

Interim Condensed Financial Statements

BTG Pactual Participations Ltd.

March 31, 2017

with independent auditor's review report

BTG Pactual Participations Ltd.

Interim condensed financial statements

As of March 31, 2017

Content

Independent auditor's review report	1
Interim condensed balance sheets	3
Interim condensed statements of income	4
Interim condensed statements of comprehensive income	5
Interim condensed statement of changes in shareholders' equity	6
Interim condensed statements of cash flows	7
Notes to the financial statements	8



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

Tel: +55 11 2573-3000

A free translation from Portuguese into English of the independent auditor's review report on interim condensed financial statements prepared in accordance with the international accounting standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB.

Independent auditor review report

To the Shareholders and Management of
BTG Pactual Participations Ltd.

Introduction

We have reviewed the interim condensed financial statements of BTG Pactual Participations Ltd. (“Company”) for the three-month period ended March 31, 2017, which comprise the interim condensed balance sheet as of March 31, 2017 and the related interim condensed statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the three-month period then ended, and a summary of significant accounting practices and other explanatory notes.

Management is responsible for the preparation and fair presentation of this interim condensed financial statements in accordance with the international accounting standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB. Our responsibility is to express a conclusion on this interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Revisão de Informações Intermediárias Executada pelo Auditor da Entidade and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements referred to above have not been prepared, in all material respects, in accordance with the international accounting standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB.

São Paulo, May 12, 2017.

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

A handwritten signature in black ink, appearing to read 'Flávio Serpejante Peppe', with a vertical line extending downwards from the end of the signature.

Flávio Serpejante Peppe
Accountant CRC – 1SP 172.167/O-6

BTG Pactual Participations Ltd.

Interim condensed balance sheets

As of March 31, 2017 and December 31, 2016

(In thousands of reais)

Assets	Note	03/31/2017	12/31/2016
Cash and cash equivalents	5	-	107
Investment entity portfolio	6	607,716	722,527
Total assets		607,716	722,634
Shareholders' equity			
Capital stock and share premium	7	1,504,802	1,504,802
Treasury shares	1, 7	(43,198)	(17,991)
Other comprehensive income		396,906	418,648
Accumulated losses		(1,250,794)	(1,182,825)
Total shareholders' equity		607,716	722,634
Total liabilities and shareholders' equity		607,716	722,634

The accompanying notes are an integral part of these interim condensed financial statements.

BTG Pactual Participations Ltd.

Interim condensed statements of income

Quarters ended March 31, 2017 and 2016

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

	Note	<u>03/31/2017</u>	<u>03/31/2016</u>
Loss on investment entity portfolio measured at fair value	9	(67,864)	(22,593)
Other operating income	10	-	1,007
Operating loss		<u>(67,864)</u>	<u>(21,586)</u>
Administrative expenses	11	(105)	(183)
Loss for the quarter		<u>(67,969)</u>	<u>(21,769)</u>
Loss attributed to:			
Controlling shareholders		(67,969)	(21,769)
Loss per share (basic and diluted - R\$)	8	(0.09)	(0.03)

The accompanying notes are an integral part of these interim condensed financial statements.

BTG Pactual Participations Ltd.

Interim condensed statements of comprehensive income

Quarters ended March 31

(In thousands of reais)

	<u>03/31/2017</u>	<u>03/31/2016</u>
Loss for the quarter	(67,969)	(21,769)
Other comprehensive loss not to be reclassified to profit or loss:	<u>(21,742)</u>	<u>(43,424)</u>
Currency translation adjustments	(21,742)	(43,424)
Total comprehensive loss for the quarter	<u><u>(89,711)</u></u>	<u><u>(65,193)</u></u>
Total comprehensive loss attributed to:		
Controlling shareholders	(89,711)	(65,193)

The accompanying notes are an integral part of these interim condensed financial statements.

BTG Pactual Participations Ltd.

