ri), in the Corporate Governance / Risk management section.

#### a. Operating limits

	<b>30/06/2019</b>	<b>30/06/2018</b>
Reference Shareholders' Equity	20,379,251	19,164,514
Tier I	15,639,048	13,485,344
Common Equity	12,124,198	9,949,687
Complementary Equity	3,514,850	3,535,657
Tier II	3,504,162	2,057,576
Reference Shareholders' Equity (PR) - (a)	19,143,210	15,542,920
Required Reference Shareholders' Equity (PRE)	10,382,614	7,754,796
Total exposure risk-weighted - (b)	129,782,672	89,910,675
Credit risk	59,671,750	57,021,780
Operational risk	6,958,234	8,934,201
Market risk	63,152,688	23,954,694
Basel ratio - (a/b*11%)	14.8%	17.3%
Tier I capital	12.1%	15.0%
Tier II capital	2.7%	2.3%
Fixed assets ratio	75.5%	63.1%
Fixed assets to equity capital ratio	9,563,935	7,761,993
Status for fixed assets to equity capital ratio	7,220,487	5,366,657
Amount of margin (insufficiency)	2,343,447	2,395,336

## BANCO BTG PACTUAL S.A. and subsidiaries

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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 Circular-Letter 3.498/11, and operational risk based on Circulars 3.640/13 and 3.675/13.

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

As at the semester ended June 30, 2019 and 2018 the Bank was in compliance with all operating limits.

### b. Market risk

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

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

The table below contains the Bank's and its subsidiaries' daily average VaR for the semester ended:

In millions of R\$	June 2019	June 2018
Daily average VaR	139.9	75.4

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

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### **c. Credit risk**

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

### **d. Liquidity risk**

The Bank and its subsidiaries manage liquidity risk by concentrating their portfolio in high-level credit and highly-liquid assets, using funds obtained from prime counterparties at extremely competitive rates. The Bank and its subsidiaries maintain a solid capital structure and a low level of leverage. Additionally, any mismatching between assets and liabilities is carefully monitored, considering the impact of extreme market conditions in order to assess their ability to realize assets or to reduce leverage.

### **e. Operating risk**

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

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

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

## **6. Cash at banks**

Cash at banks refer basically to deposits abroad in prime banks.

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### 7. Interbank investments

	30/06/2019					30/06/2018
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	47,599,054	43,580,151	3,499,090	106,421	413,392	47,787,276
Own portfolio	7,943,935	7,348,703	391,641	-	203,591	6,363,942
Federal government bonds	7,671,941	7,108,157	360,193	-	203,591	6,223,964
Corporate bonds	146,369	114,921	31,448	-	-	138,993
Foreign government bonds	125,625	125,625	-	-	-	985
Third-party portfolio	36,457,241	35,436,534	704,485	106,421	209,801	26,867,916
Federal government bonds	36,179,100	35,377,257	691,735	21,251	88,857	26,100,024
Corporate bonds	225,548	6,684	12,750	85,170	120,944	446,068
Foreign government bonds	52,593	52,593	-	-	-	-
Foreign private securities	-	-	-	-	-	321,824
Short position	3,197,878	794,914	2,402,964	-	-	14,555,418
Federal government bonds	3,015,675	612,711	2,402,964	-	-	9,275,468
Foreign government bonds	182,203	182,203	-	-	-	5,279,950
Interbank investments (*)	1,431,918	1,431,918	-	-	-	1,460,811
Interbank deposit certificates	371,020	371,020	-	-	-	280,847
Investments in foreign currency - overnight	1,060,898	1,060,898	-	-	-	1,179,964
	49,030,972	45,012,069	3,499,090	106,421	413,392	49,248,087

(\*) Refers basically to interbank deposits in prime banks.

The collateral received in repurchase agreements amounts to R\$49,132,249 (June 30, 2018 - R\$46,622,701), whereas the collateral granted amounts to R\$45,769,116 (June 30, 2018 - R\$55,164,792).

### 8. Securities

#### a. By type of portfolio

The breakdown by type of instrument, contractual maturity and type of portfolio are as follows:

	30/06/2019							30/06/2018
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	19,097,792	19,792,732	10,068,184	1,309,949	3,401,653	1,214,486	3,798,460	14,455,200
Federal government bonds	7,816,698	7,822,367	2,397,915	23,973	2,869,315	362,415	2,168,749	940,866
Debentures/Eurobonds (i)	1,880,300	1,828,078	101,402	802,831	271,083	283,020	369,742	633,313
Investment fund quotes								
Shares	47,891	58,389	10,529	31,168	-	-	16,692	20,067
Multimarket	2,460,658	2,434,116	2,205,662	-	-	-	228,454	1,716,704
FIDC - Credit Rights	218,578	225,166	132,567	-	-	11,927	80,672	106,048
Real Estate	103,553	103,687	1,089	-	-	-	102,598	107,466
Equity Investment fund	304,154	308,977	57,457	-	-	-	251,520	299,819
Shares	3,356,879	4,078,161	3,732,944	-	-	325,528	19,689	6,511,593
Promissory notes	4,884	4,884	4,884	-	-	-	-	-
Certificate of real estate								
receivables	11,075	11,308	-	-	7,359	3,949	-	280,869
Other	532,845	532,124	321,377	165,406	6,761	38,254	326	213,757
Foreign government bonds	624,507	648,089	153,911	121,666	136,575	66,847	169,090	715,548
Foreign private securities	1,735,770	1,737,386	948,447	164,905	110,560	122,546	390,928	2,909,150
Unrestricted portfolio	331,395	336,241	-	-	17,315	291,963	26,963	19,187
Federal government bonds	331,395	336,241	-	-	17,315	291,963	26,963	19,187
Subject to repurchase agreements	2,041,402	1,981,949	-	65,161	600,994	874,024	441,770	13,989,808
Federal government bonds	999,340	1,001,356	-	-	141,741	859,615	-	3,631,912
Certificate of real estate								
receivables	-	-	-	-	-	-	-	6,475
Foreign government bonds	567,720	567,720	-	-	209,935	-	357,785	9,203,809
Other	-	-	-	-	-	-	-	20,604
Foreign private securities	1,051	1,618	-	-	-	-	1,618	452,127

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	30/06/2019							30/06/2018
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Debentures / Eurobonds (i)	473,291	411,255	-	65,161	249,318	14,409	82,367	674,881
Subject to guarantees	6,530,306	6,571,135	937,318	367,547	2,709,501	2,244,104	312,665	3,485,879
Federal government bonds	5,246,732	5,269,119	-	330,361	2,692,842	2,244,104	1,812	2,454,413
Investment fund quotes								
Multimarket	43,462	47,669	47,669	-	-	-	-	44,830
Debentures / Eurobonds (i)	9,275	8,996	-	-	8,996	-	-	-
Certificate of real estate								
receivables	307,296	310,853	-	-	-	-	310,853	11,059
Shares	875,154	886,111	886,111	-	-	-	-	861,452
Foreign government bonds	48,387	48,387	3,538	37,186	7,663	-	-	59,870
Foreign private securities	-	-	-	-	-	-	-	54,255
Trading securities	23,384,571	24,056,912	10,942,240	1,715,026	3,514,517	4,034,662	3,850,467	25,276,465
Available for sale securities	1,264,241	1,273,062	63,262	27,631	121,557	331,221	729,391	2,525,288
Held-to-maturity securities	3,352,083	3,352,083	-	-	3,093,389	258,694	-	4,148,321
	28,000,895	28,682,057	11,005,502	1,742,657	6,729,463	4,624,577	4,579,858	31,950,074

(i) Substantially securities issued by Brazilian companies.

