Consolidated Financial Statements in IFRS

Banco BTG Pactual S.A. and subsidiaries

December 31, 2019
with independent auditors’ report.

BANCO BTG PACTUAL S.A and subsidiaries

Consolidated financial statements in IFRS

December 31, 2019

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A free translation from Portuguese into English of the Independent Auditors' Report on consolidated financial statements prepared in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Independent auditor's report on the consolidated financial statements

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

Opinion

We have audited the consolidated financial statements of Banco BTG Pactual S.A. (Bank) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco BTG Pactual S.A. and subsidiaries as of December 31, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Basis for opinion

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

Emphasis of matters

<u>Foreign subsidiary equity pickup</u>

As mentioned on the consolidated financial statements footnote n°15, 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 December 31, 2019, the jointly-controlled subsidiary Banco PAN S.A. records income tax and social contribution credits totaling R$ 3.4 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 of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 7, 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 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 12 to the Bank's consolidated financial statements.

Based on the evidence obtained from the procedures performed on allowance for loan losses, which as 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 28 to the Bank's consolidated financial statements.

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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 separate financial statements for the year ended December 31, 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, containing the same emphasis paragraph described above, dated February 13, 2019.

Consolidated Statement of value added

The consolidated statement of value added (SVA), for the year ended December 31, 2019, prepared under the responsibility of Bank's management, and presented as supplementary information under the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, was subject to the same audit procedures performed in conjunction with the audit of the consolidated financial statements of the Bank. For the purposes of forming our opinion, we evaluated whether this statement was reconciled with the consolidated financial statements and accounting records, as applicable, and whether their layout and content were in accordance with the criteria set forth in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, this consolidated statement of value added was prepared fairly, in all material respects, in accordance with the criteria set forth in Accounting Pronouncement CPC 09 and were consistent with the consolidated financial statements taken as a whole.

Other information accompanying the consolidated financial statements and the auditor's report

Other information consists of the information included in the Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank'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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

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

São Paulo, May 18, 2020.

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

Renata Zanotta Calçada

Renata Zanotta Calçada
Partner

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated balance sheets in IFRS
As at December 31
(In thousands of reais)

	Note	2019	2018 (Restated)
Assets			
Cash and balances at Central Bank	6	2,338,808	2,425,371
Financial assets			
Financial assets at amortized cost			
Open market investments	10	11,830,622	13,172,118
Amounts receivable from banks	11	1,575,023	2,688,220
Loans	12	32,333,066	23,973,142
Financial assets at fair value through profit or Loss	7	91,155,313	61,175,332
Financial assets at fair value through other comprehensive income	8	1,274,844	2,898,751
Deferred tax assets	20	5,778,909	6,221,620
Other assets	14	13,139,798	10,924,474
Investment in associates and jointly controlled entities	15	5,863,905	7,417,649
Property, plant and equipment		78,163	79,601
Intangible assets	16	975,639	1,013,254
Total assets		**166,344,090**	**131,989,532**
Liabilities			
Financial liabilities at fair value through profit or loss	7	43,493,767	22,776,221
Financial liabilities carried at amortized cost			
Open market funding	10	29,973,348	28,503,389
Amounts payable to banks	11	261,935	378,410
Other financial liabilities carried at amortized cost	13	56,265,723	48,783,275
Tax liabilities	17	899,483	864,773
Other liabilities	18	13,498,912	11,602,403
Total liabilities		**144,393,168**	**112,908,471**
Shareholders’ equity	21		
Capital stock		7,447,305	7,447,305
Treasury stock		(165,784)	(128,544)
Capital Reserve		652,515	652,515
Income reserves		9,676,236	6,808,854
Foreign currency translation reserve		3,988,865	4,162,260
Total shareholders’ equity of controlling shareholders		21,599,137	18,942,390
Non-controlling interest		351,785	138,671
Total shareholders' equity		**21,950,922**	**19,081,061**
Total liabilities and shareholder's equity		**166,344,090**	**131,989,532**

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of income in IFRS

Years ended December 31
(In thousands of reais, except otherwise indicated)

	Note	2019	2018
Interest income	23	5,795,200	4,078,606
Interest expense	23	(6,595,840)	(5,803,857)
Net interest income/(expenses)		(800,640)	(1,725,251)
Net gains on financial instruments	23	5,708,165	4,159,400
Net exchange variations		174,737	435,460
Fees and commissions	24	3,117,001	2,174,434
Share of profit in associates and jointly controlled entities	15	948,849	136,483
Other operating income / (expenses)	25	(70,402)	417,323
Net revenues		9,077,710	5,597,849
Administrative expenses	26	(1,334,417)	(1,143,927)
Personnel expenses	27	(1,938,958)	(1,401,358)
Provisions for credit losses		(326,090)	(170,196)
Tax charges (other than income tax)		(422,615)	(296,101)
Income before taxes and profit sharing		5,055,630	2,586,267
Income tax and social contribution	20	(1,002,213)	(156,098)
Net income for the year		4,053,417	2,430,169
Net income attributable to controlling shareholders		4,022,758	2,423,231
Loss attributable to non-controlling interests		30,659	6,938
Earnings per share –basic and diluted – In Reais	22	2.33	1.40

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of comprehensive income in IFRS

Years ended December 31
(In thousands of reais)

	Note	2019	2018
Net income for the year		4,053,417	2,430,169
Other comprehensive income/(loss) to be reclassified to profit or loss:			
Changes in fair value of assets available for sale - jointly controlled	21	(60,445)	180,212
Changes in fair value of financial assets at fair value through other comprehensive income	21	2,367	(52,241)
Exchange differences on translation of foreign operations and non-monetary items	21	(39,085)	760,257
Foreign Investment hedge	21	(76,232)	(1,082,239)
Total comprehensive income for the year		3,880,022	2,236,158
Attributable to controlling shareholders		3,849,363	2,229,220
Attributable to non-controlling interests		30,659	6,938

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

BANCO BTG PACTUAL S.A. and subsidiaries

Statement of changes in shareholders' equity in IFRS

Years ended December 31

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

				Income reserves										
	Note	Capital	Capital reserve	Special earnings reserves	Legal	Unrealized	Statutory	Total	Other comprehensive income	Treasury shares	Retained earnings	Controlling interests	Non-controlling interests	Total
Balances at December 31, 2017		**7,447,305**	**652,515**	**-**	**1,181,507**	**637,963**	**4,562,530**	**6,382,000**	**4,356,271**	**(93,063)**	**-**	**18,745,028**	**132,405**	**18,877,433**
Own shares acquired	21	-	-	-	-	-	-	-	-	(328,085)	-	(328,085)	-	(328,085)
Own shares sold	21	-	-	-	-	-	(292,604)	(292,604)	-	292,604	-	-	-	-
Interest on equity received by on shares repurchase		-	-	-	-	-	-	-	-	-	403	403	-	403
Changes in fair value of assets available for sale - jointly controlled	21	-	-	-	-	-	-	-	180,212	-	-	180,212	-	180,212
Changes in fair value of financial assets at fair value through other comprehensive income	21	-	-	-	-	-	-	-	(52,241)	-	-	(52,241)	-	(52,241)
Exchange differences on translation of foreign operations and non-monetary items	21	-	-	-	-	-	-	-	760,257	-	-	760,257	-	760,257
Foreign Investment hedge		-	-	-	-	-	-	-	(1,082,239)	-	-	(1,082,239)	-	(1,082,239)
Changes in accounting practices of associates		-	-	-	-	-	(507,176)	(507,176)	-	-	-	(507,176)	-	(507,176)
Interest on equity (R$0.21 per share)	21	-	-	-	-	-	-	-	-	-	(592,500)	(592,500)	-	(592,500)
Net income for the year		-	-	-	-	-	-	-	-	-	2,423,231	2,423,231	6,938	2,430,169
Legal reserve		-	-	-	63,945	(131,045)	1,293,734	1,226,634	-	-	(1,226,634)	-	-	-
Interest on equity (R$0.23 per share)	21	-	-	-	-	-	-	-	-	-	(604,500)	(604,500)	-	(604,500)
Addition of non-controlliing		-	-	-	-	-	-	-	-	-	-	-	(672)	(672)
Balances at December 31, 2018		**7,447,305**	**652,515**	**-**	**1,245,452**	**506,918**	**5,056,484**	**6,808,854**	**4,162,260**	**(128,544)**	**-**	**18,942,390**	**138,671**	**19,081,061**
Own shares acquired	21	-	-	-	-	-	-	-	-	(37,240)	-	(37,240)	-	(37,240)
Changes in fair value of assets available for sale - jointly controlled	21	-	-	-	-	-	-	-	(60,445)	-	-	(60,445)	-	(60,445)
Changes in fair value of financial assets at fair value through other comprehensive income	21	-	-	-	-	-	-	-	2,367	-	-	2,367	-	2,367
Currency translation adjustments		-	-	-	-	-	-	-	(36,970)	-	-	(36,970)	-	(36,970)
Exchange differences on translation of foreign operations and non-monetary items	21	-	-	-	-	-	-	-	(2,115)	-	-	(2,115)	-	(2,115)
Foreign Investment hedge		-	-	-	-	-	-	-	(76,232)	-	-	(76,232)	-	(76,232)
		-	-	-	-	-	9,624	9,624	-	-	-	9,624	-	9,624
Interest on equity (R$0.24 per share)	21	-	-	-	-	-	-	-	-	-	(624,000)	(624,000)	-	**(624,000)**
Net income for the year		-	-	-	-	-	-	-	-	-	4,022,758	4,022,758	30,659	4,053,417
Legal reserve		-	-	42,926	187,604	692,697	1,934,531	2,857,758	-	-	(2,857,758)	-	-	-
Interest on equity (R$0.23 per share)	21	-	-	-	-	-	-	-	-	-	(541,000)	(541,000)	-	(541,000)
Addition of non-controlliing		-	-	-	-	-	-	-	-	-	-	-	182,455	182,455
Balances at December 31, 2019		**7,447,305**	**652,515**	**42,926**	**1,433,056**	**1,199,615**	**7,000,639**	**9,676,236**	**3,988,865**	**(165,784)**	**-**	**21,599,137**	**351,785**	**21,950,922**

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

BANCO BTG PACTUAL S.A. and subsidiaries

Consolidated statements of cash flows in IFRS

Years ended December 31
(In thousands of reais)