Interim condensed statement of changes in shareholders' equity

Quarters ended March 31, 2017 and 2016

(In thousands of reais)

	Note	Capital stock and share premium	Other comprehensive income from Company	Treasury shares	Accumulated losses	Total shareholders' equity
Balance as of December 31, 2015		1,328,880	600,930	(32,665)	(1,173,856)	723,289
Repurchase of shares of treasury shares	1, 7	-	-	(57,509)	-	(57,509)
Cancellation of treasury shares	1, 7	-	-	57,968	(57,968)	-
Loss of the quarter		-	-	-	(21,769)	(21,769)
Currency translation adjustments		-	(43,424)	-	-	(43,424)
Balance as of March 31, 2016		1,328,880	557,506	(32,206)	(1,253,593)	600,587
Balance as of December 31, 2016		1,504,802	418,648	(17,991)	(1,182,825)	722,634
Repurchase of shares of treasury shares	1, 7	-	-	(25,207)	-	(25,207)
Loss for the quarter		-	-	-	(67,969)	(67,969)
Currency translation adjustments		-	(21,742)	-	-	(21,742)
Balance as of March 31, 2017		1,504,802	396,906	(43,198)	(1,250,794)	607,716

The accompanying notes are an integral part of these interim condensed financial statements.

BTG Pactual Participations Ltd.

Interim condensed statements of cash flows

Quarters ended March 31, 2017 and 2016

(In thousands of reais)

	<u>Note</u>	<u>03/31/2017</u>	<u>03/31/2016</u>
Operating activities			
Loss for the quarter		(67,969)	(21,769)
Adjustments loss for the quarter			
Losses from investment entity portfolio measured at fair value	9	67,864	22,593
Currency translation adjustments		(21,742)	(43,424)
Adjusted loss for the quarter		(21,847)	(42,600)
(Increase)/decrease in operating assets, net			
Investment entity portfolio		46,947	101,846
Due to brokers		-	(540)
Cash provided by operating activities		25,100	58,706
Financing activities			
Repurchase of treasury shares		(25,207)	(57,509)
Cash used in by financing activities		(25,207)	(57,509)
Increase / (decrease) in cash and cash equivalents		(107)	1,197
Balance of cash and cash equivalents			
At the beginning of the quarter		107	-
Foreign exchange gains on cash and cash equivalents			
at the end of the quarter		-	1,197
Increase / (decrease) in cash and cash equivalents		(107)	1,197

The accompanying notes are an integral part of these interim condensed financial statements.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

1. Operations

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

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

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 86,530,430 units have been repurchased in the total amount of R\$1,436,909 and 71,904,350 units had been canceled, in the amount of R\$1,218,299 (BTG Pactual: R\$ 974,639 and BTGP: R\$ 243,660). On March 31, 2017, 14,626,080 (December 31, 2016: 5,896,900) units are held in treasury.

New unit programs

On February 14, 2017 the Board of Directors have approved two new unit programs, which units will be traded at the BM&F BOVESPA, comprised exclusively by 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 BBTG12 ticker symbol, comprised of one Brazilian depository receipt ("BDR") representing one class A share and one BDR representing two class B shares issued by BTGP. Holders of the current units traded under the ticker symbol BBTG11 will be able to opt, should they wish to do so, to migrate all or part of their BBTG11 Unit holdings toward the new BPAC11 and BBTG12 units.

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, as described in note 7.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

Acquisitions and sales

On December 31, 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 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"). By the time these financial statements were issued, BTGI, through one of its subsidiary, among other commitments, had loans in the amount of R\$1,217 million, subsequent to the acquisition of a portion of Leader's liabilities in the process of restructuring its debts. The sale price of the shares corresponds to a symbolic value and the Company will be entitled to receivables deriving from Leader's future results. The sale of Leader was concluded on July 28, 2016.

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 May 12, 2017 and they contain a true and fair view of the financial position and results of the Company.