### b. Trading securities

	30/06/2019							30/06/2018
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	16,018,621	16,712,667	10,052,591	1,282,318	1,308,915	688,921	3,379,922	12,660,682
Federal government bonds	5,620,065	5,625,734	2,397,915	23,973	867,462	167,635	2,168,749	940,866
Debentures/Eurobonds (i)	1,818,732	1,766,159	101,402	802,831	209,164	283,020	369,742	129,112
Investment fund quotes								
Shares	47,891	58,389	10,529	31,168	-	-	16,692	20,067
Multimarket	2,460,658	2,434,116	2,205,662	-	-	-	228,454	1,716,704
FIDC - Credit Rights	218,578	225,166	132,567	-	-	11,927	80,672	106,048
Real Estate	103,553	103,687	1,089	-	-	-	102,598	107,466
Equity investment fund	95,911	100,754	57,457	-	-	-	43,297	184,700
Shares	3,031,351	3,752,633	3,732,944	-	-	-	19,689	6,511,593
Promissory notes	4,884	4,884	4,884	-	-	-	-	-
Certificate of real estate								
receivables	11,075	11,308	-	-	7,359	3,949	-	3,147
Other	532,091	531,798	321,377	165,406	6,761	38,254	-	9,135
Foreign government bonds	602,482	625,915	153,911	106,675	133,065	63,174	169,090	266,454
Foreign private securities	1,471,350	1,472,124	932,854	152,265	85,104	120,962	180,939	2,665,390
Unrestricted portfolio	331,395	336,241	-	-	17,315	291,963	26,963	19,187
Federal government bonds	331,395	336,241	-	-	17,315	291,963	26,963	19,187
Subject to repurchase agreements	2,010,457	1,950,841	-	65,161	570,322	873,588	441,770	11,032,816
Federal government bonds	999,340	1,001,356	-	-	141,741	859,615	-	1,349,801
Certificate of real estate								
receivables	-	-	-	-	-	-	-	6,475
Other	-	-	-	-	-	-	-	20,604
Foreign government bonds	567,720	567,720	-	-	209,935	-	357,785	9,203,809
Foreign private securities	1,051	1,618	-	-	-	-	1,618	452,127
Debentures / Eurobonds (i)	442,346	380,147	-	65,161	218,646	13,973	82,367	-
Subject to guarantees	5,024,098	5,057,163	889,649	367,547	1,617,965	2,180,190	1,812	1,563,780
Federal government bonds	4,091,282	4,113,669	-	330,361	1,601,306	2,180,190	1,812	588,203
Debentures / Eurobonds (i)	9,275	8,996	-	-	8,996	-	-	-
Shares	875,154	886,111	886,111	-	-	-	-	861,452
Foreign government bonds	48,387	48,387	3,538	37,186	7,663	-	-	59,870
Foreign private securities	-	-	-	-	-	-	-	54,255
Total	23,384,571	24,056,912	10,942,240	1,715,026	3,514,517	4,034,662	3,850,467	25,276,465

(i) Substantially securities issued by Brazilian companies.

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### c. Available-for-sale securities

	30/06/2019							30/06/2018
	Cost	Market value	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market value
Own portfolio	882,538	883,432	15,593	27,631	90,885	330,785	418,538	1,794,518
Shares	325,528	325,528	-	-	-	325,528	-	-
Investment fund quotes								
Equity investment fund	208,243	208,223	-	-	-	-	208,223	115,119
Debentures (i)	61,568	61,919	-	-	61,919	-	-	504,201
Certificate of real estate receivables	-	-	-	-	-	-	-	277,722
Foreign private securities	264,420	265,262	15,593	12,640	25,456	1,584	209,989	243,760
Foreign government bonds	22,025	22,174	-	14,991	3,510	3,673	-	449,094
Other	754	326	-	-	-	-	326	204,622
Subject to repurchase agreements	30,945	31,108	-	-	30,672	436	-	674,881
Debentures (i)	30,945	31,108	-	-	30,672	436	-	674,881
Subject to guarantees	350,758	358,522	47,669	-	-	-	310,853	55,889
Investment fund quotes								
Multimarket	43,462	47,669	47,669	-	-	-	-	44,830
Certificate of real estate receivables	307,296	310,853	-	-	-	-	310,853	11,059
Total	1,264,241	1,273,062	63,262	27,631	121,557	331,221	729,391	2,525,288

(i) Substantially securities issued by Brazilian companies.

### d. Held-to-maturity securities

	30/06/2019						30/06/2018
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Own portfolio	2,196,633	-	-	2,001,853	194,780	-	-
Federal government bonds	2,196,633	-	-	2,001,853	194,780	-	-
Subject to re purchase	-	-	-	-	-	-	2,282,111
Federal government bonds	-	-	-	-	-	-	2,282,111
Subject to guarantees	1,155,450	-	-	1,091,536	63,914	-	1,866,210
Federal government bonds	1,155,450	-	-	1,091,536	63,914	-	1,866,210
Total	1,155,450	-	-	1,091,536	63,914	-	4,148,321

If measured at fair value, held-to-maturity securities would be reported as at the semester ended June 30, 2019 with a negative adjustment of R\$810 (June 30, 2018 – R\$68,849 positive).

The Bank has financial capacity to maintain such assets to maturity.

### e. Reclassification of securities

Management classifies the securities according to its trading intention. No reclassifications or changes in intention were made by Management during the semester ended in June 30, 2019 and 2018.

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### 9. Derivative financial instruments

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

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

Transactions conducted in Brazil are traded, registered or held in custody by B3 S.A.; transactions conducted abroad are traded and registered with prime brokers. The Bank uses different financial instruments to achieve economical hedge such as options, forwards, futures and swaps with periodic adjustment. The use of these instruments is to hedge positions in the cash markets, aiming to improve the risk level in the portfolio, where the risk monitoring committees deemed necessary.

As at the semester ended June 30, 2019 and 2018, the bank strategy of net investments in foreign operations consist of a hedge of the exposure in foreign currency arising from the functional currency of foreign operations, compared to the functional currency of the head office.

	30/06/2019		
	Hedge instrument		
	Nominal value	Market (i)	Hedge assets
Net Investment Hedge of Foreign Operations	11,897,166	24,731	6,826,699
	31/12/2018		
	Hedge instrument		
	Nominal value	Market (i)	Hedge assets
Net Investment Hedge of Foreign Operations	13,474,849	(1,082,239)	7,061,816

(i) Recorded in stockholders' equity under heading asset valuation adjustments.

To hedge the changes of future cash flows of exchange variation of net investments in foreign operations, the Bank uses Futures contracts, financial assets and forward contracts or NDF contracts entered into by the subsidiaries abroad.

#### a. Recognized in memorandum and balance sheet accounts

The notional amounts of transactions with financial instruments are recorded in memorandum accounts and the adjustment/premium in balance sheet accounts. The assumed positions arising from transactions with derivative financial instruments, demonstrated below, considers the provisions of BACEN Circular Letter 3641/13, which determines the exclusion of agreements in currency, gold and other assets linked to foreign exchange exposure, with maturity in the first business day following the date the exchange exposure is verified. The receivable leg and payable leg are presented separately for Swap, Non-Deliverable Forward ("NDF") and Deliverable Forward ("DF") derivatives in the table below.

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	30/06/2019				30/06/2018
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
<b>Futures market</b>					
Long position	32,622,055	63,902,506	50,470,636	146,995,197	29,823,661
Currency	4,897,698	11,677	42,154	4,951,529	4,628,247
Interest rate	25,234,867	63,869,539	49,204,242	138,308,648	24,925,306
Commodities	247,972	21,290	4,588	273,850	-
Equities	-	-	-	-	61,597
Index	2,241,518	-	1,219,652	3,461,170	208,511
Short position	14,344,888	10,163,358	2,245,486	26,753,732	43,656,219
Currency	163,391	7,554	-	170,945	7,254
Interest rate	14,155,618	10,155,804	1,146,371	25,457,793	37,946,883
Equities	-	-	-	-	4,805,109
Index	25,879	-	1,099,115	1,124,994	896,408
Other	-	-	-	-	565
<b>Swap</b>					
Long position	190,910,275	24,718,545	35,231,844	#####	70,067,406
Currency	383	414,636	128,018	543,037	2,116,639
Interest rate	186,732,944	21,606,480	31,772,736	240,112,160	60,956,797
Index	46,142	86,113	55,123	187,378	4,312,965
Equities	422,965	222,264	70,675	715,904	1,473,409
Commodities	4,002	362	-	4,364	39,256
Other	3,703,839	2,388,690	3,205,292	9,297,821	1,168,340
Short position	190,910,275	24,718,545	35,231,844	#####	70,067,406
Currency	22,872	413,487	70	436,429	12,047,012
Interest rate	187,265,375	21,881,558	31,964,677	241,111,610	49,490,166
Index	5,941	83,090	398	89,429	6,218,600
Equities	33,855	26,267	79	60,201	837,103
Other	3,582,232	2,314,143	3,266,620	9,162,995	1,474,525
<b>Credit Derivatives</b>					
Long position	38,322	-	210,426	248,748	2,237,713
Sovereign	38,322	-	76,836	115,158	2,141,318
Corporate	-	-	133,590	133,590	96,395
Short position	38,322	-	198,163	236,485	1,928,665
Sovereign	38,322	-	19,774	58,096	424,903
Corporate	-	-	178,389	178,389	1,503,762
<b>Non-deliverable forward - NDF</b>					
Long position	39,048,492	11,485,765	2,571,544	53,105,801	57,791,531
Currency	35,994,894	10,409,699	457,329	46,861,922	49,317,826
Index	3,053,598	1,076,066	2,114,215	6,243,879	8,473,705
Short position	39,048,492	11,485,765	2,571,544	53,105,801	57,791,531
Currency	35,994,894	10,409,699	457,329	46,861,922	40,498,193
Government bonds	-	-	-	-	12,870
Index	3,053,598	1,076,066	2,114,215	6,243,879	8,473,705
Interest rate	-	-	-	-	8,806,763
<b>Deliverable forward - DF</b>					
Long position	-	-	-	-	20,539,209
Interest rate	-	-	-	-	962
Currency	-	-	-	-	20,538,247
Short position	-	-	-	-	20,539,209
Interest rate	-	-	-	-	962
Currency	-	-	-	-	20,538,247
<b>Security forwards</b>					
Long position	2,851,519	14	-	2,851,533	2,109,121
Currency	191	14	-	205	-
Equities	173	-	-	173	-
Interest rate	-	-	-	-	1,505,781
Government bonds	2,851,155	-	-	2,851,155	603,340

