

# **Consolidated Financial Statements**

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

December 31, 2018

with independent auditor's report.

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

### Consolidated financial statements

December 31, 2018

#### Contents

Independent auditors' report on consolidated financial statements .....	1
Consolidated balance sheets .....	8
Consolidated statements of income .....	10
Statements of changes in shareholders' equity – parent company.....	11
Consolidated statements of cash flows.....	12
Consolidated statements of value added.....	13
Notes to the consolidated financial statements .....	14



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

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

**A free translation from Portuguese into English of the Independent 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.**

### **Opinion**

We have audited the consolidated financial statements of Banco BTG Pactual S.A. (Bank), which comprise the balance sheet as of December 31, 2018, and the related 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 financial position of Banco BTG Pactual S.A. as of December 31, 2018 and its financial performance and its 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 the relevant ethical principles of the Code of Professional Ethics of Accountant and professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matters**

#### Foreign subsidiary equity pickup

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



#### Tax credits recorded in jointly-controlled subsidiary

At December 31, 2018, the jointly-controlled subsidiary Banco PAN S.A. records income tax and social contribution credits totaling R\$ 2.9 billion, substantially recognized based on study of the current and future scenarios approved by the Board of Directors. The key assumptions used in such study were macroeconomic indicators disclosed in the market. Realization of such tax credits depends on materialization of such projections and of the business plan, as approved by the management bodies of Banco PAN S.A. Our opinion is not qualified in respect of this matter.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit 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 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 10 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 24 to the Bank's consolidated financial statements.



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

#### Information technology (IT) environment

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

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

Our audit procedures included, among others, the involvement of IT experts in conducting tests of information technology general controls for processes of managing changes and access to the systems that we deemed relevant to the preparation of the consolidated financial statements. Our tests over design and operation of the information technology general controls considered relevant to the audit provided support to the nature, time and extent of our audit substantive testing.

#### **Other matters**

##### Separate financial statements

The Bank has prepared a full set of separate financial statements for the year ended December 31, 2018 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 22, 2019.

##### Statement of value added

The statement of value added (SVA), for the year ended December 31, 2018, 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 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements 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



Building a better  
working world

adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 22, 2019.

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

Flávio Serpejante Peppe  
Partner

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated balance sheets

As at December 31

(In thousands of reais)

	Note	2018	2017
Assets			
Current assets		101,916,558	92,212,056
Cash at banks	6	979,185	4,347,209
Short-term interbank investments	7	43,299,438	27,196,779
Open market investments		40,611,218	25,973,105
Interbank deposits		2,688,220	1,223,674
Securities and derivative financial instruments		26,062,423	34,520,034
Own portfolio	8	14,739,806	15,151,347
Subject to repurchase agreements	8	5,923,584	4,761,945
Subject to unrestricted repurchase agreements	8	30,823	144,227
Derivative financial instruments	9	2,678,010	12,585,309
Subject to guarantees	8	2,690,200	1,877,206
Interbank transactions		1,446,186	1,473,007
Deposits in the Central Bank of Brazil		1,446,186	1,473,007
Loans	10	7,363,671	5,205,606
Loans		7,554,519	5,368,754
Transferred loans with coobligation		300	314,572
Allowance for loan losses		(191,148)	(477,720)
Other receivables		22,710,490	19,427,313
Foreign exchange portfolio	11	17,425,255	12,007,708
Income receivable	12	927,264	2,509,963
Securities trading and brokerage	11	3,877,204	3,598,367
Sundry	12	505,344	1,338,588
Allowance for losses on other receivables	10	(24,577)	(27,313)
Other assets		55,165	42,108
Other assets		4,384	2,852
Prepaid expenses		50,781	39,256
Long-term-assets		26,533,331	28,842,178
Long-term interbank investments	7	197,747	595,508
Open market investments		197,747	595,508
Securities and derivative financial instruments		3,929,281	7,767,998
Own portfolio	8	936,337	1,059,468
Derivative financial instruments	9	1,124,875	1,859,531
Subject to repurchase agreements	8	583,784	3,968,413
Subject to guarantees	8	1,284,285	880,586
Interbank transactions		189,446	230,635
Restricted credits – National Housing System		189,446	230,635
Loans	10	10,855,889	7,820,597
Loans		11,296,335	7,957,839
Transferred loans with coobligation		5,218	118,955
Allowance for loan losses		(445,664)	(256,197)
Other receivables		11,156,945	12,342,353
Sundry	12	11,475,108	12,452,651
Allowance for losses on other receivables	10	(318,163)	(110,298)
Other assets		204,023	85,087
Temporary investments		100	52,249
Other assets		260,816	105,067
Prepaid expenses		24,431	9,494
Provision for losses on other assets		(81,324)	(81,723)
Permanent assets		9,196,536	5,537,378
Investments		8,884,999	5,248,783
Investments in associates and jointly controlled entities - in Brazil	13	1,996,651	1,644,342
Investments in associates and jointly controlled entities - abroad	13	6,865,936	3,575,241
Other investments		26,969	33,661
Allowance for losses in investments		(4,557)	(4,461)
Property and equipment in use		79,601	82,762
Property in use		5,473	5,177
Other property and equipment in use		268,834	257,210
Accumulated depreciation		(194,706)	(179,625)
Intangible assets	14	231,936	205,833
Other intangible assets		497,919	1,488,396
Accumulated amortization		(265,983)	(1,282,563)
Total assets		137,646,425	126,591,612

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

# BANCO BTG PACTUAL S.A. and subsidiaries

## Consolidated balance sheets

As at December 31

(In thousands of reais)

	Note	2018	2017
Liabilities			
Current liabilities		87,410,057	77,238,309
Deposits	15	19,343,084	8,303,306
Demand deposits		287,303	441,320
Interbank deposits		294,814	111,108
Time deposits		18,760,967	7,750,878
Open market funding	15	35,183,034	31,236,529
Own portfolio		6,279,037	8,379,518
Third-party portfolio		22,077,242	19,026,548
Free trading portfolio		6,826,755	3,830,463
Funds from securities issued and accepted	15	3,038,973	2,682,894
Real estate, mortgage, credit and similar notes		2,794,574	2,533,872
Securities issued abroad		171,152	72,753
Certificates of structured transactions		73,247	76,269
Interbank transactions		6,804	5,388
Unsettled receipts and payments		6,804	5,388
Interdependencies transactions		74,926	24,356
Unsettled third party assets		74,926	24,356
Loans and borrowings	15	1,925,453	1,302,170
Loans abroad		1,823,487	1,231,495
Borrowings in Brazil		101,966	70,675
Derivative financial instruments	9	1,644,030	12,221,661
Derivative financial instruments		1,644,030	12,221,661
Other liabilities		26,193,753	21,462,005
Collection and payments of tax and similar charges		5,639	8,148
Foreign exchange portfolio	11	16,480,025	11,773,803
Social and statutory	16	1,231,290	1,290,707
Tax and social security	16	485,211	2,480,875
Securities trading and brokerage	11	5,200,827	4,232,583
Subordinated debt	15	1,667,853	1,289,040
Sundry	16	1,122,908	386,849
Long-term liabilities		31,122,733	30,576,631
Deposits	15	1,607,003	875,007
Interbank deposits		83,596	25,732
Time deposits		1,523,407	849,275
Open market funding	15	391,952	2,653,692
Own portfolio		-	929,358
Third-party portfolio		147,110	29,190
Free trading portfolio		244,842	1,695,144
Funds from securities issued and accepted	15	11,357,330	7,606,652
Real estate, mortgage, credit and similar notes		6,611,552	3,813,695
Securities issued abroad		4,641,156	3,792,957
Certificates of structured transactions		104,622	-
Loans and borrowings	15	3,044,157	3,427,755
Loans abroad		358,948	688,623
Loans in Brazil		-	75,391
Borrowings in Brazil		2,685,209	2,663,741
Derivative financial instruments	9	1,169,438	1,940,111
Derivative financial instruments		1,169,438	1,940,111
Other liabilities		13,552,853	14,073,414
Tax and social security	16	309,395	91,568
Subordinated debt	15	3,598,303	5,028,197
Debt instrument eligible to capital	15	3,579,529	3,043,309
Sundry	16	6,065,626	5,910,340
Deferred income		130,030	120,573
Non-controlling interest		138,671	132,407
Shareholders' equity	19	18,844,934	18,523,692
Capital		7,392,092	7,392,092
Capital Reserve		652,515	652,515
Asset valuation adjustment		103,187	114,992
Income reserves		10,825,684	10,457,156
Treasury shares		(128,544)	(93,063)
Total Liabilities and Shareholders' equity		137,646,425	126,591,612

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of income

Years ended December 31

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

	Note	2018	2017
Financial income		9,893,381	9,523,750
Loans		1,339,460	1,529,696
Securities		5,934,070	5,873,294
Derivative financial instruments		2,069,862	1,596,710
Foreign Exchange		435,618	376,675
Mandatory investments		114,371	147,375
Financial expenses		(7,092,925)	(5,633,242)
Funding operations		(5,318,077)	(5,172,719)
Borrowing and onlending		(1,628,772)	(567,277)
Allowance for loan losses and other receivables	10	(146,076)	106,754
Net financial income		2,800,456	3,890,508
Other operating expenses		208,594	(2,117,374)
Income from services rendered	20	2,171,683	1,596,964
Personnel expenses		(776,780)	(648,870)
Other administrative expenses	23	(1,212,453)	(2,679,732)
Tax charges		(296,291)	(240,654)
Equity earnings of associates and jointly controlled entities	13	36,542	4,800
Other operating income	21	589,679	895,478
Other operating expenses	22	(303,786)	(1,045,360)
Operating income		3,009,050	1,773,134
Non-operating (expenses) / income		137,807	4,740
Income before taxation and profit sharing		3,146,857	1,777,874
Income tax and social contribution	18	(152,859)	1,287,192
Provision for income tax		(657,506)	(159,982)
Provision for social contribution		(589,337)	(42,632)
Deferred income tax and social contribution		1,093,984	1,489,806
Statutory profit sharing		(626,276)	(689,064)
Non-controlling interest		(6,938)	7,861
Net income for the year	19	2,360,784	2,383,863
Interest on equity	19	(1,196,595)	(1,223,705)
Weighted average numbers of share outstanding		2,670,783,956	2,735,818,843
Net income per share - R\$		0.88	0.87

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Statements of changes in shareholders' equity – parent company

