

## **Management Report/Performance Comments**

**DEAR SIRs.**

We hereby present the Management Report and the consolidated financial statements of BTG Participations Ltd. ("BTGP" or the "Company"), related to years ended December 31, 2016 and 2015, prepared in accordance with the international financial reporting standards, as issued by the International Accounting Standards Board (IASB).

### **COMPANY'S ORGANIZATION**

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

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

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

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

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

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

### **Special Committee**

On December 4, 2015, the Board of Directors created a Special Committee, consisting of a majority of independent/non-executive members of the Board of Directors, to oversee and direct an internal investigation of issues raised as a result of the arrest of Mr. André Santos Esteves. The Special Committee hired the law firms Quinn Emanuel Urquhart & Sullivan, LLP and Veirano

Advogados (together, “Legal Counsel”) to conduct the independent investigation on its behalf. The Board of Directors granted the Special Committee and Legal Counsel authority to require full cooperation from the Group, its management and its employees in the investigation and unlimited access to information requested by the Special Committee and Legal Counsel.

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

### **Buyback Program**

On November 25, 2015 the Board of Directors announced its units buyback program. Since the beginning of the program 77,801,250 units have been repurchased in the total amount of R\$1,045,473 and 91,304,350 units had been canceled, in the amount of R\$974,639. On December 31, 2016, 5,896,900 units are held in treasury.

### **Corporate events**

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

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

### **Acquisitions and sales**

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

On July 29, 2016, the Company, through BTG Pactual Brazil Infrastructure Fund II LP, sold its interest in Latin America Power Holding B.V. to BTGPH Corp Hedge Fund owned by BTG Pactual International Portfolio Fund II SPC for US\$60,454 (equivalent to R\$190,810 at the time of the

transaction), via transfer of shares at carrying amount with no gains or losses recorded.

On June 30, 2016, the Company, through its subsidiary BTG Equity Investments LLC, sold its interest in ADS - Advanced Disposal Service to BTGPH Corp Hedge Fund owned by BTG Pactual International Portfolio Fund II SPC for US\$94,347 (equivalent to R\$302,835 at the time of the transaction), via transfer of shares at carrying amount with no gains or losses recorded.

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

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

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

#### *BTG Pactual Group Structure*

BTG Pactual Group is comprised of both Banco BTG Pactual and BTG Pactual Participations and its subsidiary BTG Investments. The two entities are sister entities that have the same ultimate beneficial owners. Banco BTG Pactual, its principal operating company, was founded as a small broker-dealer and has grown by creating new business units and expanding the activities within these business units. BTGI is the investment vehicle for many of BTG Pactual's principal investments (including most of its non-Brazilian investments and certain of its Brazilian investments) and was originally formed in late 2008. BTGI acts as a vehicle for part of BTG Pactual's principal investment business, and has no operating activities or employees. Its assets are managed by the Asset Management unit of Banco BTG Pactual, which receives arm's length fees and commissions from BTGI for its services. Such fees and commissions are primarily recorded as revenues in Banco BTG Pactual's Asset Management unit.

#### *BTG Pactual Group Results and Financial Condition*

In the year ended December 31, 2016, total combined revenues as of the BTG Pactual Group amounted R\$8,731 million and its net income, R\$3,325 million. Net income per unit and annualized return on average shareholders' equity (ROAE) of BTG Pactual were R\$3.68 and 15.5%, for the year ended on such date.

As of December 31, 2016, total assets for BTG Pactual were R\$120.9 billion, and the BIS capital ratio for Banco BTG Pactual was 21.5%.

### *BTG Pactual Group Partnership*

BTG Pactual is a public company run by a meritocratic partnership model, currently with 77 partners and 153 associates, in a flat and open management structure, encouraging the exchange of ideas and teamwork.

We consider people to be our most valuable asset. It is our culture and partnership structure that allows us to attract, retain and motivate highly talented professionals. Our recruiting strategy and training are aimed at producing future partners. The culture is centered on the recognition of individual merit and a competitive compensation system that rewards teamwork, an entrepreneurial spirit and initiative. Our most valuable professionals become partners.

Every year, the stockholdings of each partner are reviewed according to the performance in the period. We believe this model (i) fosters a culture of teamwork, talent development, entrepreneurship, meritocracy and long-term commitment, (ii) strongly enhances the integration of our business units and maximizes cross-selling of our products, (iii) increases our ability to attract the best available talent, and (iv) facilitates a lean and cost efficient organizational structure.

With the exception of the Board of Directors, which includes non-executive members, all the other Directors and main executives of BTG Pactual are partners with a full-time commitment to the bank.