## BANCO BTG PACTUAL S.A. and subsidiaries

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June 30, 2019

(In thousands of reais, otherwise indicated)

	30/06/2019				30/06/2018
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Short position	2,851,519	14	-	2,851,533	2,109,121
Government bonds	2,851,155	-	-	2,851,155	1,504,366
Equities	173	-	-	173	-
Currency	191	14	-	205	-
Interest rate	-	-	-	-	604,755
Options market					
Call option - long position	7,466,674	233,163	7,641,627	15,341,464	18,486,378
Equities	409,115	51,298	53,395	513,808	816,658
Commodities	609,952	-	-	609,952	-
Index	245,649	-	48,290	293,939	686,132
Currency	6,201,958	181,865	7,539,942	13,923,765	7,018,908
Interest rate	-	-	-	-	9,964,680
Put option - long position	15,345,898	72,921,524	8,635,112	96,902,534	25,349,176
Equities	4,666,247	4,873	-	4,671,120	4,006,080
Commodities	411,866	-	-	411,866	-
Index	1,397,486	72,902,500	47,969	74,347,955	22,800
Currency	8,870,299	14,151	8,587,143	17,471,593	10,071,583
Interest rate	-	-	-	-	11,248,713
Call option - short position	5,642,153	47,664	15,956,039	21,645,856	17,335,781
Equities	290,516	41,514	-	332,030	148,626
Commodities	141,791	-	-	141,791	-
Index	449,630	-	-	449,630	288,751
Currency	4,760,216	6,150	15,956,039	20,722,405	6,382,344
Interest rate	-	-	-	-	10,516,060
Put option - short position	8,193,497	73,077,486	2,661,947	83,932,930	17,758,309
Equities	460,557	5,264	-	465,821	129,083
Commodities	693,868	-	-	693,868	-
Index	1,035,481	72,884,800	-	73,920,281	616,583
Currency	6,003,591	187,422	2,661,947	8,852,960	5,763,930
Interest rate	-	-	-	-	11,248,713

### b. By cost and market value

	30/06/2019					30/06/2018
	Cost	Market	Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	-	-	-	-	-	6,380
Short position	-	-	-	-	-	32,915
Swaps						
Long position	920,146	995,861	65,404	118,572	811,885	828,711
Short position	1,455,516	1,659,744	158,309	300,817	1,200,618	1,331,097
Credit derivatives						
Long position	5,663	8,469	-	-	8,469	54,482
Short position	10,144	15,349	6,625	-	8,724	40,478
Non-deliverable forward - NDF						
Long position	1,066,513	1,369,715	725,214	110,278	534,223	3,546,232
Short position	1,010,003	3,165,617	2,333,325	252,984	579,308	3,637,362
Deliverable forward - DF						
Long position	-	-	-	-	-	28,647
Short position	-	-	-	-	-	5,821
Security forwards						
Long position	2,850,495	2,855,717	2,855,717	-	-	2,281,746
Short position	2,856,678	2,860,107	2,860,080	27	-	2,319,277
Options market						
Long position	646,395	720,981	475,266	83,635	162,080	1,182,140
Short position	239,648	274,154	173,697	74,069	26,388	382,751
<b>Long position</b>	<b>5,489,212</b>	<b>5,950,743</b>	<b>4,121,601</b>	<b>312,485</b>	<b>1,516,657</b>	<b>7,928,338</b>
<b>Short position</b>	<b>5,571,989</b>	<b>7,974,971</b>	<b>5,532,036</b>	<b>627,897</b>	<b>1,815,038</b>	<b>7,749,701</b>

### c. Notional by counterparty

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

	30/06/2019					30/06/2018
	Clearing houses / stock exchange	Financial Institutions (*)	Companies	Individuals	Total	Total
Futures market						
Long position	144,117,094	2,878,103	-	-	146,995,197	29,823,661
Short position	26,151,235	602,497	-	-	26,753,732	43,656,219
Swap						
Long position	850,098	247,935,370	2,019,798	55,398	250,860,664	70,067,406
Short position	850,098	247,935,370	2,019,798	55,398	250,860,664	70,067,406
Credit derivatives						
Long position	-	248,748	-	-	248,748	2,237,713
Short position	-	236,485	-	-	236,485	1,928,665
Non-deliverable forward - NDF						
Long position	-	44,390,769	8,427,086	287,946	53,105,801	57,791,531
Short position	-	44,390,769	8,427,086	287,946	53,105,801	57,791,531
Deliverable forward - DF						
Long position	-	-	-	-	-	20,539,209
Short position	-	-	-	-	-	20,539,209
Security forwards						
Long position	-	2,851,360	173	-	2,851,533	2,109,121
Short position	-	2,851,360	173	-	2,851,533	2,109,121
Options market						
Long position	73,828,189	37,494,411	1,246	920,152	112,243,998	43,835,554
Short position	74,454,743	31,033,579	-	90,464	105,578,786	35,094,090
<b>Long position</b>	<b>218,795,381</b>	<b>335,798,761</b>	<b>10,448,303</b>	<b>1,263,496</b>	<b>566,305,941</b>	<b>226,404,195</b>
<b>Short position</b>	<b>101,456,076</b>	<b>327,050,060</b>	<b>10,447,057</b>	<b>433,808</b>	<b>439,387,001</b>	<b>231,186,241</b>

(\*) Includes investments funds.

### d. Credit derivatives

	30/06/2019	30/06/2018
Credit swap		
Transferred risk		
Sovereign	115,158	2,141,319
Corporate	133,590	96,395
Risk received		
Sovereign	(58,096)	(424,903)
Corporate	(178,389)	(1,503,762)
	<b>12,263</b>	<b>309,049</b>

During the semester ended on June 30, 2019 and 2018, there were no credit events related to triggering facts provided for in agreements.

According to CMN's resolutions, the effect on the calculation of the required reference shareholders' equity (PRE) as at June 30, 2019 is R\$73,024 (June 30, 2018 – R\$182,216).

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

Notes to the consolidated financial statements of prudential conglomerate

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### **e. Guarantee margins**

Guarantee margins in transactions traded on B3 S.A. and other stock exchanges with derivatives comprises federal government and foreign government bonds totaling R\$4,425,755 (June 30, 2018 – R\$2,117,898) and shares in the amount of R\$886,112 (June 30, 2018 – R\$861,452).