Years ended December 31

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

	Note	Income reserves					Total	Asset valuation adjustment	Treasury shares	Retained earnings	Total
		Capital	Capital reserve	Legal	Unrealized	Statutory					
Balances as at December 31, 2016		7,220,526	652,515	1,078,199	3,236,533	5,516,059	9,830,791	39,756	(70,834)	-	17,672,754
Capital increase	19	171,566	-	-	-	-	-	-	-	-	171,566
Own shares acquired	19b	-	-	-	-	-	-	-	(489,977)	-	(489,977)
Cancelation of treasury shares	19b	-	-	-	-	(467,748)	(467,748)	-	467,748	-	-
Interest on equity received by on shares repurchase		-	-	-	-	-	-	-	-	15,272	15,272
Changes in fair value of assets available for sale		-	-	-	-	-	-	58,078	-	-	58,078
Changes in fair value of associates and jointly controlled	13	-	-	-	-	-	-	51,949	-	-	51,949
Currency translation adjustments		-	-	-	-	-	-	278,794	-	-	278,794
Foreign Investment hedge		-	-	-	-	-	-	(313,585)	-	-	(313,585)
Interest on equity (R\$0.23 per share)	19	-	-	-	-	-	-	-	-	(630,000)	(630,000)
Adjustments by previous years		-	-	-	-	-	-	-	-	(116,389)	(116,389)
Net income for the year		-	-	-	-	-	-	-	-	2,383,863	2,383,863
Net income allocation		-	-	-	-	-	-	-	-	-	-
Income reserve		-	-	103,308	(432,713)	1,373,174	1,043,769	-	-	(1,043,769)	-
Interest on equity (R\$0.23 per share)	19	-	-	-	-	-	-	-	-	(608,977)	(608,977)
Balances as at December 31, 2017		<u>7,392,092</u>	<u>652,515</u>	<u>1,181,507</u>	<u>2,803,820</u>	<u>6,421,485</u>	<u>10,406,812</u>	<u>114,992</u>	<u>(93,063)</u>	<u>-</u>	<u>18,473,348</u>
Own shares acquired	19b	-	-	-	-	-	-	-	(328,085)	-	(328,085)
Cancelation of treasury shares	19b	-	-	-	-	(292,604)	(292,604)	-	292,604	-	-
Interest on equity received by on shares repurchase		-	-	-	-	-	-	-	-	403	403
Changes in fair value of assets available for sale		-	-	-	-	-	-	(52,241)	-	-	(52,241)
Changes in fair value of associates and jointly controlled	13	-	-	-	-	-	-	180,212	-	-	180,212
Currency translation adjustments		-	-	-	-	-	-	942,463	-	-	942,463
Foreign Investment hedge		-	-	-	-	-	-	(1,082,239)	-	-	(1,082,239)
Intermediate interest on equity (R\$0.22 per share)	19	-	-	-	-	-	-	-	-	(592,500)	(592,500)
Changes in accounting practices of associates	2	-	-	-	-	(507,176)	(507,176)	-	-	-	(507,176)
Net income for the year		-	-	-	-	-	-	-	-	2,360,784	2,360,784
Net income allocation		-	-	-	-	-	-	-	-	-	-
Income reserve		-	-	63,945	(131,045)	1,231,287	1,164,187	-	-	(1,164,187)	-
Interest on equity (R\$0.23 per share)	19	-	-	-	-	-	-	-	-	(604,500)	(604,500)
Balances as at December 31, 2018		<u>7,392,092</u>	<u>652,515</u>	<u>1,245,452</u>	<u>2,672,775</u>	<u>6,852,992</u>	<u>10,771,219</u>	<u>103,187</u>	<u>(128,544)</u>	<u>-</u>	<u>18,790,469</u>

Reconciliation of net income and shareholders' equity of Banco BTG Pactual S.A. and subsidiaries is presented in Note 19(h).

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of cash flows

Years ended December 31

(In thousands of reais)

	Note	2018	2017
Operating activities			
Net income for the year		2,360,784	2,383,863
Adjustments to net income		194,018	(146,029)
Equity pick up from associates and jointly controlled entities	13	(36,542)	(4,800)
Interest expense with subordinated debt		1,347,933	1,136,022
Deferred income tax and social contribution		(1,093,984)	(1,489,806)
Goodwill amortization	22	-	166,023
Goodwill exchange variation	14	(63,258)	(7,942)
Permanent assets exchange variation		(16,814)	(10,740)
Depreciation and amortization	23	56,683	65,214
Adjusted net income for the year		2,554,802	2,237,834
(Increase)/decrease in operational activities			
Short-term interbank investments		(8,878,629)	(1,489,745)
Securities and derivative financial instruments		(3,043,534)	1,302,376
Loans		(5,193,357)	(3,552,093)
Other receivables and other assets		(1,135,773)	2,123,170
Interbank transactions		69,426	532,005
Interdependencies transactions		50,570	(58,246)
Other liabilities		4,730,523	452,891
Deferred income		9,457	(21,210)
Deposits		11,771,774	1,491,799
Open market funding		1,684,765	8,986,248
Loans and borrowings		239,685	1,185,103
Cash provided by operating activities		2,859,709	13,190,132
Investing activities			
Sale of other investment		6,788	(13,498)
Acquisition / sale of equity interests	13	(346,595)	985,824
Dividends and interest on equity received	13	217,232	323,081
Acquisition / sale of property		(2,529)	(3,532)
Acquisition / sale of intangible assets	14	2,973	(24,600)
Cash (used in) / provided by investing activities		(122,131)	1,267,275
Financing activities			
Acquisition of treasury shares		(328,085)	(489,977)
Funds from securities issued and accepted		4,106,757	(46,156)
Subordinated debt and debt instrument eligible to equity		(1,862,794)	(3,363,668)
Non-controlling interest		6,264	2,813
Interest on equity	19	(1,201,475)	(1,504,728)
Capital increase	19	-	171,566
Cash provided by / (used in) financing activities		720,667	(5,230,150)
Increase in cash and cash equivalents		3,458,245	9,227,257
Balance of cash and cash equivalents	25		
At the beginning of the year		23,201,005	13,973,748
At the end of the year		26,659,250	23,201,005
Increase in cash and cash equivalents		3,458,245	9,227,257
Non-cash transaction		2,605,063	1,160,648
Interest on equity received by own shares repurchase		403	15,272
Interest on equity payable		(604,500)	(608,977)
Acquisition / Increase/ Transfer of equity interests		3,261,401	1,696,275
Changes in fair value of assets available for sale		(52,241)	58,078

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

## BANCO BTG PACTUAL S.A. and subsidiaries

### Consolidated statements of value added

Years ended December 31

(In thousands of reais)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Income		12,488,764	11,120,714
Financial brokerage		9,893,381	9,523,750
Services rendered	20	2,171,683	1,596,964
Other		423,700	-
Expenses		(7,092,925)	(5,778,384)
Financial brokerage		(6,946,849)	(5,739,996)
Allowance for loan losses and other receivables	10	(146,076)	106,754
Other		-	(145,142)
Inputs acquired from third parties		(1,069,821)	(2,532,155)
Materials, energy and other		(12,950)	(12,434)
Outsourced services		(1,056,871)	(2,519,721)
Gross value added		4,326,018	2,810,175
Depreciation and amortization	23	(56,683)	(65,214)
Net value added produced by the entity		4,269,335	2,744,961
Value added received through transfer		36,542	4,800
Equity in the earnings of associates and jointly controlled entities		36,542	4,800
Value added to be distributed		4,305,877	2,749,761
Distribution of value added		4,305,877	2,749,761
Personnel		1,403,055	1,337,934
Direct compensation		1,172,758	1,161,066
Benefits		133,000	95,675
FGTS – government severance pay fund		96,552	81,193
Other		745	-
Taxes, fees and contributions		449,150	(1,046,538)
Federal		299,138	(1,113,783)
Municipal		150,012	67,245
Remuneration of third party capital		85,950	82,363
Rent expenses		85,950	82,363
Remuneration of shareholders		2,367,722	2,376,002
Retained earnings		1,164,187	1,160,158
Interest on equity		1,196,597	1,223,705
Non-controlling interest		6,938	(7,861)

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

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### **1. Operations**

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

#### **New unit programs**

On February 14, 2017 the Board of Directors approved two new unit programs, whose units will be traded on the B3 S.A., representing exclusively the securities of each of the Companies: (i) units to be traded under the "BPAC11" ticker symbol, comprised of one common share and two class A preferred shares issued by the Bank, and (ii) units to be traded under the PPLA11 ticker symbol, comprised of one Brazilian depositary receipt ("BDR") representing one class A share and two BDR representing class B shares issued by PPLA Participations Ltd (previously named BTG Pactual Participations Ltd).

In August 2017, considering a notice from B3 S.A., regarding the trading price of PPLA11 units approaching R\$1.00 per unit, the Companies analyzed potential structure to meet requirements of the applicable regulation.

The Board of Directors of the Companies approved, the automatic migration of all currently remaining BBTG11 unit holders to the segregated trading structure of each of the Companies, BPAC11 for Bank investors and PPLA 11 for PPLA Participations LTD investors. Each holder of a BBTG11 unit as of the end of the trading session on August 18, 2017, starting from the beginning of the trading session on August 21, 2017, automatically hold one BPAC11 unit and one PPLA 11 unit for each BBTG11 unit previously held by such holder, without any other significant change to such holders.

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

#### **Corporate events**

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.

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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. CaixaPar assigned to Banco its rights to subscribe the capital increase and has entered into call/put options over 50% of the capital increase. The Shareholders Agreement of Banco Pan S.A. will not be modified hence CaixaPar and BTG Pactual remain as co-controllers of Banco Pan S.A.. The capital increase was concluded on February, 2018.

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

On October 27, 2017, the Bank approved the merger of Thor Comercializadora de Energia S.A., a company whose main activity is the sale of energy, and BTG Pactual Serviços Energéticos Ltda, a company that provides financial administrative services involving the sale of energy. The merger was concluded on March 29, 2018.

On January 2017, the shareholders of BTG Pactual approved without qualification, the merger of BTG Pactual Comercializadora de Energia Ltda by the Bank. On May 31, 2017, the BTG Comercializadora de Energia Ltda was merged by BTG Pactual.

During the year ended December 31, 2017, as part of the commodity trading activities separation process, Engelhart CTP acquired 10.62% of its own shares held by the Bank. The total consideration paid was US\$251 million and the price was equivalent to Engelhart CTP's net asset accounting value. On December 31, 2018 the Group has a stake equivalent to 19.03% of Engelhart CTP (December 31, 2017 – 19.44%). During the year ended on December 31, 2018, Engelhart CTP did not acquire its own shares held by the Bank.

### **Acquisitions and disposals**

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

On March 15, 2017, BTG Pactual received a notification from EFG claiming purchase price adjustments under the documents for the sale of BSI, of approximately CHF278 million in favor of EFG International ("EFG"). After careful review of such proposed adjustments and based on available information as at this date, BTG Pactual, after taking into consideration the input from its advisers, concluded the appropriate adjustment on a risk-adjusted basis could be CHF95.7 million in favor of BTG Pactual. On July 17, 2017, after negotiation with EFG, the Bank has agreed to return CHF 89 million of the amount previously paid by EFG. The resolution of this matter includes the CHF 95 million fine previously imposed by FINMA on BSI.

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

On October 31, 2017, BW Properties S.A., through its subsidiary BW1 Morumbi Empreendimento Imobiliário Ltda., concluded the sale of the remaining portion of the WT Morumbi project for a total amount of R\$ 231.8 million.

On October 5, 2017, the Bank acquired Novaportfólio Participações S.A., a company that holds certain NPL assets of Banco BVA S.A. in connection with its extrajudicial liquidation, for a consideration of R\$211 million.

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

The Bank's consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), in accordance with the standards and instructions of the Conselho Monetário Nacional (CMN), BACEN and Securities and Exchange Commission (CVM), when applicable.

The Bank's consolidated financial statements include the financial statements of the Bank, its foreign branches, direct and indirect subsidiaries in Brazil and abroad, investment funds and specific purpose entities (SPE), except Novaportfólio.