2. Presentation of financial statements

The Company's financial statements were prepared and are being presented in accordance with the International Accounting Standard (IAS 34) – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB). The items included in the financial statements of each of the businesses of the Company are measured using the currency of the primary economic environment in which the company operates ("functional currency"). The Company's functional currency is the U.S. Dollar, since the majority of the Company's business transactions are in the mentioned currency. The subsidiaries functional currency generally corresponds to the currency from its country.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

These interim condensed financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Company's financial statements for the year ended December 31, 2016.

a. Early Adoption of IFRS 9 – Financial Instruments

The Company decided to early adopt, and with prospective effects, IFRS 9 – Financial Instruments with the date of initial application of January 1, 2016 in order to reduce the complexity of its financial statements, volatility in the income statement of the gains and losses in fair value of its financial assets, and to anticipate a change that will be mandatory as of January 1, 2018. IFRS 9 determines new requirements for classifying and measuring financial assets and financial liabilities, for the credit risk impairment methodology for financial assets, and for the hedge accounting treatment.

Subsequently to the IFRS 9 early adoption without electing fair value option nor hedge accounting, the Company classified prospectively its financial assets as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) with or without recycling, or at amortized cost. The main characteristics of IFRS 9 are further described in the main accounting practices.

Apart from the aforementioned changes in classification, no significant impact was identified for the Company's financial statements for the year ended on December 31, 2016, as of January 1, 2016, date of the IFRS 9 early adoption.

b. Application and significant judgments

The preparation of the condensed interim financial statements in accordance with IFRS requires Management to make estimates and assumptions that may affect the reported balances of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the year. Their judgments are particularly relevant in the determination of fair values of financial assets and liabilities, allowances for loan losses and other receivables, impairment of non-financial assets, realization of deferred income taxes, assets and liabilities and the assessment of the need for provisions for contingent liabilities. Estimates are based on historical experience and various other factors that Management believes to be reasonable under the circumstances. Actual results may differ from those estimates.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in Note 3, specifically regarding the classification of financial assets, the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

c. Revised IFRS pronouncements

The following standards have been adopted as of and for the quarter ended March 31, 2017:

• Annual improvements

The “Annual Improvements to IFRSs” for the 2012-14 annual improvement cycles were issued September 25, 2014 and their adoption is required from January 1, 2016.

The Company assessed the possible effects and concluded that it had no material impact on its financial statements.

• IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

“Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” amends IFRS 10 and IAS 28, to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (i) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations), (ii) require the partial recognition of gains and losses where the assets do not constitute a business.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in any subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

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

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

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

3. Main accounting practices

a. Financial instruments

This section described the accounting practices adopted as a result of the early adoption of IFRS 9.

Recognition date

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

Initial recognition of financial instruments

The classification of the financial instruments at their initial recognition depends on the purpose for which they were acquired and their characteristics. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. Subsequently to the IFRS 9 early adoption without electing fair value option, the Company classified its financial assets as measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) with or without recycling or at amortized cost.

Derivatives financial instruments

Derivative financial instruments are recorded at fair value and held as assets when fair value is positive and as liabilities when fair value is negative. The changes in fair value of derivatives are recognized in the consolidated income statement "Net gains (losses) with financial instruments held for trading".

Financial assets and liabilities held for trading

Financial assets or liabilities held for trading are recorded in the balance sheet at fair value. Variations in fair value, interest revenue, expenses and dividends are recorded in "Gains (losses) on financial instruments held for trading".

Included in this classification are: debt instruments, equities and short sale that have been acquired specifically for the purpose of short term trading or repurchase.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

Financial assets and liabilities designated at fair value through profit and loss

Financial assets and liabilities classified in this category are those designed as such on initial recognition. The designation of a financial instrument at fair value through profit or loss on initial recognition is only possible when the following criteria is observed and the designation of each instrument is individually determined:

- Designation eliminates or significantly reduces the inconsistent treatment which would occur in the measurement of assets and liabilities or in the recognition of gains and losses corresponding to different ways; or
- Assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and with their performance assessed based on the fair value, as a documented strategy of risk or investment management; or
- The financial instrument contains one (or more) embedded derivative(s), which significantly modifies the cash flows that would otherwise be required by the agreement.

Financial assets and liabilities at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in the fair value and earned or incurred interest are recorded in "Net gain on financial assets or liabilities designated at fair value through profit and loss".