### **f. Fair value of financial instruments**

The fair values of financial instruments are calculated as follows:

- Swaps: cash flows are discounted to present value based on yield curves reflecting the proper risk factors. These yield curves are mainly based on the prices traded on B3 S.A., Brazilian government bonds traded on the secondary or derivative market and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock market indexes, etc.).
- Futures and Forward: using stock exchange quotations or criteria identical to those described for swaps above.
- Options: the fair value of these instruments are calculated based on mathematical models (such as Black & Scholes) that use data containing implied volatility, interest rate yield curve and the fair value of the underlying asset. These data are obtained from different sources (normally prices from brokers and brokerage firms, Bloomberg and Reuters).
- Credit derivatives: the fair value of these instruments is calculated based on mathematical models largely adopted in the market that uses data relating to the issuer's credit spread and interest rate yield curve. These data are obtained from different sources (normally market prices, Bloomberg and Reuters).
- Securities and short selling: the fair value of government bonds are calculated based on prices disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA). The fair value of corporate bonds is calculated based on prices traded on the secondary market, prices of similar assets and market visibility of the Company's commercial departments. Shares are calculated based on the prices informed by B3 S.A.. Fund quotas are valued based on quota prices disclosed by the custodian.
- Financial assets at fair value through profit (loss): The Bank estimates the fair values of the financial instruments by discounting cash flows to present value based on yield curves reflecting the proper risk factors.

## **10.Loans**

Loans are classified in risk levels in accordance with the criteria established by CMN Resolution 2682/99. This classification takes into consideration, among others, a periodic analysis of the transaction, defaults, client history and guarantee, when applicable.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

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The allowance for loan losses is calculated based on classification of clients in the risk levels, as defined by the same Resolution.

Loans and other operations with credit characteristics are as follows:

### a. Loans

#### i. By type of credit

Type of credit	30/06/2019		30/06/2018	
	Balance	Allowance	Balance	Allowance
Loans	15,240,148	(803,558)	11,612,358	(713,846)
Financing	2,334,946	(68,069)	1,165,643	(92,678)
FINAME/BNDES	2,891,656	(14,435)	2,857,680	(14,163)
Securities financing	1,276,423	-	914,884	-
Transferred loans with co-obligations (i)	3,987	-	325,613	-
Total	21,747,160	(886,062)	16,876,178	(820,687)

(i) Refers to transferred loans as collateral, related to repurchase agreements.

#### ii. By risk level and maturity

Risk level	30/06/2019					30/06/2018		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	15,452	4,435,460	1,074,226	5,232,884	10,758,022	(2,467)	7,535,769	-
A	1,220	347,529	619,590	3,784,530	4,752,869	(24,274)	3,596,686	(18,872)
B	36,884	373,193	443,726	2,153,712	3,007,515	(34,496)	1,635,832	(15,963)
C	51,736	239,210	58,489	623,750	973,185	(30,903)	2,218,002	(110,348)
D	35,546	134,536	42	662,153	832,277	(143,123)	1,159,484	(193,529)
E	1,937	18,269	62	1,089,731	1,109,999	(433,973)	234,177	(70,253)
F	26	-	-	207,329	207,355	(111,116)	158,719	(81,435)
G	-	62	134	557	753	(525)	233,878	(226,656)
H	15,232	14,404	1,588	73,961	105,185	(105,185)	103,631	(103,631)
Total	158,033	5,562,663	2,197,857	13,828,607	21,747,160	(886,062)	16,876,178	(820,687)

#### iii. By activity sector

Sector	30/06/2019	30/06/2018
Commerce	3,883,632	2,391,302
Industry	2,917,207	3,898,841
Services	13,630,271	9,760,092
Rural	1,082,387	313,259
Individuals	233,663	512,684
Total	21,747,160	16,876,178

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

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### b. Other receivables with loans characteristics and transferred loan

Exclusively comprised by securities and receivables, relating to credit rights acquisition transactions and transferred loans, as follows:

#### i. By risk level and maturity

Risk level	30/06/2019					30/06/2018		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	37,604	-	-	37,604	-	34,939	-
C	-	-	3,796	-	3,796	(114)	61,595	(1,848)
E	24,808	-	-	-	24,808	(7,389)	-	-
F	-	-	-	-	-	-	19,341	(9,670)
Total	24,808	37,604	3,796	-	66,208	(7,503)	115,875	(11,518)

#### ii. By activity sector

Sector	30/06/2019	30/06/2018
Individuals	-	19,341
Commerce	3,796	-
Services	62,412	96,534
Total	66,208	115,875

### c. Advances in foreign exchange contracts

#### i. By risk level and maturity

Risk level	30/06/2019					30/06/2018		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	34,190	57,260	-	91,450	-	-	-
A	-	153,843	-	-	153,843	(795)	21,479	(116)
B	-	286,441	382,547	-	668,988	(6,612)	356,922	(4,148)
C	-	-	19,579	-	19,579	(580)	54,783	(1,849)
D	-	-	-	-	-	-	34,391	(7,106)
E	34,443	-	-	-	34,443	(13,785)	-	-
Total	34,443	474,474	459,386	-	968,303	(21,772)	467,575	(13,219)

#### ii. By activity sector

Sector	30/06/2019	30/06/2018
Industry	968,303	467,575
Total	968,303	467,575

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate  
June 30, 2019  
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### d. Credit concentration

	<u>30/06/2019</u>	<u>%</u>	<u>30/06/2018</u>	<u>%</u>
Largest debtors				
10 largest debtors	7,777,335	34%	7,742,375	45%
20 following largest debtors	3,937,629	18%	2,421,727	14%
50 following largest debtors	3,994,514	18%	2,917,187	17%
100 following largest debtors	3,884,277	17%	2,669,633	15%
200 following largest debtors	2,426,625	11%	1,434,757	8%
500 following largest debtors	722,969	3%	255,180	1%
Above 500 following largest debtors	38,322	0%	18,769	0%
	<u>22,781,671</u>	<u>100%</u>	<u>17,459,628</u>	<u>100%</u>

### e. Allowance

Changes in the allowance for loan losses and other receivables with loan characteristics are as follows:

	<u>30/06/2019</u>	<u>30/06/2018</u>
Opening balances	(976,708)	(871,528)
Reversal/(accrual) of allowance	(127,940)	(74,425)
Renegotiation/recovery of credits written off to loss	16,718	(74,137)
	(140,627)	-
Allowance for guarantee	(3,591)	(17,686)
Guarantees	(32,574)	(80,124)
Exchange rate variation	3,047	(11,290)
Credits written off as loss	112,335	6,658
Closing balances	<u>(1,149,340)</u>	<u>(1,122,532)</u>
Breakdown of closing balances		
Allowance for loan losses (Note 10 (a))	(886,062)	(820,687)
Allowance for other receivables	(192,694)	(193,319)
Allowance for other receivables without loan characteristics (Note 10 (b))	(7,503)	-
Allowance for advances on foreign exchange contracts (Note 10 (c))	(21,772)	(13,219)
Allowance for guarantees	(41,309)	(95,307)
	<u>(1,149,340)</u>	<u>(1,122,532)</u>

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

As at June 30, 2019, the amount of R\$1,463,708 were due to credit renegotiation (June 30, 2018 – R\$1,151,811). Also in the semester ended June 30, 2019 there were R\$21,106 written off loans recovered (June 30, 2018 – R\$101,166).

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

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### 11. Other receivables/obligations

#### a. Foreign Exchange portfolio

	30/06/2019		30/06/2018	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange purchased/sold	8,482,867	23,646,884	4,434,716	11,825,190
Rights on foreign exchange sales	24,359,965	-	11,796,393	-
(-) Advances on foreign exchange contracts (Note 10 (c))	23,661	(944,642)	11,799	(455,776)
(-) Advances in foreign currency received	(1,671)	-	(2,139)	-
(-) Advances in local currency received	(219,521)	-	(198)	-
Liability for foreign exchange purchase	-	8,688,131	-	4,463,686
<b>Total</b>	<b>32,645,301</b>	<b>31,390,373</b>	<b>16,240,571</b>	<b>15,833,100</b>
Current	32,645,301	31,390,373	16,240,571	15,833,100
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through B3 S.A., are represented by federal government bonds in the amount of R\$949,443 (June 30, 2018 - R\$506,529).

#### b. Securities trading and brokerage

	30/06/2019		30/06/2018	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	616,925	496,493	680,316	307,291
Unsettled financial assets / liabilities	549	911,293	4,514	485,733
Pending settlement	6,353,263	2,745,453	8,103,601	5,030,639
Creditors for stock loans	-	40,804	-	6,971
Other securities trading and brokerage	133,041	1,338,195	458,263	2,635,920
Commissions and brokerage payable	-	89	-	384
Swap brokerage	147	-	133	-
<b>Total</b>	<b>7,103,925</b>	<b>5,532,327</b>	<b>9,246,827</b>	<b>8,466,938</b>
Current	7,103,925	5,532,327	9,246,827	8,466,938
Long-term	-	-	-	-

“Debtors/creditors – pending settlement account” is basically represented by amounts pending settlement, relating to transactions involving the purchase and sale of securities and financial asset agreements at B3 S.A., and abroad through prime brokers, on the Bank’s behalf or on behalf of third parties, on the regular term.