## **GROUP ACTIVITIES**

### *BTG Pactual Group Business Areas*

BTG Pactual Group is organized in the following business areas:

- **Investment Banking.** By means of its Investment Banking area, BTG Pactual Group offers financial and capital markets consulting services;
- **Corporate Lending.** BTG Pactual Group offers facilities, structured credit and secured loans to companies by means of its Corporate Lending area;
- **Sales and Trading.** By means of the Sales and Trading area, Grupo BTG Pactual offers products and services to a diversified group of clients within the Brazilian and international markets, including market maker services, brokerage and offsetting, as well as derivatives, interest rate, exchange, shares, energy and commodities transactions, for hedge and trading purposes;

- **Asset Management.** Through its Asset Management area, BTG Pactual Group offers fund administration services from a wide investment product portfolio in several asset types to Latin American and foreign clients;
- **Wealth Management.** BTG Pactual Group's Wealth Management area offers investment management and financial planning services, as well as investment products to high income individuals;
- **Principal Investments.** BTG Pactual Group Principal Investments area involves investment activities in a proprietary position from a broad range of financial instruments, including investments in Merchant Banking and real estate investment Brazil and investments in a variety of financial instruments in the global market, bring such investments mainly managed by BTG Pactual Group Asset Management business area; and
- **Banco Pan.** BTG Pactual Group's Banco Pan area, its commercial and consumer bank area, conducted through Banco Pan, an independent Brazilian Bank in which it holds co-control since mid-2011, has as its focus the granting of financing for the acquisition of automobiles and direct consumer credit, paycheck deductible loan, middle market and real estate loans, primarily to individuals and companies in Brazil.

BTG Pactual is an innovative global financial firm operating as a meritocratic partnership with a passion for consistently creating value for its clients and shareholders. With 30 years of experience, BTG Pactual has more than 2,000 employees, and offices spread across Latin America, United States and Europe. In December 2016, the Group shareholder's equity was R\$20.4 billion, with total assets of R\$120.9 billion, and AuM and AuA of R\$115.7, and R\$73.7 billion of Wealth under Management.

For the full year 2016, our annualized ROAE reached 15.5% and net income R\$3.325 million. Revenues went down 13% and net income 28% when compared to the previous year. During the year, we lower contribution from Sales & Trading and Asset Management when compared to 2015, partially offset by better performance in Wealth Management and Principal Investments.

Our costs continue to be under control. As a result, for the full year 2016, our cost to income ratio was 55.0%.

## **FINANCIAL STATEMENTS PRESENTATION**

### **IFRS 10 Consolidated Financial Statements – Investment Entities (Amendment)**

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

enhanced transparency in its investments to the ultimate shareholders, and users of its financial statements.

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

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

- a. An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- b. An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- c. An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

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

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

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

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

## **MARKET ANALYSIS AND ECONOMIC ENVIROMENT**

Last year was marked by several surprises on the political side across the globe. The main events were the election of Donald Trump for President of the United States and the “Brexit” victory in the UK. In the financial market, the equity and commodities prices posted a solid increase overall, while the interest rate and the exchange rate markets were mixed.

In Q4 2016, more specifically, the economic activity in the developed economies accelerated on the back of the easing in financial conditions. On the inflation front, the increase in commodities prices, in part, due to the acceleration in the economic activity and in part due to the OPEC’s decision to cut the oil production led to a rise in inflation expectations. The oil price (WTI), for instance, rose 12% in Q4 2016. As a result of a stronger economic growth and higher inflation, the yield curve in developed market started to rise in the beginning of October. The election of Donald Trump in the US (November) intensified this movement on the perspective that a potential fiscal stimulus would boost the GDP growth in that economy.

In the equity market, the S&P 500 rose 9% in 2016, the DAX index in Germany rose 7% in 2016 and the Nikkei was flat in 2016. In Latin America, the equity prices rose 13% in Mexico in 2016, 6% in Chile, 17% in Colombia and 39% in Brazil. In Brazil, the significant valuation of the asset prices in 2016 is explained by the reduction in the risk premium associated with the perspective and approval of structural reforms.