	Note	2019	2018 (Restated)
Operating activities			
Net income for the year		4,053,417	2,430,169
Adjusts to net income		912,192	126,586
Equity in the (earnings)/losses of associates	15	(946,603)	(136,483)
Interest expense from subordinated debt		1,372,634	1,347,933
Non-controlling interest		(30,659)	(6,938)
Deferred tax		479,882	(1,090,745)
Permanent assets exchange variation		(33,642)	(77,077)
Intangible amortization		11,526	33,213
Depreciation and amortization		59,054	56,683
Adjusted net income for the year		4,965,609	2,556,755
Increase/decrease in operational assets and liabilities			
Financial assets at fair value through profit or Loss		(30,249,572)	(7,718,367)
Financial assets at fair value through other comprehensive income		1,563,462	(2,371,440)
Open market investments		1,308,315	6,283,929
Amounts receivable from / (payable to) banks		(116,475)	241,570
Loans		(8,579,596)	(8,912,869)
Deferred tax assets		442,711	(1,114,066)
Other assets		(1,538,726)	4,450,769
Financial liabilities held for trading		20,717,546	(1,407,821)
Open market funding		1,469,959	138,775
Tax liabilities		(445,172)	(688,090)
Other liabilities		894,466	1,837,315
Cash provided by operating activities		(9,567,473)	(6,703,540)
Investing activities			
Acquisition / sale of investments	15	688,024	(180,375)
Dividends received	15	1,979,208	217,232
Acquisition of property and equipment in use		(5,553)	(2,526)
Acquisition of intangible assets	16	11,165	2,973
Cash provided by investing activities		2,672,844	37,304
Financing activities			
Other liabilities		6,109,814	13,939,159
Acquisition / sale of treasury shares		(37,240)	(328,085)
Non-controlling interest		213,114	6,266
Interest on equity distributed	21	(624,000)	(1,201,475)
Cash (used in) by financing activities		5,661,688	12,415,865
(Decrease) / Increase in cash and cash equivalents		(1,232,941)	5,749,629
Balance of cash and cash equivalents	29		
At the beginning of the year		16,977,394	11,227,765
At the end of the year		15,744,453	16,977,394
Increase / (decrease) in cash and cash equivalents		(1,232,941)	5,749,629
Noncash transactions		(601,445)	3,003,333
Interest on equity declared		(541,000)	(604,500)
Assets transfer, held for sale		-	3,427,621
Changes in fair value of assets available for sale in jointly controlled entities		(60,445)	180,212

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

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, see note 2 (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

Corporate events

On December 20, 2019, the Bank held a Board of Directors' meeting, in which approved the Novaportfolio Participações S.A.'s incorporation. The merger aims to simplify the current BTG Pactual's organizational structure through the consolidation of certain activities, therefore bringing an overall reduction on its financial and operational costs. The merger and its respective effects are still pending approval from the BACEN.

On December 18, 2019, the Bank BTG Pactual received the Central Bank of Brazil's approval to admission Mr. André Santos Esteves as a member of the company's controlling group, pending only the conclusion of the analyses from the suitable regulatory authorities abroad.

On December 4, 2019, the Bank, through its Cayman Island's branch, issued Global Medium Term Notes, in the total amount of US$500 million at a fixed coupon rate of 4.5% p.a., with maturity date on January 10, 2025, and semi-annually coupon payments.

On September 30, 2019, the Bank issued, through its Cayman Islands branch, an Equity Linked Note to BTG Pactual Holding S.A. ("Holding"), current its indirect controlling shareholder, with a 10 year maturity in the amount of CHF599 million, equivalent to approximately 25% of the share capital of the EFG International ("EFG"). The Equity Linked Note refers exclusively to the Bank tranfering its EFG economic rights, including proceeds such as dividends. The Bank and the Holding intend to transfer approximately 25% of the common equity of EFG, currently held by the Bank to Holding. After this transaction, the Bank will hold approximately 5% of EFG's common equity. The transaction to the actual transfer of the participation on the EFG to the Holding is being analyzed by applicable regulators.

On June 4, 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.

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 7, 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. Due to the Banco Pan's primary and secondary public offering (of shares), the Bank's participation was diluted to 39.5%.

Acquisitions and disposals

On September 30, 2019, the Bank and the BTG Pactual Holding S.A. (“Holding”) signed an equity purchase and sale agreement, in order to tranfer the equity stake held by the Bank of Neoport Participações S.A. (“Neoport”), in the approximate amount of R$73,2 million. Neoport is a holding company that owns a few assets and liabilities such as: (i)the indirect investment held by the Bank on the Engelhart CTP Group S.A., in the context of keeping its trading commodities activity separated from the BTG Pactual operational structure; (ii) certain credit-nature assets; and (iii) the transfer, by the Bank, of a portion in the amount about of R$874 million of its payment obligations due to Fundo Garantidor de Crédito regarding the the Banco Pan S.A. acquisition, in wich the bank remain jointly liable in the payment of the acquisition price related to Banco Pan S.A.

On September 3, 2019, the BTG Pactual Chile SpA. signed an equity purchase and sale agreement with DT Rigel S.A. and Vitacura Dos S.A. in order to sell your equity stake on BTG Pactual Chile S.A. Compañia de Seguros de Vida in the amount of UF1,8 million, of which is conditioned to the regulator’s approval.

On July 19, 2019, the Bank acquired 80% of interest on Ourinvest 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 from BACEN.

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.

3. Presentation of the financial statements

a. Basis for preparation

The Bank's financial statements in IFRS have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

b. Judgments and significant accounting estimates

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

Going concern

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

Expected Credit Loss

The measurement of the expected credit loss reflects the application of significant assumptions, as described below:

• Term: The Company considers the maximum contractual period over which it will be exposed to the credit risk of the financial instrument. Assets that do not have a fixed maturity have the expected life estimated based on the period of exposure to credit risk. In addition, all contractual terms are considered when determining the expected life, including prepayment and rollover options.

• Forward-Looking Information: IFRS 9 - Financial Instruments (standard applied during the year ended December 31, 2018, with retrospective effect) requires a weighted and unbiased estimate of the credit loss that incorporates forecasts of future economic conditions. BTG Pactual uses macroeconomic information and public market information with projections drawn internally to determine the impact of these estimates in determining the expected credit loss.

• Probability-weighted loss scenarios: the Bank uses weighted scenarios to determine the expected credit loss over an appropriate observation horizon.

• Criteria for significant increase or decrease in credit risk: in each financial year, the BTG Pactual assesses whether credit risk on a financial asset increased significantly using relative and absolute indicators, according to the nature of each product.

BTG Pactual assesses whether credit risk has increased significantly on an individual (case by case) or collective basis. For collective valuation purposes, financial assets are grouped based on shared credit risk characteristics, taking into account the type of instrument, credit risk classifications, the date of initial recognition, the remaining term, branch, geographical location of the counterpart of several other factors.

Fair value of the financial instruments

The fair value of financial instruments is calculated through the use of valuation techniques based on assumptions, which take into account information and market conditions. The main assumptions are: historical data, information on similar transactions and pricing techniques. For more complex or illiquid instruments, significant judgment is required to determine the model used by selecting specific data, and in some cases valuation adjustments are applied to the model value or quoted price for financial instruments that are not actively traded.

The methodologies used to evaluate the fair values of certain financial instruments are described in Note 4d.

Deferred tax assets

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

c. Revised IFRS pronouncements

a) Accounting standards applicable for period ended December 31, 2019

- IFRS 16 –Leases: The pronouncement replaces IAS 17 - Leases, as well as related interpretations (IFRIC 4, SIC 15 and SIC 27). Eliminates the accounting of operating leases for the lessee, presenting a single lease model that consists of: (a) recognizing leases with a term greater than 12 months and of substantial amounts; (b) initially recognize the lease in assets and liabilities at present value; and (c) recognize the depreciation and interest on the lease separately in profit or loss. For the lessor, accounting will continue to be segregated between operastional and financial. This standard is effective for years beginning on January 1, 2019.

The Bank adopted IFRS 16 for its leases using the modified retrospective method. In the transition, the right of use was recorded at the amount corresponding to the lease liability. This, in turn, was recognized based on the present value of the remaining payments of the contract, discounted by the incremental rate on loan on January 1, 2019. BTG, when applicable, opted for exemption from the norm of registering the contracts in force for more 12 months that on the transition date, end within 12 months of the initial application date. The impact of this adoption, on December 31, 2019, was R$(15,731) in the income statement.

b) Accounting pronouncements issued recently and applicable in future periods

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

- Alteration of the Conceptual Framework - In March 2018, the IASB issued the review of the Conceptual Framework (Conceptual Framework) and the main changes refer to: definitions of assets and liabilities; criteria for recognition, write-off, measurement, presentation and disclosure for equity and income elements. This standard are effective for annual periods beginning on January 1, 2020 and the possible impacts arising from the adoption of this standard are being assessed and will be completed by the date this standard is effective.

- IFRS 17 – Insurance Contracts: The pronouncement replaces IFRS 4 – Insurance Contracts, and applies to all types of insurance contracts (such as life, elementary branches, direct insurance and reinsurance), the type of entity that issues them, as well as tests and financial instruments with discretionary participation characteristics. Some scope exceptions apply. The general objective of IFRS

(In thousands of reais)

17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are largely based on local accounting policies in force in previous periods, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The focus of IFRS 17 is the general model, complemented by:
(i) A specific adaptation for contracts with characteristics of direct participation (variable rate approach).
(ii) A simplified approach (premium allocation approach) mainly for short-term contracts.

This standard is effective for annual periods beginning on January 1st, 2021. Possible impacts arising from the adoption of this standard are being assessed and will be completed by the date this standard is effective.

d. Consolidated financial statements

The consolidated financial statements in IFRS of the Bank include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, as well as investment funds and special purpose companies (SPEs). Control exists where the company has the power to manage the entity's financial and operating policies, generally attributed by holding a majority of the voting rights, and is exposed to varying returns from its involvement with its investees and has the ability to use its power to affect this return.

The accounting practices adopted in the registration of operations and in the evaluation of the rights and obligations of the Bank, directly and indirectly controlled companies and investment funds with relevant application of consolidated companies included in the consolidation were applied in a uniform manner, the assets, liabilities and results existing and / or calculated among the consolidated entities have been eliminated.

The consolidated financial statements were approved by the Bank's management on May 18, 2020, 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.