“Other securities trading and brokerage” basically represents, in assets, intermediation transactions from time deposits to be settled, and in liabilities, it refers basically to the short position of foreign governments bonds to be settled, on the regular term.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

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### 12. Other receivables

#### a. Income receivable

	<u>30/06/2019</u>	<u>30/06/2018</u>
Dividends and bonus	349,961	98,417
Receivables from services rendered	104,118	45,171
Rights on energy sales	184,571	364,507
Management and performance fees for investment funds and portfolio	388,096	265,171
Distribution fees	5,143	5,677
Commissions on guarantees	51,600	23,183
Total	<u>1,083,489</u>	<u>802,126</u>
Current	1,083,489	802,126
Long-term	-	-

#### b. Sundry

	<u>30/06/2019</u>	<u>30/06/2018</u>
Deferred tax assets - IR/CS (note 18)	5,020,527	5,121,890
Deferred tax assets - Others	233,315	283,554
Sundry	456,818	1,116,800
Judicial deposits	1,630,827	1,533,438
Taxes recoverable to offset	466,637	373,865
Securities and credits receivable		
With loan characteristics (note 10 b)	66,208	115,875
Without loan characteristics	1,518,440	774,328
Investment properties	-	83,109
Salaries advances	27,359	32,991
Other	362,767	472,731
Total	<u>9,782,898</u>	<u>9,908,581</u>
Current	1,032,880	1,628,583
Long-term	8,750,018	8,279,998

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

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### 13. Investments in associates and jointly controlled entities

	Associates and jointly-controlled entities					
	Shareholders' Equity		Net income (loss)		Interest	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018	30/06/2019	30/06/2018
In Brazil						
Banco Pan S.A.	4,226,556	4,016,378	117,707	98,764	41,70%	50,59%
Warehouse 1 Empreendimentos Imobs S.A.	24,986	34,713	(494)	741	35.00%	35.00%
BTG Pactual Holding Participações S.A.	10,811	10,418	154	124	99.99%	99.99%
BTGP Corretora de Seguros S.A.	23,049	8,553	6,421	6,432	99.99%	99.99%
BTG Pactual Holding Internacional S.A.	-	9,199,795	-	855,539	0.00%	99.99%
BW Properties S.A.	488,719	476,561	6,608	(5,277)	42.72%	42.72%
Pan Corretora S.A.	45,327	43,743	17,343	4,171	51.00%	51.00%
BTG Pactual Holding de Seguros S.A.	666,619	727,847	32,698	49,200	99.00%	99.00%
BTG Pactual Corretora de Resseguros Ltda.	24,516	6,984	9,923	4,982	99.00%	99.00%
BTG Pactual Gestora de Investimentos Alternativos Ltda.	2,903	2,115	35	(41)	99.00%	99.00%
BTG Pactual WM Gestão de Recursos Ltda.	38,224	36,423	15,522	14,852	99.00%	99.00%
BTG Pactual Gestora de Recursos Ltda.	129,716	218,486	2,048	31,593	99.00%	99.00%
BTG Pactual Corporate Services Ltda.	897	3,742	20	(31)	99.00%	99.00%
BSPE Participações e Empreendimentos S.A.	-	13,449	-	7,576	0.00%	99.00%
Bastec Tecnologia e Serviços Ltda.	17,149	22,059	106	2,370	99.00%	99.00%
Abroad						
BTG Pactual Chile Internacional Ltd.	7,702	67,166	842	1,457	99.99%	99.99%
BSI Limited (i)	1,361,515	1,538,322	(139,088)	(63,218)	100.00%	100.00%
BTG Pactual E&P SARL	4,428,002	-	359,707	-	100.00%	0.00%
BTG Pactual UK Holdco Limited	1,216,205	-	14,868	-	100.00%	0.00%
BTG Pactual Chile Asesorias Financieras	48,511	-	17,382	-	100.00%	0.00%
BTG Pactual Seguros de Vida	309,082	-	71,788	-	100.00%	0.00%

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements of prudential conglomerate

June 30, 2019

(In thousands of reais, otherwise indicated)

	Changes in investments			
	30/06/2018	Equity in earnings of subsidiaries	30/06/2019	Equity in earnings of associates from 30/06/2018
<b>In Brazil</b>				
Banco Pan S.A.	1,641,622	93,911	1,526,248	49,798
Warehouse 1 Empreendimentos Imobs S.A.	12,409	254	8,746	391
BTG Pactual Holding Participações S.A. (ii)	45	(219)	1,067	2
BTGP Corretora de Seguros S.A.	8,553	6,421	23,049	6,432
BTG Pactual Holding Internacional S.A.	3,321,931	-	-	800,688
BW Properties S.A.	359,997	2,823	362,334	(6,557)
Goodwill - BW Properties S.A.	2,322	-	2,322	-
Pan Corretora S.A.	22,309	8,845	23,117	2,774
BTG Pactual Holding de Seguros S.A.	727,848	23,369	666,619	49,200
BTG Pactual Corretora de Resseguros Ltda	6,984	9,923	24,516	4,982
BTG Pactual Gestora de Investimentos Alternativos Ltda.	2,114	(202)	2,902	(547)
BTG Pactual WM Gestão de Recursos Ltda.	36,423	15,742	38,224	15,357
BTG Pactual Gestora de Recursos Ltda.	218,486	2,018	129,716	31,593
BTG Pactual Corporate Services Ltda.	3,742	20	897	(31)
BTG Pactual Serviços Energéticos Ltda.	-	-	-	121
BSPE Participações e Empreendimentos S.A.	12,184	-	-	6,864
Bastec Tecnologia e Serviços Ltda	22,059	106	17,148	2,370
Other	57,531	1,438	29,880	(1,156)
	<u>6,456,559</u>	<u>164,449</u>	<u>2,856,785</u>	<u>962,281</u>
<b>Abroad</b>				
BTG Pactual Chile Internacional Ltd. (i)	67,166	842	7,581	1,457
BSI Limited (i)	2,533,446	(139,088)	2,209,877	(10,682)
Goodwill - BSI Limited (i)	361,692	(21,374)	320,332	(19,911)
BTG Pactual E&P SARL	-	359,707	4,435,851	-
BTG Pactual UK Holdco Limited	-	14,868	1,216,205	-
BTG Pactual Chile Asesorias Financieras	30,924	17,381	48,506	25,710
	-	71,789	309,082	-
Other	8,196	27,984	27,128	(660)
	<u>3,001,424</u>	<u>332,109</u>	<u>8,574,562</u>	<u>(4,086)</u>
	<u>9,457,983</u>	<u>496,558</u>	<u>11,431,347</u>	<u>958,195</u>

## BANCO BTG PACTUAL S.A. and subsidiaries

### Notes to the consolidated financial statements

June 30, 2019

(In thousands of reais)

- (i) The difference between equity pick up in subsidiaries and net income of subsidiaries refers to the exchange rate variation.
- (ii) During the quarter ended on December 31, 2018, the agreements related to the sale of the Bank's indirect equity interest in the joint venture Petrobras Oil & Gas BV through BTG Pactual E & P BV were concluded. The asset in the amount of R\$ 4,079,122 (previously in Securities) was transferred to investments in associates and jointly controlled entities, reflecting the permanent nature of the participation.

## 14. Intangible assets

Changes in Intangible assets							
	30/06/2016	30/06/2018	Acquisitions / Transfer	Write off / Transfer	Amortization expenses / disposal	Exchange variation	30/09/2019
Other intangible assets	<b>93,056</b>	<b>88,352</b>	<b>9,325</b>	<b>(7,244)</b>	<b>(14,225)</b>	<b>17,893</b>	<b>94,101</b>
Cost	309,844	302,035	9,325	(7,244)	-	15,897	320,013
Amortization	(216,788)	(213,683)	-	-	(14,225)	1,996	(225,912)
	<u>93,056</u>	<u>88,352</u>	<u>9,325</u>	<u>(7,244)</u>	<u>(14,225)</u>	<u>17,893</u>	<u>94,101</u>

The intangible assets amortization period is 5 years.