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

The consolidated financial statements were approved by the Bank's management on February 22, 2019, and they contain a true and fair view of the development and results of the Bank. Management evaluated the Bank' and its subsidiaries' capacity to continue operating as usual and has concluded that the Bank and its subsidiaries have funds to continue their operations in the future. Additionally, management is not aware of any material uncertainty that may create significant doubts on its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

#### **a. Consolidated financial statements**

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

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

The subsidiaries and investment funds consolidated on the Bank's financial statements, are as follows:

	Country	Equity interest - %	
		2018	2017
<b>Direct subsidiaries</b>			
BTG Pactual Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.	Brazil	99.99	99.99
BTG Pactual Serviços Financeiros S.A. Distribuidora de Títulos e Valores Mobiliários	Brazil	99.99	99.99
BTG Pactual Holding 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	75.54	73.93
BTG Pactual Holding de Seguros Ltda.	Brazil	99.99	99.99
BTG Pactual Chile Internacional Ltd.	Cayman	100.00	100.00
Banco BTG Pactual Luxembourg S.A.	Luxembourg	100.00	100.00
BTG Pactual Corretora de Seguros Ltda.	Brazil	100.00	100.00
Banco Sistema S.A.	Brazil	99.91	99.84
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	-
<b>Indirect subsidiaries</b>			
BTG Pactual Gestora de Investimentos Alternativos Ltda.	Brazil	99.98	99.98
BTG Pactual WM Gestão de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Gestora de Recursos Ltda.	Brazil	99.99	99.99
BTG Pactual Corporate Services Ltda.	Brazil	99.99	99.99
BTG Pactual NY Corporation	USA	100.00	100.00
BTG Pactual Global Asset Management Limited	Bermuda	100.00	100.00
BTG Pactual Europe LLP	UK	100.00	100.00
BTG Pactual Asset Management US, LLC	USA	100.00	100.00
BTG Pactual US Capital, LLC	USA	100.00	100.00
BTG Pactual Asia Limited	Hong Kong	100.00	100.00
BTG Global Asset Management (UK) Limited	UK	100.00	100.00
BTG Pactual Resseguradora S.A.	Brazil	100.00	100.00
BTG Pactual Vida e Previdência S.A.	Brazil	100.00	100.00
Infra IX Empreendimentos e Participações S.A.	Brazil	-	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 Capital S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Corredores de Bolsa	Chile	100.00	100.00
BTG Pactual Chile Capital Administradora de Fondos de Inversion de Capital Extranjero S.A.	Chile	100.00	100.00
BTG Pactual Chile Capital S.A. Administradora General de Fondos	Chile	100.00	100.00
BTG Pactual Chile 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 Seguros de Vida	Chile	100.00	100.00
BTG Pactual Holding Delaware LLC	USA	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Agente de Bolsa	Peru	100.00	100.00
BTG Pactual Peru Capital S.A. Sociedad Administradora de Fondos Inversion	Peru	100.00	100.00
BTG Pactual Perú S.A.C.	Peru	100.00	100.00
BTG Pactual S.A. Comisionista de Bolsa	Colombia	99.70	99.70
BTG Pactual Sociedad Fiduciaria (Colômbia) S.A.	Colombia	94.50	94.50
Laurel Sociedad Gestora Profissional S.A.S	Colombia	100.00	100.00
BTG Pactual E&P S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Oil & Gas S.a.r.l.	Luxembourg	100.00	100.00
TTG Brasil Investimentos Florestais Ltda.	Brazil	100.00	100.00
BTG Pactual Timberland Investments Group LLC	USA	100.00	100.00
BTG Pactual Casa de Bolsa, S.A. de C.V.	Mexico	100.00	100.00

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

	Country	Equity interest - %	
		2018	2017
Bamerindus Participações e Empreendimentos S.A.	Brazil	-	99.84
Bastec Tecnologia e Serviços Ltda.	Brazil	99.84	99.84
BTG Pactual UK Holdco Limited	UK	100.00	100.00
BTG Pactual Family Office S.A. de C.V.	Mexico	-	100.00
BTG Pactual Gestora de Fondos SA de CV Operadora de Fondos de Inversion	Mexico	100.00	100.00
Newco SEG Holding S.A.	Brazil	100.00	100.00
TTG Forestry Services LLC	USA	100.00	100.00
N.A.S.S.P.E Empreendimentos e Participacoes S.A.	Brazil	100.00	100.00
BTG Pactual Argentina S.A.	Argentina	100.00	100.00
BTG Pactual Real Estate Luxembourg Holding S.A.	Luxembourg	100.00	100.00
BTG Pactual RE Income S.A.	Colombia	100.00	100.00
BTG Pactual Chile Asesorias Financieras	Chile	100.00	100.00
PFC Consultoria e Assessoria Empresarial Eireli	Brazil	100.00	-
Engelhart CTP Absolute Return Limited	Cayman	100.00	-
Lutece Holdings Ltd.	Bermuda	100.00	-
<b>Investment funds</b>			
Fundo de Investimento Multimercado Crédito Privado LS Investimento no Exterior	Brazil	100.00	100.00
BTG Pactual International Portfolio Fund SPC - CLASS C	Cayman	100.00	100.00
BTG Pactual Global Fund LP	Cayman	100.00	100.00
BTGP Latam Fund LLC	Cayman	100.00	100.00
BTG Pactual Oil & Gas FIQ FIP	Brazil	100.00	100.00
BTG Pactual Fundo de Investimento Imobiliário Ametista	Brazil	100.00	100.00
Warehouse Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Absolute Return Master Fund	Cayman	100.00	100.00
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	100.00	100.00
FIM CP Energy	Brazil	51.48	-
FIM CP Vitória Fidelis	Brazil	100.00	-
FIDC NP Alternative Assets II	Brazil	100.00	-

### b. Functional currency

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

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

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

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

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

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

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

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

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

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

#### **c. Securities**

Measured and classified in accordance with the criteria established by BACEN Circular Letter 3068 under the following categories:

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

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

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

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

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

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

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

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

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

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

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

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

- Market risk hedge: financial instruments included in this category, as well as their related hedged financial assets and liabilities, are measured at fair value, and their realized or unrealized related gains or losses are recorded in the statements of income.
- Cash flow hedge: the instruments classified in this category are measured at fair value, and the effective portion of the appreciation or depreciation is recorded in a separate account under shareholders' equity, net of tax effects. The non-effective portion of the respective hedge is directly recorded in the statement of income.
- Net Investment Hedge of Foreign Operations - accounted for similarly to cash flow hedge, i.e. the portion of gains or losses on a hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity, and reclassified to income for the period in the event of the disposal of the foreign operation. The ineffective portion is recognized in statements of income for the period.

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

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

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

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

The notional amount of the agreements recorded in memorandum accounts.

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

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

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

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

### **h. Loans and other receivables (operations with credit characteristics)**

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

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

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

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

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

### **j. Investment property**

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

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

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

### **k. Investments**

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

### **l. Foreign currency translation**

See note 3b.

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

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

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

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

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

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

### **o. Intangible assets**

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

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

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

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

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

The provisions for income tax and social contribution are recorded based on accounting profits adjusted by additions and deductions according to the tax legislation. Deferred income tax and social contribution are calculated on temporary differences, whenever the realization of these amounts is considered as probable, at the rate of 15% for income tax, plus a 10% surtax on the annual taxable income exceeding R\$240, and 20% for social contribution.

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

Recognized according to the criteria described below:

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### **i. Contingent assets**

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

### **ii. Contingent liabilities**

Contingent liabilities are recognized in the financial statements when, based on the opinion of the legal counsel and management, the risk of loss in legal or administrative proceeding is considered probable, and whenever the amounts involved can be measured reliably relevant. Contingent liabilities assessed by the legal advisors as possible losses are only disclosed in the notes to the financial statements, while those classified as remote losses do not require the recording of provisions nor disclosure.

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

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

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

Calculated based on weighted average shares outstanding for the period.

### **t. Revenue recognition**

Revenues and expenses are recorded under the accrual method.

## **5. Risk management**

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

### a. Operational limits

	2018	2017
Reference Shareholders' Equity	18,790,469	18,473,348
Consolidation adjustments	54,465	54,465
Reference Shareholders' Equity Consolidated	18,844,934	18,527,813
Tier I	13,073,230	14,773,238
Common Equity	9,519,308	11,752,635
Complementary Equity	3,553,922	3,020,603
Tier II	1,813,130	2,369,416
Reference Shareholders' Equity (PR) - (a)	14,886,360	17,142,654
Required Reference Shareholders' Equity (PRE)	7,751,994	8,787,351
Total exposure risk-weighted - (b)	89,878,195	94,998,390
Credit risk	52,997,712	56,089,429
Operational risk	4,370,623	4,615,858
Market risk	32,509,860	34,293,103
Basel ratio - (a/b)	16.6%	18.0%
Tier I capital	14.6%	15.5%
Tier II capital	2.0%	2.5%
Fixed assets ratio	96.5%	61.6%
Fixed assets to equity capital ratio	7,434,944	8,562,702
Status for fixed assets to equity capital ratio	7,176,296	5,272,947
Amount of margin (insufficiency)	258,648	3,289,755

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

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

As at the year ended December 31, 2018 and 2017, 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.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

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

In millions of R\$	December 2018	December 2017	December 2016
Daily average VaR	82.7	120.3	141.3

### 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.

### d. Liquidity risk

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

### e. Operational 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.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

### 6. Cash at banks

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

### 7. Interbank investments

	2018					2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	Over 3 years	Total
Open market investments	40,808,965	37,702,223	2,908,995	89,527	108,220	26,568,613
Own portfolio	12,334,671	11,880,848	453,823	-	-	3,107,558
Federal government bonds	12,051,604	11,614,568	437,036	-	-	2,940,700
Corporate bonds	226,991	210,204	16,787	-	-	166,858
Foreign private securities	55,368	55,368	-	-	-	-
Foreign government bonds	708	708	-	-	-	-
Third-party portfolio	22,105,908	20,618,265	1,289,896	89,527	108,220	18,808,858
Federal government bonds	21,877,628	20,618,265	1,156,501	21,241	81,621	18,711,441
Foreign private securities	69,094	-	60,656	8,438	-	-
Corporate bonds	159,186	-	72,739	59,848	26,599	97,417
Short position	6,368,386	5,203,110	1,165,276	-	-	4,652,197
Federal government bonds	6,347,237	5,181,961	1,165,276	-	-	4,652,197
Corporate bonds	6,562	6,562	-	-	-	-
Foreign government bonds	14,587	14,587	-	-	-	-
Interbank investments (*)	2,688,220	2,608,468	79,752	-	-	1,223,674
Interbank deposit certificates	234,582	154,830	79,752	-	-	497,524
Investments in foreign currency - overnight	2,453,638	2,453,638	-	-	-	726,150
Total	43,497,185	40,310,691	2,988,747	89,527	108,220	27,792,287

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

The collateral received in repurchase agreements amounts to R\$41,756,800 (December 31, 2017 - R\$34,410,680), whereas the collateral granted amounts to R\$37,373,792 (December 31, 2017 - R\$33,951,141).