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

		Equity interest - %	
	Country	**2019**	**2018**
Direct subsidiaries			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Holding Participações S.A.	Brazil	99.99	99.99
BTG Pactual Holding Internacional S.A.	Brazil	99.99	99.99
BTG Pactual Overseas Corporation	Cayman	100.00	100.00
BW Properties S.A.	Brazil	72.09	75.54
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual Cayman International Holding Limited	Cayman	100.00	100.00
Banco BTG Pactual Luxembourg S.A.	Luxembourg	-	100.00
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
Banco Sistema S.A.	Brazil	99.91	99.91
BTGP-BSI LIMITED	UK	100.00	100.00
Enforce Gestão de Ativos S.A.	Brazil	70.00	70.00
BTG Pactual Corretora de Resseguros Ltda.	Brazil	100.00	100.00
ZB Consultoria Ltda	Brazil	99.99	99.99
Indirect subsidiaries			

		Equity interest - %	
	Country	2019	2018
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brasil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brasil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brasil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brasil	99.99	99.99
BTG Pactual NY Corporation	EUA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	Reino Unido	100.00	100.00
BTG Pactual Asset Management US, LLC	EUA	100.00	100.00
BTG Pactual US Capital, LLC	EUA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	-	100.00
BTG Global Asset Management (UK) Limited	Reino Unido	100.00	100.00
BTG Pactual Resseguradora S.A.	Brasil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brasil	100.00	100.00
Banco BTG Pactual Chile S.A.	Chile	100.00	100.00
BTG Pactual Chile SPA	Chile	100.00	100.00
BTG Pactual Chile S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos	Chile	100.00	100.00
BTG Pactual Chile Servicios Financieros S.A.	Chile	100.00	100.00
Inmobiliaria BTG Pactual Chile Limitada	Chile	100.00	100.00
BTG Pactual Chile S.A. Administración de Activos	Chile	100.00	100.00
BTG Pactual Chile S.A. Compañía de Seguros de Vida	Chile	100.00	100.00
BTG Pactual Holding Delaware LLC	Delaware	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	Peru	100.00	100.00
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.97	99.70
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	99.97	99.70
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTG Pactual S.S. Soluciones y Servicios S.A.S.	Colombia	100.00	-
BTG Pactual E&P S.a.r.l.	Luxemburgo	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxemburgo	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brasil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	EUA	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	México	100.00	100.00
Bastec tecnologia e Serviços LTDA	Brasil	99.84	99.84
BTG Pactual UK Holdco Limited	Reino Unido	100.00	100.00
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	México	100.00	100.00
Newco SEG Holding S.A.	Brasil	-	100.00
TTG Forestry Services LLC	EUA	100.00	100.00
N.A.S.S.P.E Empreendimentos e Participacoes S.A.	Brasil	-	100.00
BTG Pactual Argentina S.A.	Argentina	100.00	100.00
BTG Pactual Real Estate Luxembourg Holding S.A.	Luxemburgo	-	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	Brasil	100.00	100.00
BTG Pactual CTP Absolute Return	Cayman	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	Brasil	100.00	-
BTG Pactual Reinsurance Ltd.	Cayman	100.00	-
BTG Pactual Holding EFG ltd.	Brasil	100.00	-
BTG Pactual (UK) Limited	Reino Unido	100.00	-
Investment funds			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Absolute Return Master Fund	Cayman	100.00	100.00
FIDC NP Alternative Assets I	Brazil	100.00	100.00
BTG Pactual ARF Equities Brasi FIA IE	Brazil	100.00	100.00
BTGP Int Fund II SPC - BTGPH Corp Hedge	Brazil	100.00	100.00
BTG PACTUAL RED FIP - Multimercado Investimento no Exterior	Brazil	98.65	100.00
FIM CP Energy	Brazil	72.56	51.48
FIM CP Vitória Fidelis	Brazil	100.00	100.00
FIDC NP Alternative Assets II	Brazil	100.00	100.00
BTG Pactual SICAV - Mexico Equity Fund	Luxembourg	94.44	-
BTG Pactual SICAV- Latin America Equity Fund	Luxembourg	75.21	-
BTG Pactual Fondo Alfa Concentrado S.A. de C.V.	Mexico	90.00	-
BTG Pactual Absoluto Global Equities Inst FIA IE	Brazil	100.00	-
BTG Pactual Absoluto Global Equities FIA	Brazil	79.00	-
BTG Pactual Absoluto Global Equities	Brazil	82.24	-
SEEDLING FIP	Brazil	100.00	-
FIDC NP Alternative Assets lll	Brazil	100.00	-
FIDC NP Precatórios Brasil	Brazil	100.00	-

(In thousands of reais)

e. Functional currency

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

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

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

f. Seasonality of transactions

Considering the activities that the Bank is envolved in, the nature of these transactions is neither cyclic nor seasonal. Consequently, the Bank does not provide disclosures about seasonality in these notes to the consolidated financial statements in IFRS for the year ended on December 31, 2019.

g. Restatement of balances

During the year ended December 31, 2019, the Bank made adjustments to the comparative financial statements, arising from error rectifications related to the classification of financial instruments. In 2019, management revalued its financial instruments and identified that certain instruments classified as financial assets at amortized cost should be classified as financial assets at fair value through other comprehensive income and financial assets at fair value through the result that should be classified as financial assets at amortized cost. Such adjustments were applied retrospectively, producing effects on the Balance Sheet, as shown below:

	31/12/2018 (previously presented)	Reclassifications	31/12/2018 (Restated)
Assets			
Cash and balances at Central Bank	2,425,371	-	2,425,371
Financial assets			
Financial assets at amortized cost			
Open market investments	13,172,118	-	13,172,118
Amounts receivable from banks	2,688,220	-	2,688,220
Loans	21,766,327	2,206,815	23,973,142
Financial assets at fair value through profit or Loss	65,381,319	(4,205,987)	61,175,332
Financial assets at fair value through other comprehensive income	899,579	1,999,172	2,898,751
Deferred tax assets	6,221,620	-	6,221,620
Other assets	10,924,474	-	10,924,474
Investment in associates and jointly controlled entities	7,417,649	-	7,417,649
Property, plant and equipment	79,601	-	79,601
Intangible assets	1,013,254	-	1,013,254
Total assets	**131,989,532**	**-**	**131,989,532**

4. Significant accounting practices

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

a) Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include, 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) Financial instruments

All the Bank's assets and liabilities are recorded in accordance with the respective practices, this section describes the accounting practices arising from the adoption of IFRS 9.

(i) Recognition date

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

(ii) Initial recognition of financial instruments

The classification of the financial instruments at their initial recognition depends on the purpose for which they were acquired and their characteristics. The classification of financial instruments in accordance with IFRS 9 is generally based on the business model according to which the financial asset is managed in addition to its contractual cash flow.

(iii) Derivatives financial instruments

Derivative financial instruments are recorded at fair value and held as assets when the fair value is positive and as a liability when the fair value is negative. Changes in the fair value of derivatives are recognized in the consolidated income statement under "Net income from financial instruments".

Derivatives embedded in other financial instruments, such as conversion into an acquired convertible instrument, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not related to those of the main contract, provided that the main contract is not maintained for or designated at fair value through profit or loss. Separate embedded derivatives of the principal are maintained at fair value in the portfolio with the changes in fair value recognized in the consolidated statement of income in IFRS.

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

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

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

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

(iv) Financial assets and liabilities designated at fair value through profit and loss

The Company irrevocably designates financial assets at fair value through profit or loss on initial recognition (fair value option), when the option significantly reduces or eliminates measurement or recognition inconsistencies that would otherwise result from the measurement of assets or liabilities or the recognition of gains and losses in these assets and liabilities on different bases.

(v) Financial assets at fair value through other comprehensive income

Financial assets designated at fair value through other comprehensive income include stocks, debt instruments: Debt instruments may be classified as financial assets designated at fair value through other comprehensive income if: the financial asset is held within a business model whose purpose is achieved through the collection of contractual cash flows and the sale of financial assets ; and the contractual terms of the financial asset lead to cash flows on specific dates, which are composed only of payments of principal and interest.

Unrealized gains or losses are recognized as other comprehensive income. Upon maturity of the debt instrument, unrealized gains or losses, previously recognized in other comprehensive income, are reclassified to profit or loss, as "Fair value gain / (loss) from other comprehensive income."

(vi) Financial assets carried at amortized cost

A financial asset should be measured at amortized cost if it has both of the following characteristics:

• Whether the financial asset is maintained within a business model whose objective is to maintain financial assets to collect contractual cash flows and;

• The contractual terms of the financial asset lead to cash flows on specific dates, which are composed only of payments of principal and interest. After the initial measurement, the amounts of the financial assets will be measured at amortized cost using the effective interest rate method. Even if the Company does not plan to sell classified in this category, as it is expected to hold this until maturity to collect contractual cash flows, the Company is not required to hold these instruments to maturity and a sale event may occur.

(vii) Financial liabilities carried at amortized cost

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

c) Derecognition of assets and financial liabilities

(i) Financial assets

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

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

(ii) Financial liabilities

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

Impairment of financial assets

According to IFRS 9, in the initial recognition of a debt instrument, the Company must realize the projections of any expected losses in a 12-month period and recognize them as a provision, although no actual loss has yet materialized. If the Company anticipates a significant deterioration in the credit quality of its counterparties, it must recognize a provision equal to the amount of all expected losses in the life of the financial instrument, not only in the subsequent 12 months.

Measurement

Expected credit losses are estimates that are weighted by their probability of occurrence and are measured as follows:

• Financial assets that have not been reduced to their recoverable value at the reporting date: according to the present value of all cash disbursements (for example, the difference between the cash flow due to entity according to the contract and the cash flow which the company expects to receive);
• Financial assets were reduced to their recoverable value at the reporting date: according to the difference between gross corrected cost and the present value of the future cash flow;
• Unearned loan commitments: according to the present value of the difference between the contractual cash flow that is due to the company if the commitment is received and the cash flow that the company expects to receive; and
• Financial guarantee contracts: according to the estimated payments to reimburse the security holders that the company expects to recover. If a credit event occurs, despite considering the expected losses over the entire life of the financial instrument, the Company must also recognize the income from interest payments on the amount charged, which means that the provision must be accounted for in the recognition of the payment of interest.

The main evidences of the deterioration of credit quality of a counterparty are:

• a significant drop in the fair value of a financial instrument during an extended period;
• failure to comply with contractual terms for late payment of interest or principal;
• deterioration in payment capacity and operational performance;
• noncompliance with covenants;
• significant change in the performance of the market in which the counterparty operates; and
• the reduced liquidity of the financial asset due to the financial difficulties of the borrower.

In the case of losses due to the impairment of the debt instruments designated at fair value through other comprehensive income, they are reclassified from other comprehensive income to the statement of income, as "accumulated impairment losses recoverable". If in the years subsequent to the recognition of the loss the fair value of the asset is higher than the amount charged, the loss previously incurred will be reversed in the result.

The Company derecognizes the gross carrying amount of its financial instruments when there is no probable expectation of recovering the contractual cash flows of the financial assets in their entirety or a part thereof.

d) Determining fair value

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

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

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

Level 3: Pricing models in which current market transactions or observable data are not available and require a high degree of judgment and estimation. Instruments in this category have been valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Bank determines a reasonable level for the input. Financial instruments primarily include certain unlisted equity shares mainly derived from our merchant banking activities, debt securities (debentures) from non-public companies and energy derivatives where valuation depends upon unobservable inputs. No gain or loss is recognized on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

Level 3 valuation assumptions

Asset	Valuation technique	Main assumptions
Private Equity Funds (unquoted investments)	Price of recent investments; Models based on discounted cash flows or earnings; Market and transaction (M&A) multiples.	Market and revenue growth, profitability and leverage expectations, discount rates, macro-economic assumptions such as inflation and exchange rates, risk premiums including market, size and country risk premiums.
Debt securities (debentures)	Standard models and comparable prices.	Probability of default, loss severity and yield, prepayment and recovery rates.
Energy derivatives	Models based on Decomp and Newwave systems data.	GDP, hydro reservoir levels and rain forecast.