## 15. Fund raising and loans and onlending

### a. Summary

	30/06/2019					30/06/2018	
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	26,213,241	12,985,715	12,202,725	926,461	13,081	85,259	18,678,023
Open market funding	42,515,506	38,688,027	3,290,212	200,311	209,996	126,960	54,777,191
Funds from securities issued and accepted	16,408,294	515,553	3,669,870	9,791,111	2,278,459	153,301	11,733,432
Loans and onlending	3,796,350	33,466	651,954	202,953	327,276	2,580,701	5,314,388
Subordinated debts and subordinated debt eligible to equity	11,158,382	-	1,395,466	1,422,708	1,544,980	6,795,228	9,395,914
	<u>100,091,773</u>	<u>52,222,761</u>	<u>21,210,227</u>	<u>12,543,544</u>	<u>4,373,792</u>	<u>9,741,449</u>	<u>99,898,948</u>

### b. Deposits

	30/06/2019					30/06/2018	
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	500,828	500,828	-	-	-	-	448,586
Interbank deposits	404,693	170,727	140,732	8,157	-	85,077	177,944
Time deposits	25,307,720	12,314,160	12,061,993	918,304	13,081	182	18,051,493
	<u>26,213,241</u>	<u>12,985,715</u>	<u>12,202,725</u>	<u>926,461</u>	<u>13,081</u>	<u>85,259</u>	<u>18,678,023</u>

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
June 30, 2019  
(In thousands of reais)

### c. Open market funding

Open market funding has collateral on the following securities:

	30/06/2019						30/06/2018
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	2,004,518	1,596,835	407,683	-	-	-	13,584,635
Federal government bonds	993,692	993,692	-	-	-	-	3,681,750
Corporate securities	441,616	33,933	407,683	-	-	-	9,038,461
Foreign securities	-	-	-	-	-	-	229,407
Foreign government bonds	569,210	569,210	-	-	-	-	635,017
Third-party portfolio	35,810,639	35,460,868	35,423	104,352	209,996	-	26,280,622
Federal government bonds	35,396,265	35,396,265	-	-	-	-	25,829,894
Corporate bonds	404,079	54,308	35,423	104,352	209,996	-	438,773
Foreign securities	-	-	-	-	-	-	11,955
Foreign government bonds	10,295	10,295	-	-	-	-	-
Unrestricted portfolio	4,700,349	1,630,324	2,847,106	95,959	-	126,960	14,911,934
Federal government bonds	4,517,854	1,447,829	2,847,106	95,959	-	126,960	9,318,449
Corporate bonds	-	-	-	-	-	-	5,391,627
Foreign government bonds	182,495	182,495	-	-	-	-	201,858
	<u>42,515,506</u>	<u>38,688,027</u>	<u>3,290,212</u>	<u>200,311</u>	<u>209,996</u>	<u>126,960</u>	<u>54,777,191</u>

(i) From the unrestricted portfolio, R\$3,787,345 (June 30, 2018 – R\$14,645,696) refers to short position and R\$913,004 (June 30, 2018 – R\$266,238) to third-party portfolio.

### d. Funds from securities issued and accepted

	30/06/2019						30/06/2018
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	11,762,230	493,367	2,026,587	7,205,476	2,026,762	10,038	7,603,141
Financial bills	7,851,934	19,614	1,316,474	4,562,909	1,942,899	10,038	5,402,539
Mortgage bonds/letters of credit for agribusiness	3,707,398	456,883	615,273	2,556,868	78,374	-	2,063,957
Certificates of structured transactions	202,898	16,870	94,840	85,699	5,489	-	136,645
Securities – abroad	4,646,064	22,186	1,643,283	2,585,635	251,697	143,263	4,130,291
Medium term notes	4,165,559	-	1,508,879	2,465,987	190,693	-	3,849,067
Fixed rate notes and others	480,505	22,186	134,404	119,648	61,004	143,263	281,224
	<u>16,408,294</u>	<u>515,553</u>	<u>3,669,870</u>	<u>9,791,111</u>	<u>2,278,459</u>	<u>153,301</u>	<u>11,733,432</u>

As at June 30, 2018, securities in Brazil were basically indexed o interest referenced rates (CDI) between 83% and 114% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a. (June 30, 2018 – indexed to (CDI) between 87% and 115% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a.).

On June 30, 2019, securities abroad have rates between 2.39% p.a. and 7.09% p.a. (June 30, 2018 – between 3.25% p.a. and 8.0% p.a.).

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

June 30, 2019

(In thousands of reais)

### e. Loans and onlending

	30/06/2019					30/06/2018	
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	992,167	15,657	572,450	-	153,528	250,532	2,502,324
Foreign currency	725,978	-	572,450	-	153,528	-	891,430
Loans abroad	266,189	15,657	-	-	-	250,532	1,610,894
Loans - Brazil	-	-	-	-	-	-	48,420
Loans	-	-	-	-	-	-	48,420
Onlending in Brazil	2,804,183	17,809	79,504	202,953	173,748	2,330,169	2,763,644
FINAME/BNDES	2,804,183	17,809	79,504	202,953	173,748	2,330,169	2,763,644
	<u>3,796,350</u>	<u>33,466</u>	<u>651,954</u>	<u>202,953</u>	<u>327,276</u>	<u>2,580,701</u>	<u>5,314,388</u>

On June 30, 2019, securities abroad have rates between 0.50% p.a. and 9.22% p.a. (June 30, 2018 – between 0.16% p.a. and 3.25% p.a.).

### f. Subordinated debt and debt instrument eligible to capital

Type - original currency	30/06/2019					30/06/2018
	Issued amount (original currency)	Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R\$ (i)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	3,287,192	4,274,901
Subordinated debt - US\$	800,000	28/09/2012	15/09/2022	5.75%	1,639,120	1,561,206
Subordinated debt - CLP	391,410	01/01/2019	01/11/2028	2,40%	399,101	-
Subordinated debt eligible to equity - US\$	1,300,000	12/09/2014	2019	8.75%	3,525,979	3,559,807
Subordinated debt eligible to equity - US\$ (ii)	600,000	15/02/2019	15/02/2029	7,75%	2,306,990	-
<b>Total</b>					<u>11,158,382</u>	<u>9,395,914</u>

(i) Subordinated debt and instruments eligible to equity have different maturities and have interests and principal generally amortized every six months.

(ii) On February 12, 2019, the Bank reported its shareholders and the market, the issuance of Subordinated Notes, issued through Cayman Islands branch, in the amount of US\$600,000 at a fixed coupon of 7.750% per year, with a maturity date of February 15, 2019, and callable in five years.

## 16. Other obligations

### a. Social and statutory

	30/06/2019	30/06/2018
Dividends and profit sharing payable	3,362	4,431
Employees' profit sharing	467,668	350,563
	<u>471,030</u>	<u>354,994</u>
Current	471,030	354,994
Long term	-	-

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

June 30, 2019

(In thousands of reais)

### b. Tax and social security

	<u>30/06/2019</u>	<u>30/06/2018</u>
Tax and contributions to be collected	62,161	68,298
Tax and contribution payable (i)	386,183	188,807
Deferred social contribution and income tax (Note 18)	16,902	51,633
Deferred PIS and COFINS	739	890
	<u>465,985</u>	<u>309,628</u>
Current	449,679	257,105
Long term	16,306	52,523

### c. Sundry

	<u>30/06/2019</u>	<u>30/06/2018</u>
Payable for acquisition of assets and rights (i)	1,050,025	1,109,434
Accounts payable - personnel	403,804	364,941
Provision for contingent liabilities (Note 17(c))	1,660,768	1,768,878
Other creditors - Brazil	610,596	337,544
Other creditors - Abroad	66,729	1,186
Allowance for guarantees	189,010	196,240
Obligations related to transferred loans	7,453	6,318
Other	48,355	26,752
	<u>4,036,740</u>	<u>3,811,293</u>
Current	1,368,755	688,393
Long term	2,667,985	3,122,900

(i) Refers to amounts payable for the acquisition of investments (substantially Banco Pan S.A. and Banco Sistema S.A.).