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### 8. Securities

#### a. By type of portfolio

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

	2018							2017
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	15,685,492	15,676,143	9,061,456	464,445	938,439	1,086,883	4,124,920	16,210,815
Federal government bonds	2,428,520	2,432,809	721,808	113,770	539,610	400,257	657,364	1,081,671
Debentures/Eurobonds (i)	741,840	601,725	12,102	40,826	82,431	216,505	249,861	776,075
Investment fund quotes								
Shares	59,683	59,686	59,686	-	-	-	-	-
Multimarket	2,411,183	2,411,183	2,405,852	-	-	-	5,331	5,030,807
FIDC - Credit Rights	141,459	141,459	141,459	-	-	-	-	49,913
Real Estate	133,463	133,476	99,496	-	-	-	33,980	57,107
Equity Investment fund	295,037	295,037	295,037	-	-	-	-	398,113
Shares	4,170,115	4,284,301	4,284,301	-	-	-	-	5,524,664
Certificate of real estate								
receivables	39,701	37,304	-	-	9,965	883	26,456	380,060
Other	409,731	409,099	319,738	60,201	-	-	29,160	-
Foreign government bonds	2,374,555	2,389,178	346,085	46,551	89,007	328,051	1,579,484	944,887
Foreign private securities	2,480,205	2,480,886	375,892	203,097	217,426	141,187	1,543,284	1,967,518
Unrestricted portfolio	29,933	30,823	-	-	-	14,893	15,930	144,227
Federal government bonds	29,933	30,823	-	-	-	14,893	15,930	144,227
Subject to repurchase agreements	6,582,445	6,507,368	228,466	4,322,824	711,366	568,118	676,594	8,730,358
Federal government bonds	4,743,339	4,747,143	-	4,064,272	318,452	364,419	-	6,729,304
Foreign government bonds	708,460	703,074	-	227,267	200,573	-	275,234	1,255,784
Foreign private securities	447,320	442,082	228,466	-	6,241	1,914	205,461	162,356
Debentures (i)	683,326	615,069	-	31,285	186,100	201,785	195,899	582,914
Subject to guarantees	3,990,880	3,974,485	1,907,892	97,165	1,510,383	167,471	291,574	2,757,792
Federal government bonds	1,877,558	1,877,978	283,913	84,393	1,421,406	88,266	-	1,531,613
Investment fund quotes								
Multimarket	628,599	628,599	628,599	-	-	-	-	352,549
Debentures (i)	169,824	168,575	7,687	-	81,683	79,205	-	-
Bank credit certificate	-	-	-	-	-	-	-	54,578
Certificate of real estate								
receivables	318,018	291,574	-	-	-	-	291,574	14,463
Shares	954,042	964,920	964,920	-	-	-	-	768,404
Foreign private securities	42,839	42,839	22,773	12,772	7,294	-	-	36,185
Trading securities	18,950,791	19,087,188	10,569,506	1,215,517	1,938,667	1,223,066	4,140,432	21,447,791
Available for sale securities	3,131,972	2,895,644	628,308	294,753	389,698	614,299	968,586	1,925,303
Held-to-maturity securities	4,205,987	4,205,987	-	3,374,164	831,823	-	-	4,470,098
Total	26,288,750	26,188,819	11,197,814	4,884,434	3,160,188	1,837,365	5,109,018	27,843,192

(i) Substantially securities issued by Brazilian companies.

#### b. Trading securities

	2018							2017
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Own portfolio	13,770,934	13,901,963	8,487,081	200,977	816,524	753,574	3,643,807	14,926,351
Federal government bonds	2,428,520	2,432,809	721,808	113,770	539,610	400,257	657,364	1,081,671
Debentures/Eurobonds	67,715	71,163	12,102	-	12	2,814	56,235	363,350
Investment fund quotes								
Shares	59,683	59,686	59,686	-	-	-	-	-
Multimarket	2,411,183	2,411,183	2,405,852	-	-	-	5,331	5,030,807
FIDC - Credit Rights	141,459	141,459	141,459	-	-	-	-	49,913
Real Estate	133,463	133,476	99,496	-	-	-	33,980	57,107
Equity Investment fund	108,925	108,925	108,925	-	-	-	-	229,527
Shares	4,170,115	4,284,301	4,284,301	-	-	-	-	5,524,664
Certificate of real estate								
receivables	5,232	233	-	-	233	-	-	44,412
Other	10	10	10	-	-	-	-	-
Foreign government bonds	2,216,547	2,230,297	287,059	43,887	76,055	250,298	1,572,998	792,019
Foreign private securities	2,028,082	2,028,421	366,383	43,320	200,614	100,205	1,317,899	1,752,881
Unrestricted portfolio	29,933	30,823	-	-	-	14,893	15,930	144,227
Federal government bonds	29,933	30,823	-	-	-	14,893	15,930	144,227
Subject to repurchase agreements	2,564,517	2,557,697	228,466	956,937	525,266	366,333	480,695	4,513,147
Federal government bonds	1,408,737	1,412,541	-	729,670	318,452	364,419	-	3,095,007
Foreign government bonds	708,460	703,074	-	227,267	200,573	-	275,234	1,255,784
Foreign private securities	447,320	442,082	228,466	-	6,241	1,914	205,461	162,356
Subject to guarantees	2,585,407	2,596,705	1,853,959	57,603	596,877	88,266	-	1,864,066
Federal government bonds	1,006,173	1,006,593	283,913	44,831	589,583	88,266	-	695,812

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

	2018						2017	
	Cost	Market	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market
Investment fund quotes								
Multimarket	582,353	582,353	582,353	-	-	-	-	309,087
Bank credit certificate	-	-	-	-	-	-	-	54,578
Shares	954,042	964,920	964,920	-	-	-	-	768,404
Foreign private securities	42,839	42,839	22,773	12,772	7,294	-	-	36,185
Total	18,950,791	19,087,188	10,569,506	1,215,517	1,938,667	1,223,066	4,140,432	21,447,791

### c. Available-for-sale securities

	2018							2017
	Cost	Market value	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Market value
Own portfolio	1,914,558	1,774,180	574,375	263,468	121,915	333,309	481,113	1,284,464
Investment fund quotes								
Equity investment fund	186,112	186,112	186,112	-	-	-	-	168,586
Debentures	674,125	530,562	-	40,826	82,419	213,691	193,626	412,725
Certificate of real estate receivables	34,469	37,071	-	-	9,732	883	26,456	335,648
Foreign government bonds	158,008	158,881	59,026	2,664	12,952	77,753	6,486	152,868
Foreign private securities	452,123	452,465	9,509	159,777	16,812	40,982	225,385	214,637
Other	409,721	409,089	319,728	60,201	-	-	29,160	-
Subject to repurchase agreements	683,326	615,069	-	31,285	186,100	201,785	195,899	582,914
Debentures	683,326	615,069	-	31,285	186,100	201,785	195,899	582,914
Subject to guarantees	534,088	506,395	53,933	-	81,683	79,205	291,574	57,925
Debentures	169,824	168,575	7,687	-	81,683	79,205	-	-
Investment fund quotes								
Multimarket	46,246	46,246	46,246	-	-	-	-	43,462
Certificate of real estate receivables	318,018	291,574	-	-	-	-	291,574	14,463
Total	3,131,972	2,895,644	628,308	294,753	389,698	614,299	968,586	1,925,303

### d. Held-to-maturity securities

	2018						2017
	Cost	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Cost
Subject to re purchase	3,334,602	-	3,334,602	-	-	-	3,634,297
Federal government bonds	3,334,602	-	3,334,602	-	-	-	3,634,297
Subject to guarantees	871,385	-	39,562	831,823	-	-	835,801
Federal government bonds	871,385	-	39,562	831,823	-	-	835,801
Total	4,205,987	-	3,374,164	831,823	-	-	4,470,098

If measured at fair value, held-to-maturity securities would be reported as at the year ended December 31, 2018 with a positive adjustment of R\$42,870 (December 31, 2017 – R\$198,515 positive).

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

### e. Reclassification of securities

Management classifies the securities according to its trading intention. No reclassifications or changes in intention occurred during the year ended on December 31, 2018 and 2017.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### 9. Derivative financial instruments

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

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

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

As at the year ended December 31, 2018 and 2017, the bank strategy of net investments in foreign operations consist of a hedge of the exposure in foreign currency arising from the functional currency of foreign operations, compared to the functional currency of the head office.

	2018		
	Hedge instrument		
	Nominal value	Market (i)	Hedge assets
Net Investment Hedge of Foreign Operations	13,474,849	(1,082,239)	7,061,816

  

	2017		
	Hedge instrument		
	Nominal value	Market (i)	Hedge assets
Net Investment Hedge of Foreign Operations	12,256,669	(313,585)	6,164,992

(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.

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

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

	2018				2017
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
<b>Futures market</b>					
Long position	5,911,146	1,744,034	26,260,802	33,915,982	124,495
Currency	1,773,376	37,564	-	1,810,940	-
Interest rate	3,619,002	1,706,470	26,257,390	31,582,862	-
Index	447,505	-	3,412	450,917	-
Equities	71,263	-	-	71,263	-
Other	-	-	-	-	124,495
Short position	12,805,544	3,992,541	10,246,014	27,044,099	95,275
Currency	1,057,253	35,185	-	1,092,438	-
Interest rate	10,320,955	3,957,356	10,234,397	24,512,708	-
Index	983,128	-	11,617	994,745	-
Equities	444,208	-	-	444,208	-
Other	-	-	-	-	95,275
<b>Swap</b>					
Long position	45,041,486	5,575,497	18,531,305	69,148,288	137,596,593
Currency	1,510,920	177,375	1,396,976	3,085,271	4,581,902
Interest rate	41,089,794	4,962,443	16,266,289	62,318,526	121,745,570
Index	42,114	33,224	347,478	422,816	6,776,035
Equities	1,561,479	178,206	277,232	2,016,917	520,566
Commodities	9,724	2,588	-	12,312	20,831
Other	827,455	221,661	243,330	1,292,446	3,951,689
Short position	45,041,486	5,575,497	18,531,305	69,148,288	137,596,593
Currency	1,617,475	296,147	2,007,916	3,921,538	4,581,903
Interest rate	41,018,115	5,027,713	14,769,862	60,815,690	124,956,799
Index	7,639	95,000	774,499	877,138	6,805,004
Equities	209,178	39,964	234,357	483,499	479,478
Other	2,189,079	116,673	744,671	3,050,423	773,409
<b>Credit Derivatives</b>					
Long position	-	-	84,471	84,471	138,274
Sovereign	-	-	84,471	84,471	-
Corporate	-	-	-	-	138,274
Short position	77,496	-	172,680	250,176	-
Sovereign	77,496	-	13,756	91,252	-
Corporate	-	-	158,924	158,924	-
<b>Non-deliverable forward - NDF</b>					
Long position	32,725,294	3,976,301	11,323,277	48,024,872	70,920,709
Currency	30,778,098	2,274,757	8,776,067	41,828,922	41,513,210
Index	1,947,196	1,701,544	2,547,210	6,195,950	-
Commodities	-	-	-	-	27,434,820
Interest rate	-	-	-	-	1,972,679
Short position	32,725,294	3,976,301	11,323,277	48,024,872	70,920,709
Currency	23,652,082	1,368,671	8,710,367	33,731,120	41,513,210
Index	1,947,196	1,701,544	2,547,210	6,195,950	-
Commodities	-	-	-	-	27,434,820
Interest rate	7,116,152	903,426	65,700	8,085,278	1,972,679
Other	9,864	2,660	-	12,524	-
<b>Deliverable forward - DF</b>					
Long position	-	-	-	-	9,968,321
Currency	-	-	-	-	9,968,321
Short position	-	-	-	-	9,968,321
Currency	-	-	-	-	9,968,321
<b>Security forwards</b>					
Long position	-	-	-	-	1,037,415
Interest rate	-	-	-	-	716,003
Government bonds	-	-	-	-	321,412