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

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

e) Financial instruments – Offsetting

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

f) Recognition of income and expenses

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

(i) Interest income and expenses

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

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

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

(ii) Fee and commission income

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

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

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

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

- Fees from services rendered relating to executed transactions:

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

(iii) Net gains with financial instruments

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

g) 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.

h) Leasing Operations

The Bank leases mainly real estate to carry out its activities. Initial recognition occurs when the contract is signed, under the item Other Liabilities, which corresponds to the total future payments at present value as a contra entry to the Right to Use Assets, amortized on a straight-line basis over the lease term and tested annually to identify possible losses by reduction recoverable amount. The financial expense corresponding to the interest on the lease liability is recognized in the Interest expense item in the Consolidated Income Statement.

i) Investment in associates and jointly controlled entities

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

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

j) Property, plant and equipment

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

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

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

k) Business Combination and goodwill

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

Goodwill acquired in a business combination is initially accounted for at cost, representing the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or even more frequently, if events or changes in circumstances indicate that the carrying amount may be below the recoverable amount.

l) Intangible Assets

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

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

m) Impairment of nonfinancial assets

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

n) Financial guarantees provided

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

o) Contingent assets and liabilities

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

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

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

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

p) Taxes

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

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

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

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

q) Uncertainty treatment of taxes on net income

Interpretation (equivalent to IFRIC 23 interpretation) deals with the accounting of taxes on profit in cases where tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes outside the scope of IAS 12 nor does it specifically include the requirements interest and fines associated with uncertain tax treatment. The Interpretation specifically addresses the following:

• Whether the entity considers uncertain tax treatments separately;
• How the entity determines the real profit (tax loss), calculation bases, unused tax losses, out of time tax credits and tax rates; and
• How the entity considers changes in facts and circumstances.
• The entity determines whether it considers each tax treatment uncertain separately or in conjunction with one or more uncertain tax treatments and considers the approach that best provides for resolving the uncertainty.

The Bank applies significant judgment in identifying uncertainties about income tax treatments. Considering that the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its individual and consolidated financial statements

r) Dividends and interest on shareholders' equity (ISE) of shares

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

s) Earnings per share

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

t) Segment Information

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

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 involved in risk management activities are: (i) management committee, which approves policies, defines overall limits and is ultimately responsible for managing risks; (ii) New Business Committee, which assesses the feasibility and supervises the implementation of proposals for new businesses and products; (iii) Credit Risk area, which is responsible for approving new loans according to the guidelines set forth by our CRO; (iv) Market Risk area, which is responsible for monitoring market risk, including the use of our risk limits (Value at Risk - VaR), and approving exceptions, (v) Operational Risk Area, which assesses the main operational risks for the internal policies and regulatory risks established; (vi) Compliance Committee, which is responsible for establishing policy rules and reporting potential problems related to money laundering; (vii) CFO, which is responsible for monitoring liquidity risk, including cash and cash equivalents and capital structure; (viii) Audit Committee, which is responsible for independent verification of compliance with internal controls and assessment of maintenance of the accounting records.

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

(In thousands of reais)

a. Operating limits

	2019	2018
Prudential Reference Shareholders' Equity	21,332,170	18,790,469
Consolidation adjustments	54,465	54,465
Reference Shareholders' Equity Consolidated	21,386,635	18,844,934
Tier I	17,819,468	13,073,230
Common Equity	17,431,374	9,519,308
Complementary Equity	388,094	3,553,922
Tier II	4,047,788	1,813,130
Reference Shareholders' Equity (PR) - (a)	21,867,256	14,886,360
Required Reference Shareholders' Equity (PRE)	17,707,521	7,751,994
Total exposure risk-weighted - (b)	146,344,008	89,878,195
Credit risk	70,166,108	52,997,712
Operational risk	5,938,507	4,370,623
Market risk	70,239,393	32,509,860
Basel ratio - (a/b*11%)	14.9%	16.6%
Tier I capital	12.2%	14.6%
Tier II capital	2.7%	2.0%
Fixed assets ratio	86.0%	96.5%
Fixed assets to equity capital ratio	10,926,576	7,434,944
Status for fixed assets to equity capital ratio	9,397,233	7,176,296
Amount of margin or insufficient	1,529,343	258,648

The limits are calculated using figures prepared by the Brazilian accounting practices applicable to financial institutions authorized to operate by BACEN. The Bank issued financial statements in this context on February 13, 2020.

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

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

As at year December 31, 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, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer period, such as the number of consecutive trading days. As it is backed up by historical data, VaR's accuracy is limited to its capacity to predict unprecedented market changes, as historical distributions in market risk factors may not produce accurate prognostics of future market risk. VaR methodologies and assumptions on different distributions may produce a materially different VaR. In addition, VaR calculated for a one-day period does not consider the market risk of positions that may not be settled or offset with hedges within the term of one day. As previously mentioned, the Bank uses a stress test models as a complement to VaR method for its daily risk activities.

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

In millions of R$	December 2019	December 2018	December 2017
Daily average VaR	135.7	82.7	120.3

c. Credit risk

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

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

	2019				
	Brazil	**United States**	**Europe**	**Others**	**Total**
Asset					
Cash and balances at Central Bank	1,009,655	956,963	67,908	304,282	2,338,808
Financial assets at fair value through profit or loss	75,915,708	9,418,298	805,592	5,015,715	91,155,313
Financial assets at amortized cost					
Open market investments	11,250,538	-	164,771	415,313	11,830,622
Amounts receivable from banks	231,517	1,343,506	-	-	1,575,023
Loans	21,270,333	2,581,421	-	8,481,312	32,333,066
Financial assets at fair value through other comprehensive income	1,024,261	208,524	-	42,059	1,274,844
Total	**110,702,012**	**14,508,712**	**1,038,271**	**14,258,681**	**140,507,676**

	2018 (Restated)				
	Brazil	**United States**	**Europe**	**Others**	**Total**
Asset					
Cash and balances at Central Bank	1,465,306	371,541	287,459	301,065	2,425,371
Financial assets at fair value through profit or loss	53,474,299	3,778,571	142,142	3,780,320	61,175,332
Financial assets at amortized cost					
Open market investments	12,861,809	-	58,182	252,127	13,172,118
Amounts receivable from banks	178,669	2,263,539	-	246,012	2,688,220
Loans	20,028,818	1,428,457	20,427	2,495,440	23,973,142
Financial assets at fair value through other comprehensive income	2,287,405	225,230	-	386,116	2,898,751
Total	**90,296,306**	**8,067,338**	**508,210**	**7,461,080**	**106,332,934**

Notes to the consolidated financial statements in IFRS
December 31, 2019
(In thousands of reais)

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

	2019									
	Governments	**Financial institutions**	**Services**	**Investment funds**	**Individuals**	**Industry**	**Energy**	**Rural**	**Other (i)**	**Total**
Asset										
Cash and balances at Central Bank	1,005,015	1,333,793	-	-	-	-	-	-	-	2,338,808
Financial assets at fair value through profit or loss	528,859	71,533,224	1,124,017	3,012,226	15,420	6,993,869	5,277,349	10,028	2,660,321	91,155,313
Financial assets at amortized cost										-
Open market investments	-	4,619,124	-	6,988,135	-	-	-	-	223,363	11,830,622
Loans	-	7,422,823	2,361,497	3,156,386	1,665,591	12,384,211	3,562,149	1,679,989	100,420	32,333,066
Amounts receivable from banks	-	1,575,023	-	-	-	-	-	-	-	1,575,023
Financial assets at fair value through other comprehensive income	259	402,684	369,889	217,608	-	-	75,881	-	208,523	1,274,844
										-
Total	**1,534,133**	**86,886,671**	**3,855,403**	**13,374,355**	**1,681,011**	**19,378,080**	**8,915,379**	**1,690,017**	**3,192,627**	**140,507,676**

	2018 (Restated)									
	Governments	**Financial institutions**	**Services**	**Investment funds**	**Individuals**	**Industry**	**Energy**	**Rural**	**Other (i)**	**Total**
Asset										
Cash and balances at Central Bank	1,446,186	979,185	-	-	-	-	-	-	-	2,425,371
Financial assets at fair value through profit or loss	26,229,833	21,371,198	28,103	6,443,000	-	3,796,958	1,625,787	13,265	1,667,188	61,175,332
Financial assets at amortized cost										
Open market investments	-	6,077,839	-	6,940,553	14,668	-	-	-	139,058	13,172,118
Loans	4,205,987	1,328,329	5,259,455	2,339,949	571,266	4,213,774	2,803,793	790,671	2,459,918	23,973,142
Amounts receivable from banks	-	2,688,220	-	-	-	-	-	-	-	2,688,220
Financial assets at fair value through other comprehensive income	16,318	366,734	-	186,112	-	2,000,796	82,035	-	246,756	2,898,751
Total	**31,898,324**	**32,811,505**	**5,287,558**	**15,909,614**	**585,934**	**10,011,528**	**4,511,615**	**803,936**	**4,512,920**	**106,332,934**

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

(In thousands of reais)

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

On December 31, 2019 and 2018 the Bank does not have any overdue or impaired financial instruments, whose terms have been renegotiated considered material.

d. Liquidity analysis of assets

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

According to its policy, the Company regularly monitors its liquidity position. The table below summarizes the expected discounted cash flows for financial assets held for trading and contractual discounted cash flows for the other assets, to the Company and its subsidiaries for the year ended on December 31, 2019 and 2018:

	2019		
	Under 12 months	**Over 12 months**	**Total**
Asset			
Cash and balances at Central Bank	2,338,808	-	2,338,808
Financial assets at fair value through profit or loss	70,224,972	20,930,341	91,155,313
Financial assets at amortized cost			
Open market investments	11,657,938	172,684	11,830,622
Loans	14,800,002	17,533,064	32,333,066
Amounts receivable from banks	1,575,023	-	1,575,023
Financial assets at fair value through other comprehensive income	142,372	1,132,472	1,274,844
Deferred tax assets	-	5,778,909	5,778,909
Other assets	1,707,322	11,432,476	13,139,798
Investment in associates and jointly controlled entities	-	5,863,905	5,863,905
Property, plant and equipment	-	78,163	78,163
Intangible assets	-	975,639	975,639
Total Assets	**102,446,437**	**63,897,653**	**166,344,090**

(In thousands of reais)