## 17. Contingent assets and liabilities and legal obligations

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

### a. Contingent assets

As at June 30, 2019 and 2018, the Bank did not record contingent assets.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
June 30, 2019  
(In thousands of reais)

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

#### i. Labor provisions

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

#### ii. Civil provisions

For civil lawsuits with chances of unfavorable outcome (pain and suffering and pecuniary injury, among others), contingency amounts are recorded based on estimate of probable losses based on the opinion of internal and external legal counsel.

#### iii. Tax and social security provisions

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

### c. Breakdown and changes in provisions

The Bank's Management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, Management considers that the provisions recorded for such proceedings at June 30, 2019 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes are as follows for the semester ended June 30:

	30/06/2019			30/06/2018	
	Tax	Civil	Labor	Total	
Balance at the beginning of the semester	1,464,770	125,370	50,719	1,640,859	2,041,298
Recognition	39,881	12,800	5,792	58,473	91,759
Write-off	(3,826)	(31,297)	(3,441)	(38,564)	(364,179)
Balance at the end of the semester	<u>1,500,825</u>	<u>106,873</u>	<u>53,070</u>	<u>1,660,768</u>	<u>1,768,878</u>
Provision for contingent liabilities (Note 16(c))				1,660,768	1,768,878

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

Notes to the consolidated financial statements

June 30, 2019

(In thousands of reais)

The nature of the main provisions is presented below:

### **i. Suspended payment taxes and other taxes liabilities**

The Bank's and its subsidiaries have been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a possible loss by internal and external counsel are fully recorded in provision. The main legal disputes are the following: COFINS ("Social security financing tax") - Challenge of the legal grounds for the levy of COFINS under rules established by Law 9718/98.

As at June 30, 2018, the Bank was part to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, in which is questioned the levy and payment of social security contribution on these values and its deductibility on the income tax and social tax base. The amount claimed is R\$620 million. Part of this amount is secure by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.
- Lawsuits regarding the demutualization and IPO of B3 S.A., in which is questioned the taxation of PIS and Cofins on revenues earned from the sale of shares of the company's previously mentioned. The amount claimed is R\$27 million and part of it is secure by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.
- On December 2015, the Bank received a tax assessment in the amount of R\$1,785 million, referring to events occurred on 2010 and 2011, where they judged as undue our use of the goodwill originated in the acquisition of the Bank by UBS, held on 2006, as well as in the buyback of the Bank by BTG, on 2009. An appeal was filed against this tax assessment on the Administrative Council of Tax Appeals, which ruled in favor of reducing the amount of the assessment on R\$278 million. In opposition to the unfavorable piece, the Bank filed another appeal to the same institution. In addition, on December 2017, the Bank received another tax assessment in the amount of R\$864 million, referring to 2012 events, where they believe happened the wrongfully use of goodwill originated from the Bank acquisition by UBS on 2006, also the goodwill from the repurchase by the Bank on 2009 and the goodwill originated in the private subscription of shares made by investors through the Copa Prince Company, in 2011. An appeal was filed against this assessment, pending a second administrative decision. Lastly, on February 2019 a tax assessment was received, in the amount of R\$259 million, related to the period of 2014. Against this assessment an appeal was filed, which is awaiting ruling of the first administrative instance. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal itself) related to this matter and have not established (and do not expect to) any related contingencies on its financial statements. In addition to our opinion as to the legitimacy of these tax assessments, in case the Bank has to incur losses in regards to this matter, we believe we are entitled to be indemnified by third the event that we incur losses in connection with this matter, we believe we are entitled to be reimburse by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Thus, in no event we expect to incur any material losses in connection with this matter.

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

Notes to the consolidated financial statements

June 30, 2019

(In thousands of reais)

- The Holding International S.A. received a tax assessment of income tax paid abroad and compensated in Brazil on 2012, in the total amount of R\$155 million. Against the notice, the Holding presented an administrative appeal, which awaits trial in first instance. On June 2018, Holding International was notified of the diligence result in first instance in which recognized the partial provenance of compensation of foreign earnings in the amount of R\$43 million. On December 2018, the first administrative instance judged the appeal of the Holding International as unfavorable. Against this decision, an appeal was filed to the second administrative instance.
- On December 2017, the Bank received a tax assessment which it is discussed insufficient tax collection of PIS and COFINS and imposes isolated fine, referring to the year of 2012, in the amount of R\$188 million. Against the assessment, an appeal was presented, which awaits trial in second administrative instance.
- On December 2017, in the capacity of the Banco Pan S/A sponsor, the Bank received a tax assessment of allegedly due income tax on the sale of investment in Brazil by a foreign party, referring to the year of 2012, in the amount of R\$75 million. Against the assessment an administrative appeal was presented, which awaits trial in second administrative instance.
- On December 2017, the Bank received a tax assessment that seeks to collect income tax on the supposed capital gains on corporate incorporation - when One Properties was incorporated by BR Properties -, in the amount of R\$1.077 million. Against the assessment, an appeal was presented, which awaits trial in second administrative instance .
- On December 2018, the Asset Manager received a tax assessment in total amount of R\$93 million for events that occurred in 2013 and 2014, regarding the amortized goodwill from the acquisition of BRFE in 2012. An administrative appeal was filed against the assessment, which is awaiting trial.
- On December 2018, the Bank was made aware of the non-approval compensation of the negative balance of income tax, related to 2013, in the amount of R\$70 million. An administrative appeal was presented against the decision. On March 2019, the Bank was made aware of the non-approval compensation of the negative balance of social contribution (CSLL), regarding the same year, in the amount of R\$65 million. An administrative appeal was presented against the decision.

### **ii. Provision for other contingent liabilities**

As at June 30, 2019 and 2018, the bank was part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

## **18. Income tax and social contribution**

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Notes to the consolidated financial statements June 30, 2019 (In thousands of reais)

	<u>30/06/2019</u>	<u>30/06/2018</u>
<b>Income tax and social contribution</b>		
Tax base	2,048,278	1,263,732
Income before taxes and profit sharing	2,518,637	1,469,918
Statutory profit sharing	(470,359)	(206,539)
Interest on equity	-	353
Total charge of income tax and social contribution at the current rates	(819,311)	(568,680)
Permanent (additions) / deductions in taxation calculation	23,112	288,267
Equity pick up in associated and jointly controlled companies in Brazil	116,417	281,923
Income/(loss) of foreign exchange on foreign investments	(123,487)	-
Dividends	17,255	2,708
Other Permanent (additions) / deductions	12,927	3,636
Temporary (additions) / deductions on the taxation calculation	945,150	(469,758)
Interest on equity	241,800	270,445
Fair value of securities and derivatives	636,213	(765,996)
Allowance for loan losses	(103,790)	(66,323)
Loss on investment abroad	185,410	-
Tax contingencies and provision for suspended-payment taxes	594	(56)
Other provisions	(15,077)	92,172
Offset of tax losses carry forward - Brazil	(266,344)	(198,798)
Tax and social contribution expense	<u>(117,393)</u>	<u>(948,969)</u>
Temporary differences		
Recognition / (reversal) of the semester	(945,152)	467,697
Interest on equity	240,000	-
Recognition / (reversal) of tax losses carry forward	266,344	203,534
Recognition of loss on investment abroad	161,153	202,968
Other temporary differences	(3,797)	41,505
Revenues / (Expenses) from deferred taxes	<u>(281,452)</u>	<u>915,704</u>
Total revenues / (expenses)	<u>(398,845)</u>	<u>(33,265)</u>

Income tax and social contributions are calculated and recorded in accordance with the criteria established by BACEN Circular Letter 3059/02, taking into account the period of realization.

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

<b>Income tax and social contribution</b>	<u>31/12/2018</u>	<u>Recognition</u>	<u>Realization (i)</u>	<u>30/06/2019</u>
Tax loss carryforwards	1,213,938	428,354	(2,769)	1,639,523
Interest on equity	241,800	240,000	(241,800)	240,000
Allowance for loan losses	669,902	85,249	-	755,151
Marked-to-market evaluation of securities and derivatives	2,527,955	-	(695,814)	1,832,141
Tax contingencies and provision for suspended-payment taxes	405,622	-	(187,974)	217,648
Other temporary differences	265,732	70,332	-	336,064
	<u>5,324,949</u>	<u>823,935</u>	<u>(1,128,357)</u>	<u>5,020,527</u>
<b>Income tax and social contribution</b>	<u>31/12/2017</u>	<u>Recognition</u>	<u>Realization (i)</u>	<u>30/06/2018</u>
Tax loss carryforwards	818,878	406,924	(7,483)	1,218,319
Interest on equity	269,968	3,606	32	273,606
Allowance for loan losses	618,922	57,430	(724)	675,628
Marked-to-market evaluation of securities and derivatives	1,931,259	-	510,260	2,441,519
Tax contingencies and provision for suspended-payment taxes	186,123	136	-	186,259
Other temporary differences	418,600	7,505	(95,546)	330,559
	<u>4,243,750</u>	<u>475,601</u>	<u>406,539</u>	<u>5,125,890</u>

(i) On June 30, 2019, the amount of R\$81,978 (June 30, 2018 – R\$5,435), refers to recovery paid taxes from investments abroad.