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

	2018				2017
	Up to 6 months	6 to 12 months	Over 1 year	Total	Total
Short position	-	-	-	-	1,037,415
Interest rate	-	-	-	-	321,412
Government bonds	-	-	-	-	716,003
Options market					
Call option - long position	5,948,665	688,701	783,536	7,420,902	11,754,348
Equities	1,043,646	517,818	222,213	1,783,677	354,955
Currency	4,625,193	170,883	557,558	5,353,634	8,041,827
Corporate	-	-	-	-	2,492
Index	200,780	-	3,765	204,545	621,380
Interest rate	-	-	-	-	2,733,694
Other	79,046	-	-	79,046	-
Put option - long position	55,882,893	13,715,379	156,539	69,754,811	38,513,893
Equities	3,933,523	8,386	105,384	4,047,293	274,612
Index	-	-	-	-	493,041
Corporate	-	-	-	-	224,922
Currency	6,350,845	13,706,993	51,155	20,108,993	9,927,326
Interest rate	45,598,525	-	-	45,598,525	27,593,992
Call option - short position	1,877,919	392,192	206,487	2,476,598	7,903,951
Equities	130,087	51,878	63,450	245,415	147,153
Currency	1,695,012	265,027	23,125	1,983,164	6,010,753
Index	52,820	75,287	119,912	248,019	1,746,045
Put option - short position	50,523,811	13,689,647	51,158	64,264,616	31,390,297
Equities	242,200	1,157	-	243,357	336,537
Index	441,088	-	-	441,088	82,645
Currency	2,695,952	13,688,490	51,158	16,435,600	5,912,423
Interest rate	47,144,571	-	-	47,144,571	25,058,692

### b. By cost and market value

	Cost	Market	2018			2017
			Up to 6 months	6 to 12 months	Over 1 year	Total
Futures						
Long position	548	548	548	-	-	101,355
Short position	2,969	2,969	2,969	-	-	83,527
Swaps						
Long position	757,941	816,237	149,720	38,824	627,693	1,204,189
Short position	1,294,440	1,318,129	175,430	90,113	1,052,586	1,437,598
Credit derivatives						
Long position	197	13,054	500	-	12,554	142,712
Short position	8,690	12,311	-	-	12,311	46,316
Non-deliverable forward - NDF						
Long position	1,497,504	1,504,793	767,187	403,164	334,442	1,901,085
Short position	737,834	743,548	435,194	233,013	75,341	2,252,027
Deliverable forward - DF						
Long position	-	-	-	-	-	9,738,461
Short position	-	-	-	-	-	9,796,835
Security forwards						
Long position	-	300,971	300,971	-	-	521,056
Short position	-	298,746	298,746	-	-	518,537
Options market						
Long position	1,170,077	1,167,282	941,869	75,227	150,186	835,982
Short position	262,346	437,765	369,053	39,512	29,200	26,932
<b>Long position</b>	<b>3,426,267</b>	<b>3,802,885</b>	<b>2,160,795</b>	<b>517,215</b>	<b>1,124,875</b>	<b>14,444,840</b>
<b>Short position</b>	<b>2,306,279</b>	<b>2,813,468</b>	<b>1,281,392</b>	<b>362,638</b>	<b>1,169,438</b>	<b>14,161,772</b>

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, otherwise indicated)

### c. Notional by counterparty

	2018					2017
	Clearing houses / stock exchange	Financial Institutions (i)	Companies	Individuals	Total	Total
Futures market						
Long position	33,471,445	444,537	-	-	33,915,982	124,495
Short position	22,233,805	4,810,294	-	-	27,044,099	95,275
Swap						
Long position	904,490	66,245,278	1,976,110	22,410	69,148,288	137,596,593
Short position	904,490	66,245,278	1,976,110	22,410	69,148,288	137,596,593
Credit derivatives						
Long position	-	84,471	-	-	84,471	138,274
Short position	-	250,176	-	-	250,176	-
Non-deliverable forward - NDF						
Long position	-	37,469,327	10,348,352	207,193	48,024,872	70,920,709
Short position	-	37,469,327	10,348,352	207,193	48,024,872	70,920,709
Deliverable forward - DF						
Long position	-	-	-	-	-	9,968,321
Short position	-	-	-	-	-	9,968,321
Security forwards						
Long position	-	-	-	-	-	1,037,415
Short position	-	-	-	-	-	1,037,415
Options market						
Long position	14,363,000	62,505,994	49,441	257,278	77,175,713	50,268,241
Short position	14,799,060	51,672,563	59,972	209,619	66,741,214	39,294,248
<b>Long position</b>	<b>48,738,935</b>	<b>166,749,607</b>	<b>12,373,903</b>	<b>486,881</b>	<b>228,349,326</b>	<b>270,054,048</b>
<b>Short position</b>	<b>37,937,355</b>	<b>160,447,638</b>	<b>12,384,434</b>	<b>439,222</b>	<b>211,208,649</b>	<b>258,912,561</b>

(i) Includes investments funds.

### d. Credit derivatives

	2018	2017
Credit swap		
Transferred risk		
Sovereign	84,471	-
Risk received		
Sovereign	(91,252)	138,274
Corporate	(158,924)	-
	<b>(165,705)</b>	<b>138,274</b>

During the year ended December 31, 2018 and 2017, there was no credit events related to triggering facts provided for in agreements.

According to CMN's resolutions, the effect on the calculation of the required reference shareholders' equity (PRE) as at December 31, 2018 is R\$21,318 (December 31, 2017 – R\$200,725).

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

### **e. Guarantee margins**

Guarantee margins in transactions traded on B3 S.A. and other stock exchanges with derivatives comprises federal government and foreign government bonds totaling R\$2,413,113 (December 31, 2017 – R\$1,845,811) and shares in the amount of R\$964,919 (December 31, 2017 – R\$768,404).

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

The fair values of financial instruments are calculated as follows:

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

### 10.Loans

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

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

Loans and other operations with credit characteristics are as follows:

#### a. Loans

##### i. By type of credit

Type of credit	2018		2017	
	Balance	Allowance	Balance	Allowance
Loans	13,664,984	(557,633)	9,439,841	(619,973)
Financing	1,419,172	(64,786)	913,181	(100,029)
FINAME/BNDES	2,890,562	(14,393)	2,817,560	(13,915)
Securities financing	876,136	-	156,011	-
Transferred loans with co-obligations (i)	5,518	-	433,527	-
Total	18,856,372	(636,812)	13,760,120	(733,917)

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

##### ii. By risk level and maturity

Risk level	2018						2017	
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	77	4,302,002	547,197	4,300,864	9,150,140	-	5,565,057	-
A	-	354,650	401,207	3,922,777	4,678,634	(23,393)	3,225,616	(15,681)
B	288	354,723	300,034	987,516	1,642,561	(16,426)	1,488,641	(15,027)
C	181,216	351,467	199,800	789,300	1,521,783	(75,582)	1,138,577	(56,297)
D	36,576	352,225	6,880	968,699	1,364,380	(293,854)	1,596,454	(200,976)
E	2,375	43,907	22,707	207,437	276,426	(82,928)	91,108	(27,567)
F	7,528	3,528	4,062	119,448	134,566	(74,368)	563,173	(327,161)
G	56,915	-	-	1,824	58,739	(41,117)	964	(675)
H	7,274	13,646	4,535	3,688	29,143	(29,144)	90,530	(90,533)
Total	292,249	5,776,148	1,486,422	11,301,553	18,856,372	(636,812)	13,760,120	(733,917)

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, otherwise indicated)

### iii. By activity sector

Sector	2018	2017
Commerce	2,609,460	1,332,948
Industry	2,977,475	2,404,767
Services	11,938,704	9,101,734
Rural	863,290	397,686
Individuals	467,443	522,985
Total	18,856,372	13,760,120

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

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

#### i. By risk level and maturity

Risk level	2018					2017		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	-	36,263	-	36,263	-	4,314	-
C	-	-	1,739	3,489	5,228	(157)	51,621	(1,549)
F	-	-	-	-	-	-	20,547	(10,273)
Total	-	-	38,002	3,489	41,491	(157)	76,482	(11,822)

#### ii. By activity sector

Sector	2018	2017
Services	36,262	76,482
Commerce	5,229	-
Total	41,491	76,482

### c. Advances in foreign exchange contracts

#### i. By risk level and maturity

Risk level	2018					2017		
	Overdue	Maturity			Total	Allowance	Total	Allowance
		Up to 6 months	6 to 12 months	Over 12 months				
AA	-	-	-	-	-	-	28,602	-
A	-	-	149,572	-	149,572	(782)	-	-
B	-	489,122	192,944	-	682,066	(6,731)	113,765	(1,173)
C	-	56,078	-	-	56,078	(1,896)	124,445	(4,836)
D	-	51,027	-	-	51,027	(14,111)	30,074	(5,869)
E	-	-	-	-	-	-	-	-
Total	-	596,227	342,516	-	938,743	(23,520)	296,886	(11,878)

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, otherwise indicated)

### ii. By activity sector

Sector	2018	2017
Industry	938,743	126,682
Services	-	170,204
Total	938,743	296,886

### d. Credit concentration

	2018	%	2017	%
Largest debtors				
10 largest debtors	8,579,481	43%	6,578,322	48%
20 following largest debtors	1,720,801	9%	2,011,713	14%
50 following largest debtors	2,446,034	12%	2,138,088	15%
100 following largest debtors	2,589,165	13%	2,029,656	14%
200 following largest debtors	2,616,999	13%	1,171,901	8%
500 following largest debtors	1,766,345	9%	187,496	1%
Above 500 following largest debtors	117,781	1%	16,312	0%
Total	19,836,606	100%	14,133,488	100%

### e. Allowance

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

	2018	2017
Opening balances	(871,528)	(835,069)
Reversal/(accrual) of allowance	(146,076)	106,754
Renegotiation of credits written off to loss	(83,202)	(152,708)
Allowance for guarantee	(34,370)	(73,191)
Guarantees	(80,124)	-
Exchange rate variation	(16,493)	612
Credits written off as loss	252,241	82,074
Closing balances	(979,552)	(871,528)
Breakdown of closing balances		
Allowance for loan losses	(636,812)	(733,917)
Allowance for other receivables	(189,272)	(51,870)
Allowance for other receivables without loan characteristics (Note 10 (b))	(157)	(11,822)
Allowance for advances on foreign exchange contracts (Note 10 (c))	(23,520)	(11,878)
Allowance for guarantes	(129,791)	(62,041)
	(979,552)	(871,528)

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

As at December 31, 2018, the amount of R\$1,701,795 were due to credit renegotiation (December 31, 2017 – R\$1,722,196). Also in the year ended December 31, 2018 there were R\$80,451 written off loans recovered (December 31, 2017 – R\$145,835).