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income includes equities and debt instruments:

Equity Instruments

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading, nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. If it makes such election, only dividend income that does not clearly represent a recovery of part of the cost of the investment is recognized in profit or loss, with all other gains and losses (including those related to foreign exchange) recognized in other comprehensive income. These gains and losses remain permanently in equity and are not subsequently reclassified to profit or loss, even on derecognition. After derecognition of the investment, the Company may transfer the cumulative gain or loss retained in other comprehensive income to retained earnings.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

Debt Instruments

Debt instruments can be recognized under this category if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The unrealized gains or losses are recognized directly in equity as other comprehensive income. Upon the realization of the debt instrument, the unrealized gains or losses, previously recognized in the statement of comprehensive income, are reclassified to the income statement, as "Gain (losses) on fair value through other comprehensive income".

Financial assets measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets are measured at amortized cost using the effective interest rate method.

Although the Company is not expected to sell a financial asset measured under this category, as it is expected to hold it to maturity to collect contractual cash flows, the Company need not hold all of those instruments until maturity and sales may occur.

Financial liabilities at amortized cost

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the year after the Company changes its business model for managing financial assets.

Impairment of financial assets

Under IFRS 9, at initial recognition of a debt instrument, the Company needs to project its expected credit losses for the next 12 months and recognize it as an allowance for credit losses, even though no losses have yet occurred. This is a change of concept to an expected loss model, rather than an incurred loss model that was effective under IAS 39.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

If the Company is expecting a significant deterioration in the credit quality of its counterparty, it should recognize an allowance equivalent to the lifetime expected credit losses of the instrument, rather than only the 12 month expected credit losses.

Measurement

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

If the assets are no longer performing (a credit event), despite considering the expected credit losses for the lifetime of the instrument, the Company should also recognize interest revenue based on the net carrying amount, which means that the allowance should be accounted for on interest recognition.

The main evidence of deterioration of the credit quality of the counterparty are:

- the significant decline in the fair value of any security for a prolonged year;
- noncompliance with contract terms for delay of principal or interest;
- deterioration in ability to pay and operational performance;
- breach of covenants;
- significant change in the performance of the counterparty market;
- reduced liquidity of the asset due to financial difficulties the lender.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

For impairment losses related to debt instruments through other comprehensive income, such losses will be recognized on the consolidated statements of income against other comprehensive income in an account called “accumulated impairment amount”. However, if in a subsequent year occur an increase in the fair value of the financial asset that can be related to any event, the loss previously considered will be reversed in profit and losses.

The Company is required to reduce the gross carrying amount of its financial instruments when there is no reasonable expectation of recovering the contractual cash flows on the financial assets on its entirety or a portion thereof.

b. Subsidiaries

The table below presents the direct and indirect interest of the Company in its subsidiaries that have been consolidated in the financial statement up to the change in status to the investment entity:

	Country	Equity interest - %	
		3/31/2017	12/31/2016
Direct			
BTG Bermuda LP Holdco Ltd.	Bermuda	100.00	100.00
Indirect			
BTG Investments LP	Bermuda	28.61	29.28

Below is the ownership interest held by BTGI in its subsidiaries and investment funds:

Subsidiaries	Country	Equity interest - %	
		3/31/2017	12/31/2016
BTG Loanco LLC	USA	100.00	100.00
BTG Pactual Stigma LLC	USA	100.00	100.00
BTG Pactual Reinsurance Holdings LP	Bermuda	100.00	100.00
BTG Equity Investments LLC	USA	100.00	100.00
Preserve Insurance Co. Ltd	UK	100.00	100.00
Hárpia Omega Participações S.A.	Brazil	100.00	100.00
BTG Pactual Servicios S.A. de C.V.	Mexico	100.00	100.00
BTG Pactual Swiss Services S.A.	Switzerland	100.00	100.00
BTG Pactual Iberian Concessions Ltd.	UK	100.00	100.00
BTG Pactual Prop Feeder (1) S.a.r.l.	Luxembourg	100.00	100.00
BTG Pactual Investimentos Florestais S.A.	Brazil	85.86	85.86
BRPEC Agro Pecuária S.A.	Brazil	100.00	100.00
BTG Pactual Proprietary Feeder (1) Limited	Cayman	100.00	100.00
A.Z.A.S.P.E Empreendimentos e Participações S.A.	Brazil	70.00	70.00
A.Z.P.S.P.E Empreendimentos e Participações S.A. (i)	Brazil	100.00	100.00
Timber XI SPE S.A. (ii)	Brazil	22.90	22.90
Timber IX Participações S.A. (ii)	Brazil	22.90	22.90
São Lourenço Empreendimentos Florestais Ltda. (ii)	Brazil	22.38	22.38
Fazenda Corisco Participações S.A. (ii)	Brazil	22.38	22.38
BTG Pactual Santa Terezinha Holding S.A. (ii)	Brazil	21.55	21.55
Fazenda Santa Terezinha Participações S.A. (ii)	Brazil	21.55	21.55
BTGI Quartzo Participações S.A	Brazil	100.00	100.00
BTGI Safira Participações S.A	Brazil	100.00	100.00