On the rates market, the 10-year Treasury Yield in the US rose 21 basis points (bp) in 2016, mainly after the US election in November, due to the upward revisions for the GDP growth and inflation. In Germany, the 10-year yield decreased 35bp in 2016 and, in Japan, 23bp. In Brazil, however, the DI contract expiring on January 25th declined another 528bp in 2016 due to the approval of the spending cap measure that is necessary to stabilize the debt in the next decade. In Chile, the 10-year swap rate decreased 62bp in 2016, in Colombia, 85bp in 2016 and Mexico it rose 156bp in 2016. The sharp increase in the Mexican yield curve reflects the depreciation of the currency, which led the Central Bank to increase the interest rate by 100bp in Q4. The perspective of a more protectionist trade policy by the US affected the Mexican asset prices given that 80% of its exports go to the US.

On the FX market, the dollar index (DXY) appreciated after the US election on the expectations of a stronger US economy. The Japanese Yen depreciated 13.4% in Q4 2016 against the USD (or +2.8%, appreciation, in 2016), the EUR depreciated 6.4% (or -3.2%, depreciation, in 2016), the Mexican Peso depreciated 6.5% (or -17% in 2016), the Chilean Peso declined 2% (or +5.5% in 2016) and the Colombian Peso 4% (+5.8%). On the other hand, the BRL appreciated 0.4% (or +22% in 2016) due to the approval of the spending cap measure. Another highlight of the year was the GBP (British

Pound) which depreciated 16.3% in 2016 against the dollar due to the Brexit. In January, part of the dollar appreciation against the major currencies was reverted as the Federal Reserve (US Central Bank) signaled that they would remain cautious regarding the pace of interest hikes due to the uncertainty around the economic policies. In addition, the fiscal package is unlikely to be approved in the short-term.

## **PERFORMANCE**

The net income of the Company increased from a loss of R\$2,099.5 million as of the year ended December 31, 2015, to a gain of R\$108.3 million in the year ended in 2016. The stockholder's equity increased from R\$723.3 million on December 31, 2015 to R\$722.6 million on December 31, 2016, as a result of: (i) currency translation adjustments, and (ii) repurchase of shares due to the Company's buyback program. This effects were partially offset by: (i) net gains for the year, and (ii) capital increase.

Increase in net income is due to the fact that in 2015, the Company presented a week performance in private equity strategy and due to the adoption of investment entity criteria.

## **PROFIT DISTRIBUTION**

The Company has not paid dividends for the year ended on December 31, 2014 and 2013.

## **CULTURAL AND SOCIAL RESPONSIBILITY**

In 2016, BTG Pactual supported cultural and social projects that promotes economic and social development in Brazil. Historically, the Bank has fostered several catalyts of human development, via Culture, Education and Social Responsibility.

### *Culture*

By promoting and divulging Brazilian art, BTG Pactual aims to share the high quality of Brazilian artistic production with its clients and partners. The Bank has a vast history of supporting the editorial production of internationally renowned artists: Beatriz Milhazes, Carlos Vergara, Goeldi, Ivan Serpa, Volpi, Adriana Varejão, Hélio Oiticica ,Flávio de Carvalho ,Manabu Mabe ,Tomie Ohtake and Sergio Camargo. We also support the Brazilian Symphonic Orchestra (OSB), the São Paulo State Symphonic Orchestra (OSESF) and Municipal Theater of Sao Paulo.

### *Education*

The Bank invests in projects that encourage the development of talents, the pursuit of excellence, meritocracy and entrepreneurialism, helping to form the country's youth and future leaders through partnerships with Endeavor, USP, Insper, Fundação Estudar (the Study Foundation) and one of the sponsors of USP's Endowment Fund.



## *Citizenship*

BTG Pactual supports numerous cultural and social projects throughout Brazil that aims to provide access to infant/child education ensuring a better quality of life. The Bank support and also encourages its employees to individually support institutions recognized for its work along with the Brazilian society. The institutions supported by BTG Pactual were: AACD, GRAACC, Fraternidade Irmã Clara, TUCCA, Lar das Crianças, Instituto Esporte e Educação, Verdescola, Alfamol and Instituto Reciclar.

## **INDEPENDENT AUDITORS**

The Company's policy to hire services not related to external audit of our independent auditors is based in the applicable regulation and on principles internationally accepted for the preservation of the auditor's independence. These principles consist of: (a) the auditor shall not audit its own work, (b) the auditor shall not perform management services at its client and (c) the auditor shall not promote the interests of its client.

The Company contracted Ernst & Young Auditores Independentes S.S. to audit its financial statements for the year ended December 31, 2016. In the period of January to December, 2016, services not related to external audit were not contract.

## **SUBSEQUENT EVENTS**

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

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

## **ACKNOWLEDGEMENTS**

In order to maintain a continuous and balanced growth, the Company would like to thank its customers, employees and market partners for the trust, dedication and continuous support.