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, otherwise indicated)

### 11. Other receivables/obligations

#### a. Foreign Exchange portfolio

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Unsettled exchange contracts	1,946,655	15,272,557	810,886	11,177,659
Rights on foreign exchange sales	15,458,174	-	11,193,962	-
(-) Advances on foreign exchange contracts	20,697	(918,046)	2,897	(293,989)
(-) Advances in foreign currency received	(271)	-	-	-
(-) Advances in local currency received	-	-	(37)	-
Liability for foreign exchange purchase	-	2,125,514	-	890,133
<b>Total</b>	<b>17,425,255</b>	<b>16,480,025</b>	<b>12,007,708</b>	<b>11,773,803</b>
Current	17,425,255	16,480,025	12,007,708	11,773,803
Long-term	-	-	-	-

Guarantees for foreign exchange transactions carried out through B3 S.A., are represented by federal government bonds in the amount of R\$596,453 (December 31, 2017 - R\$143,577).

#### b. Securities trading and brokerage

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Clearing houses	583,022	191,879	372,741	264,839
Unsettled financial assets / liabilities	17	731,423	-	64
Pending settlement	2,576,317	1,077,495	3,023,323	1,467,741
Creditors for stock loans	-	15,431	-	570,106
Other securities trading and brokerage	-	-	-	203
Commissions and brokerage payable	717,708	3,184,599	202,174	1,929,630
Swap brokerage	140	-	129	-
<b>Total</b>	<b>3,877,204</b>	<b>5,200,827</b>	<b>3,598,367</b>	<b>4,232,583</b>
Current	3,877,204	5,200,827	3,598,367	4,232,583
Long-term	-	-	-	-

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

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, otherwise indicated)

### 12. Other receivables

#### a. Income receivable

	<u>2018</u>	<u>2017</u>
Dividends and bonus	102,781	51,974
Receivables from services rendered	59,944	89,614
Rights on energy sales	104,764	1,925,051
Management and performance fees for investment funds and portfolio	630,119	412,319
Distribution fees	5,289	4,330
Commissions on guarantees	24,367	26,675
Total	<u>927,264</u>	<u>2,509,963</u>
Current	927,264	2,509,963
Long-term	-	-

#### b. Sundry

	<u>2018</u>	<u>2017</u>
Deferred tax assets - income and social contribution (note 18)	5,393,743	4,411,458
Deferred tax assets - Others	303,507	209,297
Sundry (i)	1,493,016	3,034,267
Judicial deposits	1,627,949	1,497,424
Taxes recoverable to offset	735,333	2,875,359
Securities and credits receivable		
With loan characteristics (note 10 b)	41,491	76,482
Without loan characteristics	1,360,096	697,091
Investment properties	510,796	554,525
Salaries advances	33,830	24,746
Advance to suppliers	283	108,237
Other	480,408	302,353
Total	<u>11,980,452</u>	<u>13,791,239</u>
Current	505,344	1,338,588
Long-term	11,475,108	12,452,651

(i) On December 31, 2017, includes receivables from sale of investmets.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

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

	Associates and jointly-controlled entities					
	Shareholders' Equity		Net income (loss)		Interest	
	2018	2017	2018	2017	2018	2017
In Brazil						
Banco Pan S.A.	4,095,919	3,555,824	221,515	212,606	50.59%	40.35%
Warehouse 1 Empreendimentos Imobiliários S.A.	27,214	34,337	(1,679)	4,583	35.00%	35.00%
Pan Seguros S.A.	470,234	616,112	61,461	52,685	51.00%	51.00%
Pan Corretora S.A.	32,256	54,486	10,679	10,899	51.00%	51.00%
Abroad						
Engelhart CTP Group S.A.	2,029,348	2,260,025	(594,667)	(746,827)	19.03%	19.44%
EFG International (i) (ii)	6,636,882	7,146,953	185,016	71,107	30.00%	30.00%

(i) The equity accounting result related to the investment in EFG recognized during the period ended September 30, 2018 comprises the income generated by the investee for the six period of 2018, in addition to the second half of 2017, as a result of the late disclosure of its financial information.

(ii) On December 31, 2018, the equity on EFG include total return swap in the amount of CHF46,686.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, otherwise indicated)

	Changes in investments							2018	Equity in earnings of associates from 2017
	2017	Acquisition / Increase/ Transfer / (Sales)	Dividends paid	Changes in investment accounting practices (iii)	Fair value adjustment (iv)	Exchange variation	Equity in earnings of subsidiaries		
In Brazil									
Banco Pan S.A.	1,341,299	542,698	(43,871)	-	2,679	-	111,433	1,954,238	85,204
Negative Goodwill - Banco Pan	(56,884)	(168,646)	-	-	-	-	-	(225,530)	-
Warehouse 1 Empreendimentos Imobiliários S.A.	12,017	-	-	-	-	-	(3,526)	8,491	1,603
Pan Corretora S.A.	27,787	(4,081)	(12,702)	-	-	-	5,446	16,450	5,558
Pan Seguros S.A.	314,214	-	(82,499)	-	114	-	7,987	239,816	26,476
Other	5,909	(954)	-	-	-	-	(1,769)	3,186	2
<b>Total</b>	<u>1,644,342</u>	<u>369,017</u>	<u>(139,072)</u>	<u>-</u>	<u>2,793</u>	<u>-</u>	<u>119,571</u>	<u>1,996,651</u>	<u>118,843</u>
Abroad									
BTG Pactual Holding S.A.R.L. (i) (ii) (v)	-	3,261,401	-	-	-	-	192,028	3,453,429	78,993
Maybroke Holding S.A. (i)	-	-	-	-	-	-	-	-	11,722
Engelhart CTP Group S.A. (i)	439,972	(22,422)	-	-	-	82,178	(113,550)	386,178	(116,406)
EFG International (i)	2,105,513	-	(78,160)	(585,332)	208,945	331,528	(29,366)	1,953,128	19,211
Goodwill - EFG International (i)	1,029,756	-	-	-	-	175,586	(132,141)	1,073,201	(107,563)
	<u>3,575,241</u>	<u>3,238,979</u>	<u>(78,160)</u>	<u>(585,332)</u>	<u>208,945</u>	<u>589,292</u>	<u>(83,029)</u>	<u>6,865,936</u>	<u>(114,043)</u>
<b>Total</b>	<u>5,219,583</u>	<u>3,607,996</u>	<u>(217,232)</u>	<u>(585,332)</u>	<u>211,738</u>	<u>589,292</u>	<u>36,542</u>	<u>8,862,587</u>	<u>4,800</u>

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

(i) The difference between equity pick up in subsidiaries and net income of subsidiaries refers to the exchange rate variation.

(ii) During the year ended on December 31, 2017, the investment in BTG Pactual Holding S.A.R.L., was transferred to securities.

(iii) See note 2.

(iv) Includes effects recognized by EFG in its Shareholders' Equity, comprised by cumulative translation adjustments, as well as gains related to pension plans.

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

### 14. Intangible assets

	Changes in Intangible assets					2018
	2017	Acquisitions / Transfer	Write off	Amortization expenses	Exchange variation	
Goodwill	-	-	-	-	-	-
Cost	1,020,698	-	(1,056,936)	-	36,238	-
Amortization	(1,020,698)	-	1,056,936	-	(36,238)	-
Other intangible assets	<b>205,833</b>	<b>12,857</b>	<b>(15,830)</b>	<b>(34,182)</b>	<b>63,258</b>	<b>231,936</b>
Cost	467,698	12,857	(38,830)	-	56,194	497,919
Amortization	(261,865)	-	23,000	(34,182)	7,064	(265,983)
Total	<u>205,833</u>	<u>12,857</u>	<u>(15,830)</u>	<u>(34,182)</u>	<u>63,258</u>	<u>231,936</u>

The intangible assets amortization period is 5 years.

### 15. Fund raising and loans and onlending

#### a. Summary

	2018						2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits	20,950,087	10,626,239	8,716,845	1,471,309	57,431	78,263	9,178,313
Open market funding	35,574,986	32,997,048	2,185,986	176,328	102,043	113,581	33,890,221
Funds from securities issued and accepted	14,396,303	1,255,950	1,783,023	6,058,264	4,534,969	764,097	10,289,546
Loans and borrowings	4,969,610	1,423,862	501,591	363,227	338,553	2,342,377	4,729,925
Subordinated debts and subordinated debt eligible to equity	8,845,685	311,845	1,356,008	2,051,352	1,568,802	3,557,678	9,360,546
Total	<u>84,736,671</u>	<u>46,614,944</u>	<u>14,543,453</u>	<u>10,120,480</u>	<u>6,601,798</u>	<u>6,855,996</u>	<u>67,448,551</u>

#### b. Deposits

	2018						2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Demand deposits	287,303	287,303	-	-	-	-	441,320
Interbank deposits	378,410	119,961	174,853	5,433	-	78,163	136,840
Time deposits	20,284,374	10,218,975	8,541,992	1,465,876	57,431	100	8,600,153
Total	<u>20,950,087</u>	<u>10,626,239</u>	<u>8,716,845</u>	<u>1,471,309</u>	<u>57,431</u>	<u>78,263</u>	<u>9,178,313</u>

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### c. Open market funding

Open market funding has collateral on the following securities:

	2018					2017	
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Own Portfolio	6,279,037	5,716,904	562,133	-	-	-	9,308,876
Federal government bonds	4,416,717	4,416,717	-	-	-	-	6,723,716
Corporate securities	956,632	394,499	562,133	-	-	-	1,245,449
Foreign securities	409,313	409,313	-	-	-	-	1,339,711
Foreign government bonds	496,375	496,375	-	-	-	-	-
Third-party portfolio	22,224,352	21,651,283	425,959	45,067	102,043	-	19,055,738
Federal government bonds	20,172,962	20,172,962	-	-	-	-	18,598,342
Corporate bonds	655,281	133,940	374,231	45,067	102,043	-	364,836
Foreign securities	1,396,109	1,344,381	51,728	-	-	-	29,190
Foreign government bonds	-	-	-	-	-	-	63,370
Unrestricted portfolio (i)	7,071,597	5,628,861	1,197,894	131,261	-	113,581	5,525,607
Federal government bonds	7,044,343	5,601,607	1,197,894	131,261	-	113,581	5,144,254
Foreign securities	8,230	8,230	-	-	-	-	381,353
Foreign government bonds	19,024	19,024	-	-	-	-	-
<b>Total</b>	<b>35,574,986</b>	<b>32,997,048</b>	<b>2,185,986</b>	<b>176,328</b>	<b>102,043</b>	<b>113,581</b>	<b>33,890,221</b>

(i) From the unrestricted portfolio, R\$6,717,493 (December 31, 2017 – R\$4,770,136) refers to short position and R\$354,104 (December 31, 2017 – R\$755,471) to third-party portfolio.