	2018 (Restated)		
	Under 12 months	Over 12 months	Total
Asset			
Cash and balances at Central Bank	2,425,371	-	2,425,371
Financial assets at fair value through profit or loss	56,122,457	5,052,875	61,175,332
Financial assets at amortized cost			
Open market investments	12,974,356	197,762	13,172,118
Loans	10,910,438	13,062,704	23,973,142
Amounts receivable from banks	2,688,220	-	2,688,220
Financial assets at fair value through other comprehensive income	477,288	2,421,463	2,898,751
Deferred tax assets	-	6,221,620	6,221,620
Other assets	4,843,109	6,081,365	10,924,474
Investment in associates and jointly controlled entities	-	7,417,649	7,417,649
Property, plant and equipment	-	79,601	79,601
Intangible assets	-	1,013,254	1,013,254
Total Assets	**90,441,239**	**41,548,293**	**131,989,532**

e. Liquidity risk

The table below summarizes the contractual discounted cash flows for the liabilities, to the Bank and its subsidiaries, for the year ended December 31, 2019 and 2018:

	2019		
	Under 12 months	Over 12 months	Total
Liabilities			
Financial Liabilities at fair value through profit or loss	40,518,787	2,974,980	43,493,767
Financial Liabilities carried at amortized cost			
Amounts payable to banks	151,338	110,597	261,935
Open market funding	29,973,348	-	29,973,348
Other financial liabilities carried at amortized cost	26,898,196	29,367,527	56,265,723
Tax liabilities	829,640	69,843	899,483
Other liabilities	7,795,202	5,703,710	13,498,912
Total liabilities	**106,166,511**	**38,226,657**	**144,393,168**

	2018		
	Under 12 months	Over 12 months	Total
Liabilities			
Financial Liabilities at fair value through profit or loss	21,606,783	1,169,438	22,776,221
Financial Liabilities carried at amortized cost			
Amounts payable to banks	294,813	83,597	378,410
Open market funding	28,356,279	147,110	28,503,389
Other financial liabilities carried at amortized cost	25,596,953	23,186,322	48,783,275
Tax liabilities	555,378	309,395	864,773
Other liabilities	5,536,777	6,065,626	11,602,403
Total liabilities	**81,946,983**	**30,961,488**	**112,908,471**

(In thousands of reais)

f. Operating risk

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

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

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

6. Cash and balance at Central Bank

The composition of this account is presented below:

	2019	2018
Cash at banks	1,333,793	979,185
Balance at Central Bank	1,005,015	1,446,186
Total	**2,338,808**	**2,425,371**

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

a. Summary

Assets	2019	(Restated) 2018
Securities	55,512,583	46,719,187
Derivatives financial instruments	35,642,730	14,456,145
Total	91,155,313	61,175,332
Liabilities	**2019**	**2018**
Securities	6,351,072	9,338,781
Derivatives financial instruments	37,142,695	13,437,440
Total	43,493,767	22,776,221

b. Securities

	2019		2018 (Restated)	
	Cost	Market	Cost	Market
Own portfolio	40,892,337	38,802,969	41,401,500	41,533,962
Federal government bonds	11,451,264	7,712,371	2,426,240	2,430,529
Debentures	2,678,699	2,659,706	-	-
Investment fund quotes				

	2019		2018 (Restated)	
	Cost	Market	Cost	Market
Shares	300,426	338,851	59,683	59,686
Multimarket	2,385,031	2,371,825	2,411,183	2,411,183
FIDC - Credit Rights	84,178	86,914	141,459	141,459
Real Estate	182,562	156,794	133,463	133,476
Equity Investment fund	761,945	738,886	109,925	108,925
Shares	3,961,902	5,686,972	4,170,115	4,284,301
Other	683,572	679,742	67,956	68,838
Foreign government bonds	1,400,255	1,335,531	2,216,547	2,230,297
Foreign private securities	3,462,870	3,495,744	2,028,082	2,028,421
	13,539,633	13,539,633	27,636,847	27,636,847
Unrestricted portfolio	437,613	442,381	29,933	30,823
Federal government bonds	437,613	442,381	29,933	30,823
Subject to repurchase agreements	8,408,001	10,813,419	2,564,517	2,557,697
Federal government bonds	6,468,098	9,041,588	1,408,737	1,412,541
Foreign government bonds	343,524	343,525	708,460	703,074
Foreign private securities	14255	14436	447320	442082
Debentures	1560176	1391921	-	-
	21948	21949	-	-
Subject to guarantees	5,366,594	5,453,814	2,585,407	2,596,705
Federal government bonds	2,165,275	2,230,667	1,006,173	1,006,593
Debentures	124,153	123,898	-	-
Investment fund quotes				
Multimarket	1,156,191	1,156,191	582,353	582,353
Shares	1,542,737	1,562,295	954,042	964,920
Certificate of real estate receivables	358,196	360,721	-	-
Foreign private securities	20,042	20,042	42,839	42,839
	55,104,545	55,512,583	46,581,357	46,719,187

(i) Substantially securities issued by Brazilian companies.

c. Financial liabilities held for trading

	2019	2018
Short position in securities	5,138,187	7,071,597
Loan of securities		
Shares	1,212,885	2,267,184
	6,351,072	**9,338,781**

d. Derivatives financial instruments

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

(In thousands of reais)

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

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

The Bank started to present on a net basis the receivables and payables of the DF derivatives (Deliverable Forwards) held in its Balance Sheet.

The composition of this account is presented below:

	2019		2018	
	Cost (i)	**Market**	**Cost (i)**	**Market**
Futures				
Long position	-	-	548	548
Short position	-	-	(2,969)	(2,969)
Swaps				
Long position	1,215,907	1,295,173	757,941	816,237
Short position	(1,911,063)	(2,109,734)	(1,294,440)	(1,318,129)
Credit derivatives				
Long position	(3,084)	19,757	197	13,054
Short position	(7,814)	(4,620)	(8,690)	(12,311)
Non-deliverable forward - NDF				
Long position	1,256,899	1,257,397	1,497,504	1,504,793
Short position	(1,581,666)	(1,574,651)	(737,834)	(743,548)
Security forwards				
Long position	105,334	105,531	-	300,971
Short position	(105,324)	(105,418)	-	(298,746)
Options market				
Long position	697,530	942,201	1,170,077	1,167,282
Short position	(159,503)	(377,397)	(262,346)	(437,765)
Exchange portfolio				
Long position	32,022,671	32,022,671	10,653,260	10,653,260
Short position	(32,970,875)	(32,970,875)	(10,623,972)	(10,623,972)
Long position	**35,295,257**	**35,642,730**	**14,079,527**	**14,456,145**
Short position	**(36,736,245)**	**(37,142,695)**	**(12,930,251)**	**(13,437,440)**

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

(In thousands of reais)

In the year ended December 31, 2019 and 2018, the hedge strategy for the Bank's foreign investment consists of a hedge of exposure in foreign currency, derived from the functional currency of the operation abroad in relation to the Bank's functional currency.

	2019		
	Hedge instrument		
	Nominal Value	Market (i)	Hedge object
Hedge of Net Investment in Foreign Operations	12,304,307	(76,232)	6,973,807
	2018		
	Instrumento de *hedge*		
	Nominal Value	Market (i)	Hedge object
Hedge of Net Investment in 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 the exchange variation of net investments in foreign operations, the Bank uses Futures contracts, financial assets and forward contracts or NDF contracts entered into by the subsidiaries abroad.

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

	2019	2018
	Total	Total
Futures market		
Long position	87,483,832	33,915,982
Currency	111,995	1,810,940
Interest rate	84,522,452	31,582,862
Index	2,413,021	450,917
Equities	-	71,263
Commodities	436,364	-
Short position	14,891,447	27,044,099
Currency	6,909,040	1,092,438
Interest rate	7,427,064	24,512,708
Index	555,343	994,745
Equities	-	444,208
Swap		
Long position	346,947,951	69,148,288
Currency	202,156	3,085,271
Interest rate	345,944,271	62,318,526
Index	154,412	422,816
Equities	508,166	2,016,917
Commodities	12,602	12,312
Federal government bonds	-	-
Other	126,344	1,292,446
Short position	346,947,951	68,848,288
Currency	689,070	3,921,538
Interest rate	343,679,312	60,815,690
Index	1,778,953	577,138
Equities	563,457	483,499
Commodities	3,985	-
Federal government bonds	-	-
Other	233,174	3,050,423
Credit Derivatives		
Long position	201,918	84,471
Sovereign	12,515	84,471
Corporate	189,403	-
Short position	88,101	250,176
Sovereign	-	91,252

(In thousands of reais)

	2019	2018
	Total	Total
Corporate	88,101	158,924
Non-deliverable forward - NDF		
Long position	24,856,821	48,024,872
Currency	22,188,034	41,828,922
Index	-	6,195,950
Commodities	2,668,787	-
Short position	24,856,821	48,024,872
Currency	22,188,034	33,731,120
Index	-	6,195,950
Commodities	2,668,787	-
Interest rate	-	8,085,278
Other	-	12,524
Long position	105,338	-
Government bonds	81,449	-
Interest rate	23,889	-
Short position	105,338	-
Interest rate	23,889	-
Government bonds	81,449	-
Options market		
Call option	121,449,017	7,420,902
Equities	353,300	1,783,677
Commodities	7,774,031	-
Index	111,315,600	204,545
Currency	2,006,086	5,353,634
Corporate	-	-
Interest rate	-	-
Other	-	79,046
Put option	36,215,115	69,754,811
Equities	2,851,411	4,047,293
Commodities	204,590	-
Index	29,873,454	-
Currency	3,285,660	20,108,993
Interest rate	-	45,598,525
Call option	121,137,544	69,754,811
Equities	423,403	4,047,293
Commodities	7,816,417	-
Currency	961,940	20,108,993
Interest rate	111,935,784	45,598,525
Put option	36,736,275	64,264,616
Equities	301,183	243,357
Commodities	194,481	-
Index	34,647,179	441,088
Currency	1,593,432	16,435,600
Interest rate	-	47,144,571
Exchange Portfolio		
Long position	32,970,875	10,653,260
Currency	32,970,875	10,653,260
Short position	32,970,875	10,623,972
Currency	32,970,875	10,623,972

Guarantee margins in transactions traded on B3 S.A. and other stock exchanges with derivatives comprises federal government and sovereign bonds totaling R$3,108,380 (December 31, 2018 – R$2,413,113) and shares in the amount of R$1,562,295 (December 31, 2018 – R$964,91).

(In thousands of reais)

e. Reclassification of securities

Management classifies the securities according to their intention to trade.

In the years ended December 31, 2019 and 2018, there were no reclassifications or changes in intentions by management.