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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
2019	531,900	417,533	949,433
2020	692,648	161,562	854,210
2021	527,959	225,364	753,323
2022	624,328	173,866	798,194
2023 onwards	971,846	693,521	1,665,367
Total	3,348,681	1,671,846	5,020,527
Present value	2,745,156	1,309,406	4,054,562

Deferred income tax and social contribution liabilities amounts to R\$16,902 (June 30, 2018 - R\$51,693), according to note 16(b).

On May 21, 2015, Provisional Measure nº 675 (MP 675/15) was published which increased the rate of the Social Contribution on Net Profit of the financial and insurance sectors from 15% to 20% of taxable profit, from September, 2015. On October 7, 2015, Law 13.169 was published which decrease the rate of the Social Contribution on Net Profit from 20% to 15% from 2019.

## 19.Shareholders equity

### a. Capital

As at June 30, 2019, fully subscribed and paid in capital consists of 2,637,236,572 shares (December 31, 2018 – 2,637,236,572), of which 1,731,276,922 common shares (December 31, 2018 – 1,731,276,922), 456,603,310 class A preferred shares (December 31, 2018 – 456,603,310), 449,356,340 class B preferred shares (December 31, 2018 – 449,356,340), registered shares.

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

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

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

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

### **b. Treasury shares**

During the semester ended June 30, 2019, the Bank does not bought own units (December 31, 2018 - R\$328,085, equivalent to 15,919,600 units. On the semester ended June 30, 2019 the were no units cancelled (December 31, 2018 - R\$292,604, equivalent to 14,788,400 units cancelled). On June 30, 2019, 6,358,800 units were held in treasury, in the amount of R\$128,544.

### **c. Legal reserve**

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

### **d. Statutory reserve**

According to the Bank's Bylaws, the purpose of this reserve is to maintain working capital and is limited to the balance of capital.

### **e. Unrealized income reserve**

Established considering undistributed dividends obtained in foreign branch.

### **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 December 27, 2018 the Bank has accrued R\$604,500, relating to interest on equity, equivalent to R\$0.23 per share, which generated R\$241,800 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on December 27, 2018 and the payment occurred on February 28, 2019.

As at August 7, 2018 the Bank has accrued R\$592,500, relating to interest on equity, equivalent to R\$0.22 per share, which generated R\$266,625 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on August 7, 2018, and the payment occurred on August 22, 2018.

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### 20. Income from services rendered

	<u>30/06/2019</u>	<u>30/06/2018</u>
Management and performance fee from investment funds and portfolios	409,094	240,881
Brokerage	145,716	109,154
Technical services	323,914	250,903
Commission on the placement of securities	143,341	129,314
Guarantees	128,581	127,099
Other services	3,171	3,819
Total	<u>1,153,817</u>	<u>861,170</u>

### 21. Other operating income

	<u>30/06/2019</u>	<u>30/06/2018</u>
Recovery of charges and expenses	2,011	458
Reversal of allowances - other	3,597	2,847
Reversal of provision – employees' profit sharing	3,427	22
Reversal of provision - contingencies	32,065	81,687
Adjustment to inflation of judicial deposits	31,652	40,003
Exchange gains	23,046	15,465
Adjustment of amounts payable for acquisition of investments	41,286	96,277
Other operating income	985	13,522
Total	<u>138,069</u>	<u>250,281</u>

### 22. Other operating expenses

	<u>30/06/2019</u>	<u>30/06/2018</u>
Expenses with taxes adjusted for inflation	62,689	41,347
Exchange rate variation	14,099	7,944
Adjustment of amounts payable for acquisition of investments (i)	48,934	37,110
Allowance for other receivables without loan characteristics	29,063	26,191
Discounts granted in renegotiation	170	19,559
Allowance for guarantee	17	17,686
Other	9,079	5,447
Total	<u>164,051</u>	<u>155,284</u>

### 23. Other administrative expenses

	<u>30/06/2019</u>	<u>30/06/2018</u>
Outsourced services and consulting	74,695	175,966
Telecommunications and data processing	140,170	113,040
Leases and condominiums	42,201	41,911
Travel and lodging	20,725	18,877
Expenses of the financial system	88,457	70,648
Advertising and public relations	43,902	30,977
Depreciation and amortization	22,700	22,762
Other	9,464	42,333
Total	<u>442,314</u>	<u>516,514</u>

## BANCO BTG PACTUAL S.A. and subsidiaries

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### 24. Related parties

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

	Parent company (i)		Subsidiaries and joint controlled entities		Total	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018	30/06/2019	30/06/2018
<b>Assets</b>						
Open market investments	-	-	-	-	-	-
Interbank investments deposits	-	-	417,019	136,601	417,019	136,601
Securities	-	-	-	-	-	-
Derivative financial instruments	-	-	13,644	8,782	13,644	8,782
Loans and Receivables	3,624,075	3,167,665	-	-	3,624,075	3,167,665
<b>Liabilities</b>						
Interbank deposits	-	-	-	-	-	-
Time deposits	(76,626)	(32,251)	(310,050)	-	(386,676)	(32,251)
Securities issued abroad	-	-	-	(30,158)	-	(30,158)
Derivative financial instruments	-	-	(138,043)	(77,959)	(138,043)	(77,959)
Sundry	-	-	(21,596)	(8,782)	(21,596)	(8,782)
	Parent company		Subsidiaries and joint controlled entities		Total	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018	30/06/2019	30/06/2018
<b>Statements of income</b>						
Financial income	-	-	10,465	134,912	10,465	134,912
Financial expenses	(5,183)	(7,498)	(3,205)	(19,401)	(8,388)	(26,899)
Other operating income	19,059	-	-	1,277	19,059	1,277

(i) Include natural person.

Total compensation paid to key management personnel totaling this semester R\$7,230 (June 30, 2018 – R\$30,554) which is considered short term benefit.

### 25. Other information

#### a. Cash and cash equivalents

<b>Balances at beginning of the semester</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
Cash and cash equivalents	945,964	4,315,783
Open market investments	23,644,492	17,683,903
Interbank deposits	2,604,551	1,169,893
	<u>27,195,007</u>	<u>23,169,579</u>
<b>Balances of end of the semester</b>	<b>30/06/2019</b>	<b>30/06/2018</b>
Cash and cash equivalents	1,719,343	2,698,065
Open market investments	41,029,349	29,539,236
Interbank deposits	1,431,918	1,397,574
	<u>44,180,610</u>	<u>33,634,875</u>

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### b. Commitments and responsibilities

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

	<u>30/06/2019</u>	<u>30/06/2018</u>
Co-obligation and risks for guarantees granted	42,515,507	54,777,191
Responsibility for the management of futures and investment portfolio (i)	241,147,898	206,246,703
Securities	36,520,573	36,254,256
Securities under custody	260,213,156	2,360,493,231
Securities trading and brokerage	3,202,266,170	2,079,184,302
Loans contract to release	1,485,255	3,365,684
Commitments to be released	8,900	51,900

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

“Co-obligations and risks for guarantees granted” mainly comprises guarantees granted or assets allocated to exchange trading securities.

“Securities under custody” reflects third-party public and private security positions under custody with SELIC and B3 S.A.

“Securities trading and brokerage” represents amounts from derivatives purchase and sale agreements related to third-party transactions.

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

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

## 26. Subsequent events

On July 19, 2019, the Bank acquired 80% of interest on Ouroinvest Distribuidora de Títulos de Valores Mobiliários S.A., which will be maintained as a independent platform of BTG Pactual. The closing of the transaction is subject to verification of certain precedent conditions, including obtaining all necessary regulatory approvals, including BACEN.