### d. Funds from securities issued and accepted

	2018					2017	
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Securities – Brazil	9,583,995	1,204,689	1,663,132	4,121,459	2,589,569	5,146	6,423,836
Financial bills	6,338,228	644,616	859,521	2,300,967	2,527,978	5,146	4,772,064
Mortgage bonds/letters of credit for agribusiness	3,067,898	550,332	740,105	1,719,872	57,589	-	1,575,503
Certificates of structured transactions	177,869	9,741	63,506	100,620	4,002	-	76,269
Securities – abroad	4,812,308	51,261	119,891	1,936,805	1,945,400	758,951	3,865,710
Medium term notes	4,470,214	-	-	1,905,269	1,945,400	619,545	3,682,691
Fixed rate notes and others	342,094	51,261	119,891	31,536	-	139,406	183,019
<b>Total</b>	<b>14,396,303</b>	<b>1,255,950</b>	<b>1,783,023</b>	<b>6,058,264</b>	<b>4,534,969</b>	<b>764,097</b>	<b>10,289,546</b>

As at December 31, 2018, securities in Brazil were basically indexed to interest referenced rates (CDI) between 82% and 115% or inflation indexes (IPCA and IGPM) plus 1.2% p.a. to 8.1% p.a. (December 31, 2017 – indexed to (CDI) between 87% and 115% or inflation indexes (IPCA and IGPM) plus 1.3% p.a. to 8.4% p.a.).

On December 31, 2018, securities abroad have rates between 2.4% p.a. and 13.6% p.a. (December 31, 2017 – between 3.17% p.a. and 8.0% p.a.).

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### e. Loans and onlending

	2018						2017
	Total	Up to 90 days	90 to 365 days	1 to 3 years	3 to 5 years	Over 5 years	Total
Loans abroad	2,182,435	1,394,538	428,949	192,974	165,974	-	1,920,118
Foreign currency	787,897	-	428,949	192,974	165,974	-	147,097
Loans abroad	1,394,538	1,394,538	-	-	-	-	1,773,021
Loans - Brazil	-	-	-	-	-	-	75,391
Loans	-	-	-	-	-	-	75,391
Borrowings in Brazil	2,787,175	29,324	72,642	170,253	172,579	2,342,377	2,734,416
FINAME/BNDES	2,787,175	29,324	72,642	170,253	172,579	2,342,377	2,734,416
Total	4,969,610	1,423,862	501,591	363,227	338,553	2,342,377	4,729,925

On December 31, 2018, securities abroad have rates between 0.50% p.a. and 9.23% p.a. (December 31, 2017 – between 0.16% p.a. and 8.54% p.a.).

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

Type - original currency	Issued amount (original currency)	2018			2017	
		Issued	Maturity	Total compensation a.a.	Net amount	Net amount
Financial bills - R\$ (i)	4,161,000	15/04/2011	15/04/2021	Inflation plus fixed rates	3,701,867	4,808,485
Subordinated debt - US\$	800,000	28/09/2012	15/09/2022	5.75%	1,564,289	1,508,752
Subordinated debt eligible to equity - US\$ (ii)	1,300,000	12/09/2014	Callable at September 2019	8.75%	3,579,529	3,043,309
Total					8,845,685	9,360,546

- (i) Financial bills have different maturities and have interests and principal generally amortized every six months beginning as at 2016.
- (ii) The Bank cancel a total amount equivalent to US\$300 million in Senior 2020 bonds and US\$350 million in Tier II Subordinated 2022 bonds which have been acquired since 2015. Further, on October 2017, Banco received an authorization from Brazilian Central Bank to repurchase no later than December 1st 2017 up to US\$390 million of its perpetual bond - TIER 1 Capital.

## 16. Other obligations

### a. Social and statutory

	2018	2017
Dividends and profit sharing payable	607,971	612,403
Employees' profit sharing	623,319	678,304
Total	1,231,290	1,290,707
Current	1,231,290	1,290,707
Long term	-	-

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### b. Tax and social security

	<u>2018</u>	<u>2017</u>
Tax and contributions to be collected	101,386	189,681
Tax and contribution payable (i)	613,749	2,301,464
Deferred social contribution and income tax (Note 18)	78,613	81,288
Deferred PIS and COFINS	858	10
Total	<u>794,606</u>	<u>2,572,443</u>
Current	485,211	2,480,875
Long term	309,395	91,568

(i) During the year ended December 31, 2017, in order to resolve tax disputes related to the administrative proceeding that deals with the partial tax amortization of goodwill arising from the acquisition of the then named Banco Pactual S.A. by UBS AG in 2006 (as described in Note 17), the Bank joined the Special Tax Regularization Program ("PERT"), pursuant to Executive Decree 783, of May 31, 2017 and Executive Decree 798, of August 31, 2017.

Pursuant to the terms of the agreements related to the Acquisition and the Private Placement agreement of 2010, the financial costs of said adherence to PERT were borne by UBS AG and BTG Pactual Holding S.A., respectively, as approved by the Meeting of BTG Pactual's Board of Directors, and there will be no financial impact on the Bank.

### c. Sundry

	<u>2018</u>	<u>2017</u>
Payable for acquisition of assets and rights (i)	1,015,630	1,074,677
Accounts payable - personnel	327,064	178,929
Provision for contingent liabilities	1,648,713	2,053,233
Other creditors - Brazil	3,943,926	2,678,845
Other creditors - Abroad	20,937	20,810
Allowance for guarantees	212,268	261,855
Obligations related to transferred loans	6,318	6,318
Other	13,678	22,522
Total	<u>7,188,534</u>	<u>6,297,189</u>
Current	1,122,908	386,849
Long term	6,065,626	5,910,340

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

## 17. Contingent assets and liabilities and legal obligations

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

### a. Contingent assets

As at December 31, 2018 and 2017, the Bank did not record contingent assets.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

#### i. Labor provisions

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

#### ii. Civil provisions

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

#### iii. Tax and social security provisions

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

### c. Breakdown and changes in provisions

The Bank's management is challenging the constitutionality of certain procedures regarding federal taxes, in addition to being party to legal, tax and civil proceedings. Based on the opinion of its legal counsel, management considers that the provisions recorded for such proceedings at December 31, 2018 are appropriate to cover probable losses arising therefrom.

The provisions recognized and their changes are as follows for the year ended December 31:

	2018				2017
	Tax	Civil	Labor	Total	Total
Balance at the beginning of the year	1,727,046	275,348	50,839	2,053,233	2,066,244
Recognition	78,398	88,931	13,373	180,702	246,776
Write-off	(333,266)	(238,668)	(13,288)	(585,222)	(259,787)
Balance at the end of the year	<u>1,472,178</u>	<u>125,611</u>	<u>50,924</u>	<u>1,648,713</u>	<u>2,053,233</u>
Other contingencies and Provision for contingent liabilities (Note 16 (c))				1,648,713	2,053,233

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

The nature of the main provisions is presented below:

### **i. Suspended payment taxes and other taxes liabilities (Note 16(b))**

BTG Pactual Group has been challenging in court the legal nature of some taxes and contributions. The amounts relating to legal obligations and contingencies assessed a probable 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, 2018, the Bank was part to taxes lawsuits with a possible outcome, which were not recorded in provision. The descriptions of the main lawsuits are as follows:

- Lawsuits relating to the payment of profit sharing, challenging the payment of social security contribution on the amounts and non-deductibility of income tax and social contribution tax base. The amount claimed is R\$483 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.
- Lawsuits relating to the demutualization and IPO of B3 S.A., challenging the taxation of PIS and Cofins on revenues earned from the sale of shares of the companies previously mentioned. The amount claimed is R\$26 million. Part of this amount is security by indemnity clause, as it refers to the period before the acquisition of the Bank by the current controllers.
- On December 2015, the Bank received tax assessment in the amount of R\$2,026 million, which refers to 2010 and 2011, alleging that our use of the goodwill originated in the acquisition of Pactual by UBS, held on 2006, and in the buyback of Pactual by BTG, on 2009. A defense was filed against this tax assessment, which is awaiting decision of the Administrative Council of Tax Appeals. In addition, on December 2017, the Bank received other tax assessment in the amount of R\$845 million, which refers to 2012, which was considered undue the goodwill originated on the Bank acquisition by UBS, on 2006, the goodwill originated the repurchase byh the Bank on 2009 and the goodwill originated in the private subscription of shares made by investors through the copa Prince in 2011. A defense was filed against this assessment, pending a second administrative decision. In December 2018, the Bank received a tax assessment in the amount of R\$420 million, related to the period of 2013. A defense was filed against this assessment pending a decision of the first administrative instance. As a result, the Bank does not expect to incur any losses (other than the costs of the appeal) in connection with this matter, and have not established (and do not expect to establish) any related reserves on our financial statements. In addition to our assessment as to the validity of this tax assessment, in the event that we incur losses in connection with this matter, we believe we are entitled to be indemnified by third parties and also by our parent company in relation to the first and second tax assessments, respectively. Accordingly, in no event we expect to incur any material losses in connection with this matter.

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

- The Holding Internacional S.A. received a tax assessment of income tax paid abroad, and compensated in Brazil on 2012 in the total amount of R\$151 millions. Against the booking, Holding presented an administrative appeal, which awaits trial in first instance. On June 2018, Holding Internacional was notified of the result of the diligence in first instance that recognized partial compensation of foreign earnings in the amount of R\$43 million. In December 2018, the first administrative instance judged the appeal of the Holding Internacional unfavorable. Against this decision, an appeal was filed to the second administrative instance.
- On December 2017, the Bank received a tax assessment which it is discussed insufficient recollection of PIS and COFINS and imposes fine isolated, referring to the year of 2012, in the amount of R\$183 millions. Against the booking, administrative appeal was presented, which awaits trial in second instance.
- On December 2017, in the capacity of the Banco Pan S/A sponsor, the Bank received a tax assessment-IRRF infringement allegedly due to the sale of investment in Brazil by a foreigner, referring to the year of 2012, in the amount of R\$73 millions. Against the booking, administrative appeal was presented, which awaits trial in second instance.
- On December 2017, the Bank received a tax assessment that seeks to collect income tax on the supposed capital gains in corporate incorporation, when One Properties was incorporated by BR Properties, in the amount of R\$1.052 millions. Against the booking, administrative appeal was presented, which awaits trial in second instance.
- In December 2018, the Asset Manager received a tax assessment in total amount of R\$ 90 million for the years 2013 and 2014, regarding the amortized goodwill generated in the acquisition of BRFE in 2012. The administrative appeal was filed against the assessment, which is awaiting trial.
- In December 2018, the Bank was aware of the non-homologation of the negative balance of IRPJ, related to 2013, in the amount of R\$ 68 million. An administrative appeal was lodged against the decision.