8. Financial assets at fair value through other comprehensive income

	2019		2018 (Restated)	
	Cost	Market	Cost	Market
Investment fund quotes				
Equity Investment fund	168,731	168,600	186,112	186,112
Multimarket	49,008	49,008	46,246	46,246
Shares	67,460	67,460	-	-
Debentures	377,625	378,213	1,502,627	1,273,832
Certificate of real estate receivables	358,196	360,721	357,085	357,085
Promissory notes	-	-	368,558	368,255
Foreign government bonds	41,829	41,871	158,008	158,881
Foreign private securities	208,708	208,712	452,123	452,464
Other	687	259	71,243	55,876
	1,272,244	1,274,844	3,142,002	2,898,751

9. Fair value of financial instruments

The fair values of financial instruments are calculated as follows:

- Swaps – cash flows are discounted to present value based on yield curves that reflect the appropriate risk factors. These yield curves can be drawn mainly based on observed prices in negotiations on the B3 S.A., the Brazilian government bonds traded in the secondary market or derivatives and securities traded abroad. These yield curves can be used to obtain the fair value of currency swaps, interest rate swaps and swaps based on other risk factors (commodities, stock indices, etc.).

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

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

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

(In thousands of reais)

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

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

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

	2019			
	Level 1	Level 2	Level 3	Total
Asset				
Financial assets designated at fair value through profit and loss	33,264,414	55,666,216	2,224,683	91,155,313
Financial assets at fair value through other comprehensive income	91,067	947,717	236,060	1,274,844
Liability				
Financial liabilities held for trading	1,325,381	41,449,708	718,678	43,493,767

	2018 (Restated)			
	Level 1	Level 2	Level 3	Total
Asset				
Financial assets designated at fair value through profit and loss	9,937,268	48,945,148	2,292,916	61,175,332
Financial assets at fair value through other comprehensive income	434,641	2,277,998	186,112	2,898,751
Liability				
Financial liabilities held for trading	9,747,277	12,541,140	487,804	22,776,221

There were no reclassifications between Level 1,2 and 3 for the year ended December 31, 2019 and 2018.

(In thousands of reais)

The movement on financial instruments classified as Level 3 in the year ended December 31, 2019 and 2018 are presented below:

	Financial assets held for trading	Financial assets available for sale	Total
At December 31, 2017	766,635	168,585	935,220
Acquisition / sales	1,457,118	-	1,457,118
Gain/losses	(418,641)	17,527	(401,114)
At December 31, 2018 (Restated)	1,805,112	186,112	1,991,224
Acquisition / sales	(230,874)	68,097	(162,777)
Gain/losses	(68,233)	(18,149)	(86,382)
At December 31, 2019	1,506,005	236,060	1,742,065

10. Open market investments and funding

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

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Own funds	2,108,277	10,802,370	8,490,284	6,279,037
Third-party funds	9,584,047	19,170,978	4,654,591	22,224,352
Short position	138,298	-	27,243	-
	11,830,622	29,973,348	13,172,118	28,503,389

The collateral received in repurchase agreements above and on financial assets designated at fair value through profit and loss (Note 7c) amounts to R$26,148,224 (December 31, 2018 - R$41,756,800), whereas the collateral granted amounts to R$35,520,006 (December 31, 2018 - R$37,373,792).

(In thousands of reais)

11. Amounts receivable from/payable to banks

The composition of this account is presented below:

	2019		2018	
	Ativo	**Passivo**	**Ativo**	**Passivo**
Interbank deposits	231,517	261,935	234,582	378,410
Investments in foreign currency – Overnight	1,343,506	-	2,453,638	-
	1,575,023	261,935	2,688,220	378,410

12. Loans

a. Composition

The composition of this account is presented below:

	2019		
	Balance	**Allowance**	**Total**
Loans	20,733,601	(1,018,006)	19,715,595
Financing	5,019,608	(84,719)	4,934,889
FINAME/BNDES	2,871,239	(13,693)	2,857,546
Foreign currency advances	1,205,230	(13,398)	1,191,832
Fund for Compensation of Salary Variations (FCVS)	538,283	(383,440)	154,843
Securities and credits receivable (i)	52,562	(13,834)	38,728
Federal government bonds	3,404,825	-	3,404,825
Other loans without loan characteristics	254,480	(219,672)	34,808
	34,079,828	(1,746,762)	32,333,066

	2018 (Restated)		
	Balance	**Allowance**	**Total**
Loans	14,546,638	(557,633)	13,989,005
Financing	1,419,172	(64,786)	1,354,386
FINAME/BNDES	2,890,562	(14,363)	2,876,199
Foreign currency advances	938,743	(23,520)	915,223
Fund for Compensation of Salary Variations (FCVS)	482,326	(293,760)	188,566
Securities and credits receivable (i)	41,491	(157)	41,334
Federal government bonds	4,205,987	-	4,205,987
Other loans without loan characteristics	402,442	-	402,442
	24,927,361	(954,219)	23,973,142

(i) Refers to the acquisition of credit rights.

(In thousands of reais)

Reconciliation of accountings balance of credit operations:

	Stage 1	Stage 2	Stage 3	Total
Loans as at 31/12/2018 (Restated)	**20,373,073**	**3,112,402**	**1,441,886**	**24,927,361**
Transfer to stage 1	-	(725,723)	-	(725,723)
Transfer to stage 2	(422,221)	-	-	(422,221)
Transfer to stage 3	(5,864)	(354,648)	-	(360,512)
From stage 1	-	422,221	5,864	428,085
From stage 2	725,723	-	354,648	1,080,371
From stage 3	-	-	-	-
Constitution / (reversion)	8,638,430	803,654	(289,617)	9,152,467
Loans as at 31/12/2019	**29,309,141**	**3,257,906**	**1,512,781**	**34,079,828**

Reconciliation of expected losses from credit operations:

	Stage 1	Stage 2	Stage 3	Total
Loans as at 31/12/2018 (Restated)	**64,695**	**279,948**	**609,576**	**954,219**
Transfer to stage 1	-	(41,799)	-	(41,799)
Transfer to stage 2	(5,445)	-	-	(5,445)
Transfer to stage 3	(1,411)	(108,409)	-	(109,820)
From stage 1	-	5,445	1,411	6,856
From stage 2	41,799	-	108,409	150,208
From stage 3	-	-	-	-
Constitution / (reversion)	23,134	643,232	126,177	792,543
Loans as at 31/12/2019	**122,772**	**778,417**	**845,573**	**1,746,762**

b. Renegotiation/recovery of credits written off as loss

As at the year ended December 31, 2019, the amount of R$2,005,488 were due to credit renegotiation (December 31, 2018 – R$1,701,795). Also in the year ended December 31, 2019 there were R$35,739 corespondent to recovery of credits written off loss (December 31, 2018 – R$80,451).

(In thousands of reais)

13. Other financial liabilities carried at amortized cost

a. Summary

	2019	2018
Deposits	21,886,774	20,571,677
Funds from securities issued and accepted	22,720,479	14,396,303
Loans and onlending	4,178,903	4,969,610
Subordinated debts	7,479,567	8,845,685
	56,265,723	48,783,275

b. Deposits

	2019	2018
Demand deposits	624,855	287,303
Time deposits	21,261,919	20,284,374
	21,886,774	20,571,677

c. Funds from securities issued and accepted

	2019	2018
Securities – Brazil	13,321,782	9,583,995
Financial bills	8,992,294	6,338,228
Mortgage bonds/letters of credit for agribusiness	4,153,084	3,067,898
Certificates of structured transactions	176,404	177,869
Securities – abroad	9,398,697	4,812,308
Medium term notes	5,992,714	4,470,214
Fixed rate notes	3,405,983	342,094
	22,720,479	14,396,303

As at December 31, 2019, securities in Brazil were basically indexed o interest referenced rates (CDI) between 85% and 105% or inflation indexes (IPCA and IGPM) plus 1.6% p.a. to 7.55% p.a. (December 31, 2018 – indexed to (CDI) between 82% and 115% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a.).

On December 31, 2019, securities abroad have rates between 3.25% p.a. and 7.09% p.a. (December 31, 2018 – between 2.4% p.a. and 13.6% p.a.).

(In thousands of reais)

d. Loans and onlending

	2019	2018
Loans abroad	1,437,598	2,182,435
Foreign currency	1,158,410	787,897
Loans abroad	279,188	1,394,538
Onlending in Brazil – official institution	2,741,305	2,787,175
FINAME/BNDES	2,741,305	2,787,175
	4,178,903	4,969,610

On December 31, 2019, securities abroad have rates between 1.69% p.a. and 9.23% p.a. (December 31, 2018 – between 0.50% p.a. and 9.23% p.a.).

e. Subordinated debt

	2019					2018
Type - original currency	Issued amount (original currency)	Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R$ (i)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	2,137,312	3,701,867
Subordinated debt - US$	800,000	28/09/2012	15/09/2022	5.75%	1,616,839	1,564,289
Subordinated debt – CLP (iii)	391,410	01/01/2019	01/11/2028	2.40%	384,662	-
Subordinated debt eligible to equity - R$	874,369	23/12/2014	15/04/2069	4.85% to 14.2%	914,266	-
Subordinated debt eligible to equity - US$ (iv)	1,300,000	18/09/2014	Callable at September 2019	8.75%	-	3,579,529
Subordinated debt eligible to equity - US$ (ii)	600,000	15/02/2019	15/02/2029	7.75%	2,426,488	-
Total					7,479,567	8,845,685

(i) Financial bills 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 os 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 15,2029, and callable in five years.

(iii) Subordinated debt were issued by Banco BTG Pactual Chile S.A

(iv) On September 18, 2019, the callable option was settled.

(In thousands of reais)

14. Other assets

The composition of this account is presented below:

	2019	2018
Court deposits	1,762,213	1,627,949
Taxes recoverable to offset	757,972	735,333
Pending settlement (i)	4,101,163	2,576,317
Investment properties	487,965	510,796
Sundry debtors – local	1,467,704	1,493,016
Services provided receivable	83,801	59,944
Rights on energy sales	198,669	104,764
Management fee and performance fees receivable for funds and investment portfolios	658,265	630,119
Cash from records and settlement	334,575	583,022
Dividends and bonifications	128,454	102,781
Prepaid expenses	127,888	75,212
Securities trading and brokerage	91,146	717,708
Advance to suppliers	-	283
Securities and credits receivable	1,956,922	1,360,096
Right of use - Lease	441,196	-
Miscellaneous	541,865	347,134
	13,139,798	10,924,474

(i) Line item "Pending settlement" basically represents the amounts pending settlement within the respective terms related to the purchase and sale of securities and agreements of financial assets performed at B3, and, if abroad, with first-class brokers, for own account or third parties and values pending settlement within financial assets sale.