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

As at the year ended December 31, 2018 and 2017, the bank was part to several civil, labor, lawsuits and other contingences with a possible outcome, which were not recorded in provisions.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### 18. Income tax and social contribution

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

	<u>2018</u>	<u>2017</u>
<b>Income tax and social contribution</b>		
Tax base	1,323,986	(139,014)
Income before taxes and profit sharing	3,146,857	1,777,874
Statutory profit sharing	(626,276)	(689,064)
Interest on equity	(1,196,595)	(1,227,824)
Total charge of income tax and social contribution at the current rates	(595,793)	55,458
Permanent (additions) / deductions in taxation calculation	268,686	229,235
Equity pick up in associated and jointly controlled companies in Brazil	218,569	220,373
Income/(loss) of foreign exchange on foreign investments	-	215,058
Dividends	31,963	22,417
Foreign Investment hedge/overhedge	-	(810,126)
Special Tax Regularization Program	-	314,519
Other Permanent (additions) / deductions	18,154	266,994
Temporary (additions) / deductions on the taxation calculation	(939,740)	(447,533)
Reversal of provision for goodwill on the acquisition of investments	-	16,847
Interest on equity	-	130,532
Fair value of securities and derivatives	(1,001,430)	(458,042)
Allowance for loan losses	(72,220)	20,271
Loss on investment abroad	2,014	-
Tax contingencies and provision for suspended-payment taxes	(12,150)	1,019
Interest on Special Tax Regularization Program	-	(152,276)
Other provisions	144,046	(5,884)
Offset of tax losses carry forward - Brazil	20,004	(39,774)
Tax and social contribution expense	<u>(1,246,843)</u>	<u>(202,614)</u>
Temporary differences		
Recognition / (reversal) of the year	515,395	437,565
Interest on equity	(9,047)	-
Recognition / (reversal) of tax losses carry forward	(20,004)	13,798
Recognition / (reversal) of loss on investment abroad	531,488	448,080
Recognition of Special Tax Regularization Program	-	491,336
Other temporary differences	76,152	99,027
Expenses from deferred taxes	<u>1,093,984</u>	<u>1,489,806</u>
Total revenues / (expenses)	<u>(152,859)</u>	<u>1,287,192</u>

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

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

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

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	427,642	-	(138,355)	289,287
<b>Total</b>	<b>4,411,458</b>	<b>2,563,732</b>	<b>(1,581,447)</b>	<b>5,393,743</b>
Income tax and social contribution	2016	Recognition	Realization (i)	2017
Tax loss carryforwards	1,380,635	438,498	(841,784)	977,349
Interest on equity	400,500	-	(130,532)	269,968
Allowance for loan losses	878,723	(605)	(259,196)	618,922
Fair value of securities and derivatives	1,372,210	567,238	(7,995)	1,931,453
Goodwill on the acquisition of investment	16,847	-	(16,847)	-
Tax contingencies and provision for suspended-payment taxes	187,143	-	(1,019)	186,124
Other temporary differences	226,853	204,652	(3,863)	427,642
	<b>4,462,911</b>	<b>1,209,783</b>	<b>(1,261,236)</b>	<b>4,411,458</b>
Recognized on stockholder's equity				
Marked-to-market evaluation of securities and derivatives	335	(335)	-	-
<b>Total</b>	<b>4,463,246</b>	<b>1,209,448</b>	<b>(1,261,236)</b>	<b>4,411,458</b>

(i) On December 31, 2018, the amount of R\$293,979 (December 31, 2017 – R\$220,213), refers to recovery paid taxes from investments abroad.

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

Description	Tax credits on temporary differences	Tax loss carry forwards	Total
2019	966,470	203,085	1,169,555
2020	717,666	214,606	932,272
2021	671,137	226,295	897,432
2022	909,077	172,340	1,081,417
2023 onwards	640,561	672,506	1,313,067
<b>Total</b>	<b>3,904,911</b>	<b>1,488,832</b>	<b>5,393,743</b>
<b>Present value</b>	<b>3,045,175</b>	<b>1,051,815</b>	<b>4,096,990</b>

Deferred income tax and social contribution liabilities amounts to R\$86,151 (December 31, 2017 - R\$81,288), according to note 16(b).

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

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### **19.Shareholders equity**

#### **a. Capital**

As at December 31, 2018, fully subscribed and paid in capital consists of 2,637,236,572 shares (December 31, 2017 – 2,681,601,772), of which 1,731,276,922 common shares (December 31, 2017 – 1,746,065,322), 456,603,310 class A preferred shares (December 31, 2017 – 486,180,110), 449,356,340 class B preferred shares (December 31, 2017 – 449,356,340), registered shares.

At Meeting of BTG Pactual's Board of Directors on September 29, 2017, was approved capital increase, in the amount of R\$171,567, with issuance of 1 class B preferred shares, both nominative and without par value. The capital increase was approved by BACEN on November 6, 2017.

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

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

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

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

#### **b. Treasury shares**

During the year ended December 31, 2018, the Bank bought own units, in connection with the approved repurchase program, in the amount of R\$328,085 (December 31, 2017 - R\$489,977), equivalent to 15,919,600 units (December 31, 2017 – 31,618,580 units). On the year ended December 31, 2018 the were R\$292,604, equivalent to 14,788,400 units cancelled (December 31, 2017 - R\$467,748, equivalent to 32,287,880 units cancelled). On December 31, 2018, 6,358,800 units (December 31, 2017 – 5,227,600 units) were held in treasury, in the amount of R\$128,544 (December 31, 2017 – R\$93,063).

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

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

### **c. Legal reserve**

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

### **d. Statutory reserve**

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

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

Established considering undistributed dividends obtained in foreign branch.

### **f. Profit distribution**

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

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

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.

As at December 31, 2017 the Bank has accrued R\$608,977, relating to interest on equity, equivalent to R\$0.23 per share, which generated R\$274,039 of tax benefit.

As at June 30, 2017 the Bank has accrued R\$630,000, relating to interest on equity, equivalent to R\$0.23 per share, which generated R\$283,500 of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2017, and the payment occurred on August 1, 2017.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### g. Reconciliation of net income and shareholders equity

	Shareholders' equity		Net income	
	2018	2017	2018	2017
<b>Banco BTG Pactual S.A.</b>	18,790,469	18,469,227	1,278,545	2,070,278
Refers to the reconciliation of shareholders' equity and income (loss) in the individual and consolidated financial statements of Banco Pan S.A.(i)	54,465	54,465	-	-
Others (ii)	-	-	1,082,239	313,585
<b>Banco BTG Pactual S.A. Consolidated</b>	<b>18,844,934</b>	<b>18,523,692</b>	<b>2,360,784</b>	<b>2,383,863</b>

(i) The consolidated information reported by Banco Pan S.A. includes its direct and indirect subsidiaries and special purpose entities, represented by credit rights investment funds (FIDCs). During consolidation of FIDCs, unrealized profit from transferred loan transactions from Banco Pan to FIDCs are eliminated, thus resulting in a difference between individual and consolidated shareholders' equity. This difference is reflected in the individual and consolidated shareholders' equity of Banco BTG Pactual S.A. due to the recognition of the investment in Pan through the equity pick up method of accounting.

(ii) The difference in net income and Stockholders' Equity between Bank financials statements and consolidated financial statements results from the record of exchange variations on investments abroad, and hedges of these investments where the functional currency is different from that of the parent company, net of the respective deferred tax assets.

## 20. Income from services rendered

	2018	2017
Management and performance fee from investment funds and portfolios	849,571	569,044
Professional services	626,140	414,526
Brokerage	222,101	158,870
Guarantees	252,368	244,431
Commission over securities placement	214,081	195,840
Other services	7,422	14,253
<b>Total</b>	<b>2,171,683</b>	<b>1,596,964</b>

## 21. Other operating income

	2018	2017
Adjustment of amounts receivable for acquisition of investments	115,909	166,609
Foreign exchange rate gains	59,718	216,737
Reversal of provision - contingencies	295,990	227,389
Monetary correction over judicial deposits	85,913	180,352
Recovery of charges and expenses	1,236	9,589
Reversal of provision - other	7,513	6,911
Other operating income	23,400	87,891
<b>Total</b>	<b>589,679</b>	<b>895,478</b>

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### 22. Other operating expenses

	2018	2017
Tax restatement expense	91,619	142,527
Foreign exchange rate losses	18,076	192,110
Allowance for other receivables without loan characteristics	46,618	51,251
Adjustment of amounts payable for acquisition of investments (i)	75,043	116,397
Fair value of assets	-	63,687
Goodwill amortization (ii)	-	166,023
Allowance for guarantee	34,370	73,191
Discounts granted in credit renegotiation	19,940	44,548
Other	18,120	195,626
<b>Total</b>	<b>303,786</b>	<b>1,045,360</b>

(i) Mainly due to the acquisition of Banco Pan S.A. and Banco Sistema S.A..

(ii) Mainly due to the of Celfin goodwill amortization.

### 23. Other administrative expenses

	2018	2017
Outsourced services and consulting	360,605	408,570
Telecommunications and data processing	268,707	225,983
Special Tax Regularization Program	-	1,632,357
Leases and condominiums	96,167	92,397
Expenses of the financial system	217,181	145,211
Advertising and public relations	67,314	47,930
Depreciation and amortization	56,683	65,214
Travel and lodging	45,841	40,612
Other	99,955	21,458
<b>Total</b>	<b>1,212,453</b>	<b>2,679,732</b>

### 24. Related parties

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

	Parent company (i)		Subsidiaries and joint controlled entities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Open market investments	-	-	-	27,171	-	27,171
Interbank investments deposits	-	-	136,601	400,058	136,601	400,058
Securities	-	-	-	49,336	-	49,336
Derivative financial instruments	-	-	8,782	72,276	8,782	72,276
Loans and Receivables	3,167,665	2,409,687	-	-	3,167,665	2,409,687
Sundry	-	-	-	-	-	-
<b>Liabilities</b>						
Interbank deposits	-	-	(77,959)	(85,704)	(77,959)	(85,704)
Time deposits	(32,251)	(59,647)	-	-	(32,251)	(59,647)
Derivative financial instruments	-	-	(77,959)	-	(77,959)	-
Securities issued abroad	-	-	(30,158)	(755,288)	(30,158)	(755,288)
Sundry	-	-	(8,782)	-	(8,782)	-
	Parent company		Subsidiaries and joint controlled entities		Total	
	2018	2017	2018	2017	2018	2017
<b>Statements of income</b>						
Financial income	-	-	9,348	228,257	9,348	228,257
Financial expenses	(13,245)	254	(131,138)	(7,401)	(144,383)	(7,147)
Other operating income / (expenses)	-	-	-	(100,700)	-	(100,700)

(i) Includes natural person.

## BANCO BTG PACTUAL S.A. and subsidiaries

Notes to the consolidated financial statements  
December 31, 2018  
(In thousands of reais, except otherwise indicated)

Total compensation paid to key management personnel totaling this period R\$60,925 (December 31, 2017 – R\$16,912) which is considered short term benefit.

### 25. Other information

#### a. Cash and cash equivalents

	2017	2016
<b>Balances at beginning of the year</b>		
Cash and cash equivalents	4,347,209	674,114
Open market investments	17,683,903	11,360,730
Interbank deposits	1,169,893	1,938,904
Total	<u>23,201,005</u>	<u>13,973,748</u>
<b>Balances of end of the year</b>		
Cash and cash equivalents	979,185	4,347,209
Open market investments	23,075,514	17,683,903
Interbank deposits	2,604,551	1,169,893
Total	<u>26,659,250</u>	<u>23,201,005</u>

#### b. Commitments and responsibilities

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

	2018	2017
Co-obligation and risks for guarantees granted	36,834,176	29,531,510
Responsibility for the management of futures and investment portfolio (i)	224,021,170	165,325,497
Securities	41,286,789	36,030,558
Securities under custody	2,697,667,631	1,116,058,327
Securities trading and brokerage	1,009,734,796	1,833,298,069
Loans contract to release	2,413,612	972,000
Commitments to be released	37,500	12,900

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

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

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

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

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

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

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

Notes to the consolidated financial statements

December 31, 2018

(In thousands of reais, except otherwise indicated)

### **26.Subsequent events**

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