(In thousands of reais)

15. Investments in associates and jointly-controlled entities

	Associates and jointly-controlled entities					
	Shareholders Equity		Income		Interest	
	2019	2018	2019	2018	2019	2018
In Brazil						
Banco Pan S.A.	4,926,168	4,095,919	515,935	221,515	39.50%	40.35%
Warehouse 1 Empreendimentos Imobs S.A.	-	27,214	-	(1,679)	0.00%	35.00%
Pan Seguros S.A.	346,774	470,234	69,065	61,461	51.00%	51.00%
Pan Corretora S.A.	55,432	32,256	54,094	10,679	51.00%	51.00%
Abroad						
Engelhart CTP Group S.A.	-	2,029,348	-	(594,667)	0.00%	19.44%
EFG International (i)	6,719,738	6,636,882	210,157	185,016	29.39%	30.00%

(i) On December 31, 2019, the equity on EFG include total return swap in the amount of CHF46,686.

(In thousands of reais)

	Changes in relevant investments							
	2018	Aquisition / Increase/ (Sales)	Dividends paid	Changes in investment accounting practices	Exchange rate	Equity in earnings of subsidiaries from 2019	Fair value adjustments	2019
In Brazil								
Banco Pan S.A.	1,815,730	(207,242)	(78,717)	-	-	372,075	(2,502)	1,899,344
Warehouse 1 Empreendimentos Imobs S.A.	8,491	(8,812)	-	-	-	321	-	-
Pan Corretora S.A.	16,450	(10,322)	(5,446)	-	-	27,588	-	28,270
Pan Seguros S.A.	239,817	(51,000)	(47,882)	-	-	35,223	696	176,854
Other	6,738	4,551	-	-	-	(130)	-	11,159
Abroad								
BTG Pactual Holding S.A.R.L.	3,453,429	-	(1,750,963)	-	196,592	446,670	(26,836)	2,318,892
Engelhart CTP Group S.A.	386,178	(416,261)	-	(7,587)	23,683	13,987	-	-
EFG International (i) (ii)	1,490,816	1,062	(96,200)	-	39,084	53,115	(58,491)	1,429,386
	7,417,649	(688,024)	(1,979,208)	(7,587)	259,359	948,849	(87,133)	5,863,905

	Changes in relevant investments							
	2017	Aquisition / Increase/ (Sales)	Dividends paid	Changes in investment accounting practices	Exchange rate	Equity in earnings of subsidiaries - 2018	Fair value adjustments	2018
In Brazil								
Banco Pan S.A.	1,383,187	374,052	(43,871)	-	-	99,683	2,679	1,815,730
Warehouse 1 Empreendimentos Imobs S.A.	12,017	-	-	-	-	(3,526)	-	8,491
Vivere Soluções e Serviços S.A.	-	-	-	-	-	-	-	-
Pan Corretora S.A.	27,787	(4,081)	(12,702)	-	-	5,446	-	16,450
Pan Seguros S.A.	314,215	-	(82,499)	-	-	7,987	114	239,817
Other	9,461	(954)	-	-	-	(1,769)	-	6,738
Abroad								
BTG Pactual Holding S.A.R.L.	-	3,261,401	-	-	-	192,028	-	3,453,429
Engelhart CTP Group S.A.	439,972	(22,422)	-	-	82,178	(113,550)	-	386,178
EFG International (i) (ii)	1,802,885	-	(78,160)	(585,332)	192,294	(49,816)	208,945	1,490,816
	3,989,524	3,607,996	(217,232)	(585,332)	274,472	136,483	211,738	7,417,649

(In thousands of reais)

(i) On February 27, 2018, EFG released its financial statements, which are impacted by certain adjustments related to the early adoption of IFRS 9 (Financial Instruments), in addition to updates related to its life insurance portfolio.
(ii) It was not possible to determine the amount related to the equity pick-up in the Company's investment in EFG during the semester ended December 31, 2019. BTG Pactual will recognize the results of its participation in the investee periodically, at least every six months, whenever the information is publicly disclosed by the company.

16. Intangible assets and goodwill

	Changes in Intangible assets				
	2018	**Acquisitions / sale**	**Amortization expenses / derecognition**	**Exchange variation**	**2019**
Goodwill					
Cost	1,473,148	(29,727)	-	5,422	1,448,843
Amortization	(459,894)	18,562	(35,058)	3,186	(473,204)
Total	1,013,254	(11,165)	(35,058)	8,608	975,639

	Changes in Intangible assets				
	2017	**Acquisitions / sale**	**Amortization expenses / derecognition**	**Exchange variation**	**2018**
Goodwill					
Cost	1,442,927	(25,973)	-	56,194	1,473,148
Amortization	(419,568)	23,000	(67,395)	4,069	(459,894)
Total	1,023,359	(2,973)	(67,395)	60,263	1,013,254

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

17. Tax Liabilities

The composition of this account is presented below:

	2019	**2018**
Deferred:		
Deferred social contribution and income tax	152,155	148,780
Deferred PIS and COFINS	570	858
Current:		
Tax and contributions to be collected	102,617	101,386
Tax and contribution payable	644,141	613,749
	899,483	864,773

(In thousands of reais)

18.Other Liabilities

The composition of this account is presented below:

	2019	2018
Cash from records and settlement	219,939	191,879
Pending settlement (i)	2,221,869	1,077,495
Other securities trading and brokerage	348,075	932,846
Employees' profit sharing	969,309	623,319
Provision for payables	509,298	327,064
Payable for acquisition of assets and rights	196,528	1,015,630
Provision for contingent liabilities (Note 19)	1,687,195	1,648,713
Allowance for guarantees	127,958	212,268
Dividends and interest on equity	547,197	607,971
Other creditors	5,131,008	3,964,863
Lease obligations	456,926	-
Others	1,083,610	1,000,355
	13,498,912	11,602,403

(i) Line item "Debtors/creditors – pending settlement" basically represents the amounts pending settlement within the respective terms related to the purchase and sale of securities and agreements of financial assets performed at B3 S.A., and, if abroad, with first-class brokers, for own account or third parties.

19.Contingent assets and liabilities and legal obligations

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

a. Contingent assets

As at December 31, 2019 and 2018, the Bank did not record contingent assets.

b. Contingent liabilities classified as probable losses and legal obligations

i. Labor provisions

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

(In thousands of reais)

ii. Civil provisions

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

iii. Tax and social security provisions

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

c. Breakdown and changes in provisions in the year

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being a party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions recognized for such proceedings at December 31, 2019 are appropriate to cover any losses arising therefrom. The provisions recognized and their changes in the year are as follows:

	2019				2018
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the year	1,472,178	125,611	50,924	1,648,713	2,053,233
Recognition	74,445	28,390	3,273	106,108	180,702
Write-off	(11,029)	(51,412)	(5,185)	(67,626)	(585,222)
Balance at the end of the year	1,535,594	102,589	49,012	1,687,195	1,648,713
Provision for contingent liabilities (Note 19)				1,687,195	1,648,713

The nature of the main provisions is presented below:

i. Suspended payment taxes and other taxes liabilities

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

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

As at December 31, 2019, Banco BTG Pactual and its subsidiaries were parties to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, 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$728 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$1,818 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 partially favorable 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$882 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. On October, 2019, the second administrative instance partially ruled as reasonable the cancelation of the goodwill generated on the private capital subscription made by investors through Copa Prince Company. An appeal was filed against the unfavorable piece. On December 2018, a tax assessment was received, in the amount of R$440 million, related to the period of 2013. Against this assessment an appeal was filed, which is awaiting ruling of the second administrative instance. Lastly, on February 2019 a tax assessment was received, in the amount of R$266 million, related to the period of 2014. Against this assessment an appeal was filed, which is awaiting ruling of the second 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. Besides the reviews as to the legitimacy of these tax assessments, in case the Bank has to incur losses, it also believes is entitled to be reimbursed by its controller shareholder for a part of the losses. Thus, in no event the BTG Pactual expect to incur any material losses in connection with this matter.

- 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$158 million. Against the notice, the Holding presented an administrative appeal. 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 September 2019, the second instance administrative canceled the tax assessment notice in its entirety. There was no appeal filed by the Treasury and the process was closed.

- 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$193 million. Against the assessment, an administrative appeal was filed, which was partially upheld to exclude an isolated fine. Against the unfavorable part of the decision, an appeal was brought to the 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$76 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$1,100 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$95 million for events that occurred in 2013 and 2014, regarding the amortized goodwill from the acquisition of BRFE in 2012. On September 2019 an unfavorable decision was ruled by the first instance court. Against this decision, and administrative appeal was presented on the second administrative instance.

- 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. On June 2019 an unfavorable decision was ruled by the court on the first administrative instance. Against the decision, an appeal was presented, which awaits trial in second administrative instance. 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$66 million. On August 2019, an unfavorable decision was ruled to the Bank in the first administrative instance. Against this decision, and administrative appeal was presented on the second administrative instance.

- On September 2019, in the capacity of Banco Sistema S/A's sponsor, the Bank received a tax assessment that seeks to collect income tax, social contribution, PIS and COFINS, in the total amount of R$3,429 billion, regarding the acquisition of Banco Bamerindus do Brasil (current Banco Sistema) in 2014. On October 2019, an appeal was filled on the first administrative instance, of which awaits trail. Based on the prognosis disclosed by its legal team, the Bank didn't record any provision on its financial statements, furthermore the Administration doesn't expect to incur in any loss regarding this matter.

ii. Provision for other contingent liabilities

As at December 31, 2019 and 2018, BTG Pactual and its subsidiaries were part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

(In thousands of reais)

20.Income tax and social contribution

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

Income tax and social contribution	2019	2018
Tax base	4,859,790	1,323,986
Total charge of income tax and social contribution at the current rates	(1,943,916)	(595,793)
Permanent (additions) / deductions in taxation calculation	1,418,735	(651,050)
Equity in the earnings of subsidiaries and associated companies in Brazil	157,007	218,569
Foreign earnings	25,749	31,963
Interest on equity	452,328	-
Foreign Investment hedge/overhedge	941,023	(1,001,430)
Allowance for loan losses	(125,892)	(72,220)
Other Permanent (additions) / deductions	(31,480)	172,068
Current tax expense and social contribution	(526,648)	(1,246,843)
(Expenses) / revenues from deferred taxes	(475,565)	1,090,745
Total (expenses) / revenues	(1,002,213)	(156,098)

The changes in deferred tax assets, related to income and social contribution taxes, presented under "Deferred Tax Assets", can be shown as follows:

Income tax and social contribution	2018	Recognition	Realization (i)	2019
Tax loss	1,488,833	167,048	(316,133)	1,339,748
Interest on equity	241,800	243,450	(241,800)	243,450
Allowance for loan losses	669,902	253,258	-	923,160
Fair value of securities and derivatives	2,490,288	133,590	(941,023)	1,682,855
Tax contingencies and provision for suspended-payment taxes	213,633	27,774	(1,463)	239,944
Other temporary differences	1,117,164	232,588	-	1,349,752
	6,221,620	1,057,708	(1,500,419)	5,778,909
Income tax and social contribution	**2017**	**Recognition**	**Realization (i)**	**2018**
Tax loss	977,349	532,670	(21,186)	1,488,833
Interest on equity	269,968	241,800	(269,968)	241,800
Allowance for loan losses	618,922	160,710	(109,730)	669,902
Fair value of securities and derivatives	1,931,453	1,601,043	(1,042,208)	2,490,288
Tax contingencies and provision for suspended-payment taxes	186,124	27,509	-	213,633
Other temporary differences	1,123,738	131,781	(138,355)	1,117,164
	5,107,554	2,695,513	(1,581,447)	6,221,620

The composition of the present value of tax credits is presented below, in view of the expectation for realization of deferred tax assets. It is worth noting that the table below shows the expectation of realization of tax assets based on the accounting records presented in the consolidated financial statements in IFRS prepared in accordance with accounting practices adopted in Brazil, as they represent, in the view of Management, the adequate basis for recovery analysis of credits:

(In thousands of reais)

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2019	995,203	328,932	1,324,135
2020	539,734	180,226	719,960
2021	617,982	169,198	787,180
2022	595,363	177,511	772,874
2023 onwards	793,558	483,880	1,277,438
Total	3,541,840	1,339,747	4,881,587
Present value	2,923,003	1,038,338	3,961,341

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 6,2015, Law 13.169 was published which decrease the rate of the Social Contribution on Net Profit from 20% to 15% from 2019. On November 12, 2019 was published Constitutional Amendment 103, which increased the Social Contribution Tax on Net Income of financial institutions from 15% to 20% of taxable income, effective from March 1, 2020.

21.Shareholders' equity

a. Capital

As at December 31, 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), 556.603.310 class A preferred shares (December 31, 2018 – 456,603,310), 349,356,340 class B preferred shares (December 31, 2018 – 449,356,340), registered shares.

On June 5, 2019, a change in the Bank's share capital occurred, due to a conversion request made by BTG Pactual Holding Financeira Ltda. of 100,000,000 class B preferred shares issued by the Bank into 100,000,000 class A preferred 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.

(In thousands of reais)

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

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

The share movements on the year are presented below:

Banco BTG Pactual	Quantity			
		Preferred		
	Commom	Class A	Class B	Total
Outstanding at December 31, 2018	1,731,276,922	456,603,310	449,356,340	2,637,236,572
Outstanding at December 31, 2019	1,731,276,922	556,603,310	349,356,340	2,637,236,572

b. Treasury shares

During the year ended December 31, 2019, the Bank bought its own units, in the amount of R$37,240, equivalent to 730,500 units. (December 31, 2018 - R$328,085, equivalent to 15,919,600 units). On the year ended December 31, 2019 the were no units cancelled (December 31, 2018 - R$292,604, equivalent to 14,788,400 units cancelled). On December 31, 2019, 7,089,300 units were held in treasury, in the amount of R$165,784.

c. Legal reserve

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

d. Statutory reserve

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

e. Special earnings reserve

At December 31, 2019, the account balance was R$ 42,926 relating to tax on shareholders' equity, arising from the incorporation of the Bank's branch in Luxembourg.

Luxembourg tax law provides for a reduction in the net worth tax, provided that it is a non-distributable reserve. The reserve is established for a period of 5 years and for an amount equal to 5 times the net tax liability of a given year.

f. Unrealized income reserve

Established considering undistributed dividends obtained in foreign branch.

g. Profit distribution

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

On December 27, 2019, the Bank has accrued R$541,000, relating to interest on equity, equivalent to R$0.21 per share, which generated R$216,400 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on December 27, 2019.

On August 5, 2019, the Bank has accrued R$624,000, relating to interest on equity, equivalent to R$0.24 per share, which generated R$249,600 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on August 5, 2019 and the payment occurred on August 15, 2019.

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.

(In thousands of reais)

h. Other comprehensive income

During the year ended December 31, 2019 comprises: (i) Equity valuation adjustment of financial assets available for sale to jointly-owned subsidiaries totaling a negative amount of R$60,445 (December 31, 2018 R$180,212); (ii) Equity valuation adjustment of financial assets and fair value through other comprehensive income, totaling a positive amount R$ 2,367 (December 31, 2018 - negative amount of R$ 52,241); (iii) exchange variation on investments abroad, whose presentation currency is different from the Bank's functional currency (reais), totaling a negative amount of R$ 39,085 (December 31, 2017 - positive amount R$ 760,257); (iv) Hedge of net investment in foreign operations, totaling a negative amount of R$ 76,232 (December 31, 2017 - negative amount of R $ 1,082,239).

22. Earnings per share

	2019	2018
Net income	4,022,758	2,423,231
Weighted average per thousand ordinary shares outstanding for the year	1,724,187,622	1,734,862,976
Earnings per share – básic and diluted - R$		
Common shares	2.33	1.40

23. Net interest income and net gains on financial instruments

a. Net interest income

Interest revenues	2019	2018
Loans	2,962,156	1,389,252
Open market funding and held-to-maturity financial assets	2,754,310	2,574,983
Income from compulsory investments in Brazilian Central Bank	78,734	114,371
	5,795,200	4,078,606

Interest expense	2019	2018
Open market funding	(2,324,456)	(2,186,365)
Time deposits	(36,917)	(25,925)
Interbank deposit	(508,342)	(394,985)
Notes issued	(1,188,736)	(1,838,398)
Lease	(38,693)	-
Borrowings and loans	(2,498,696)	(1,358,184)
	(6,595,840)	(5,803,857)

(In thousands of reais)

b. Net gains on financial instruments

	2019	2018
Derivatives	2,691,480	2,199,482
Financial assets at fair value through profit and loss	3,016,685	1,959,918
	5,708,165	4,159,400

24. Fees and commissions

	2019	2018
Management and performance fee from investment funds and portfolios	1,026,611	849,571
Brokerage	331,783	222,101
Technical services	993,292	626,140
Commission on the placement of securities	446,459	214,081
Guarantees	281,557	252,368
Other services	37,299	10,173
	3,117,001	2,174,434

25. Other operating income / (expenses)

	2019	2018
Adjustment to inflation of court deposits	59,330	85,913
Reversal of valuation allowance – Contigencies and others	62,843	303,503
Recovery of charges and expenses	1,687	1,236
Tax restatement expense	(2,826)	(91,619)
Adjustment of amounts payable for acquisition of assets (i)	(89,512)	(75,043)
Exchange variation	(128,958)	41,642
Earnings / loss in sale of investments	31,102	137,807
Other	(4,068)	13,884
	(70,402)	417,323

(i) Refers to amounts payable for acquisition of assets (mainly Banco Pan S.A. and Banco Sistema S.A.).

(In thousands of reais)

26.Other administrative expenses

	2019	2018
Outsourced services and consulting	(426,065)	(360,605)
Telecommunications and data processing	(344,932)	(268,707)
Leases and condominiums	(99,634)	(96,167)
Travel and lodging	(56,311)	(45,841)
Expenses of the financial system	(209,024)	(217,181)
Advertising and Public Relations	(105,947)	(67,314)
Depreciation and amortization	(59,054)	(56,683)
Other	(33,450)	(31,429)
	(1,334,417)	(1,143,927)

27.Personnel Expenses

	2019	2018
Direct compensation	(1,123,661)	(625,324)
Benefits	(615,708)	(543,979)
Charges	(178,763)	(152,866)
Other personnel expenses	(20,826)	(79,189)
	(1,938,958)	(1,401,358)

(In thousands of reais)

28.Related parties

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

	Parent company		Subsidiaries and joint controlled entities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Amounts receivable from banks	-	-	479,451	136,601	479,451	136,601
Loans	3,319,030	3,167,665	-	-	3,319,030	3,167,665
Financial assets held for trading	-	-	18,623	8,782	18,623	8,782
Liabilities						
Other financial liabilities carried at amortized cost	(2,563,082)	(32,251)	(710,000)	(30,158)	(3,273,082)	(62,409)
Derivative financial instruments	-	-	(185,694)	(77,959)	(185,694)	(77,959)
Other liabilities	-	-	(18,623)	(8,782)	(18,623)	(8,782)

	Parent company		Subsidiaries and joint controlled entities		Total	
	2019	2018	2019	2018	2019	2018
Statements of income						
Net gains on financial instruments / interest income	-	-	26,200	9,348	26,200	9,348
Interest expense	(15,675)	(13,245)	(71,790)	(131,138)	(87,465)	(144,383)
Other operating income	16,998	-	(28,372)	-	(11,374)	-

Total compensation paid to key management personnel totaling this period R$14,500 (December 31, 2018 – R$60.925) which is considered short term benefit.

29.Other information

a. Deposits

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

	2019	2018
Interbank deposits	154	174
Time deposits	467	491

(In thousands of reais)

b. **Cash and cash equivalents**

Balances of end of the year	**2019**	**2018**
Cash and balances at Central Bank	2,338,808	2,425,371
Amounts receivable from banks		
Interbank deposits	231,517	234,582
Overnight investments	1,343,506	2,453,638
Open market investments	11,830,622	11,863,803
Total	15,744,453	16,977,394

c. Commitments and responsibilities

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

	2019	**2018**
Co-obligation and risks for guarantees granted	37,263,529	36,834,176
Responsibility for the management of futures and investment portfolio (i)	288,127,182	224,021,170
Securities	58,843,624	41,286,789
Securities under custody	1,165,779,556	2,697,667,631
Securities trading and brokerage	5,138,223,360	1,009,734,796
Loans contract to release	1,786,924	2,413,612
Commitments to be released	11,000	37,500

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

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

The item "Securities under custody" reflects third-party public and private security positions under custody with SELIC and B3 S.A.

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

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

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

30.Subsequent events

As at January 17, 2020, the sale of equity interest on BTG Pactual Chile S.A. Compañia de Seguros de Vida, as described on note 2, was approved.

On March 31, 2020, the acquisition of an 80% interest in Ourinvest Distribuidora de Titulos de Valores Mobiliários S.A. was approved by BACEN.

In March 2020, the Bank received a tax assessment notice aimed at charging IRPJ, CSLL, PIS and COFINS on the capital gain on the sale of shares in Rede D'or, in 2015, in the amount of R$ 573 million. In April 2020, a defense was filed at the first administrative level, which is awaiting judgment.

On April 3, 2020, the Bank board of directors approved a new share buyback program. The purpose of the repurchase program is to efficiently invest the funds available in cash, in order to maximize the company's capital allocation and will include the acquisition of up to 15,000,000 units. On the same date, the shares held in treasury were canceled.

On April 17, 2020, the Novaportfolio incorporation, described on note 2, was approved by BACEN.

The Bank's Management and its subsidiaries are monitoring the possible impacts of COVID 19 on their businesses. The rapid development and fluidity of this situation prevent any prediction about its final result, which can have an adverse impact on economic and market conditions and trigger a period of global economic slowdown. Management is monitoring developments related to COVID 19 and coordinating its operational response based on existing business continuity plans and guidelines from global health organizations, governments and general best pandemic response practices.