Investment funds

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

	Country	Equity interest - %	
		3/31/2017	12/31/2016
Beira Rio Fundo de Investimento em Participações	Brazil	100.00	100.00
Bravo Fundo de Investimento em Participação	Brazil	100.00	100.00
BTG Pactual Brazil Investment Fund I LP	Cayman	100.00	100.00
BTG Pactual Absolute Return II Master Fund LP	Cayman	100.00	100.00
Turquesa Fundo de Investimento em Participação	Brazil	100.00	100.00
FII - FII Estoque Residencial Vitacon	Brazil	100.00	100.00

- (i) During the year ended on December 31, 2016, the remaining interest was transferred from FIP Iron (BTGI's structure) to Turquesa Fundo de Investimento em Participação.
- (ii) The investee equity is divided into ordinary and preferred shares. The Company has the majority of the ordinary shares and voting rights.

As described in Note 1, as from December 29, 2010, the Company became the general partner of BTGI with powers to control BTGI's financial and operating policies through the interest held in that Company.

As mentioned in Note 1, due to shares repurchase occurred in the ended March 31, 2017 and December 31, 2016, the Company holds 28.61% of equity interest in BTGI (December 31, 2016 – 29.28%).

4. Risk management

The Company's risk management involves several levels of our management team and various policies and strategies. The structure of the Company's committees/areas allows engaging the whole organization and ensuring decisions are readily implemented.

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

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

The Company seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance, tax and legal reporting systems. In addition, a number of committees are responsible for monitoring risk exposures and for general oversight of our risk management process, as described further below. The close involvement of various committees/areas (including their subcommittees) with the ongoing management and monitoring of our risks helps the Company foster its culture of risk control throughout the organization. The committees/areas consist of senior members of business units and senior members of control departments that are independent of businesses.

a. Market risk

Value at Risk (VaR) is the potential loss of value of the trading positions due to adverse movements in the market during a defined year within a specific level of confidence. Together with the Stress Test, VaR is used to measure the exposure of the Company's positions at market risk. The Company 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 years, historical data and reliable levels. The accuracy of the market risk methodology is tested through daily back testing that compares the compliance between VaR estimates and gains and losses realized.

The VaR presented below was calculated for a one-day year, level of level of confidence of 95.0% and one-year historical data. Reliable level of 95.0% means that there is 1 within 20 chances that the day trade net income remains below estimated VaR. Therefore, insufficiencies arising from net income expected from trade in a single day of trading exceeding the reported VaR would be expected to occur, on average, around once a month. Insufficiencies in a single day may exceed the VaR reported in material amounts. Insufficiencies may also occur more frequently or accrue during a longer year, 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 year 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 Company uses a stress test models as a complement to VaR method for its daily risk activities.

The table below contains daily average VaR for the periods ended:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
In millions of R\$			
Daily average VaR	0.7	0.7	2.0

The Company used to and continue to measure and evaluate the performance of substantially its entire investments entity portfolio on a fair value basis and therefore there was no significant change in the risk management framework.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

Further, it has not been possible to present detailed market risk information relating to Global Markets Investment within its investment entity portfolio. For this matter, the Company's management rely on VaR provided by its manager, which is BTG Pactual.

b. Credit risk

The following table shows the maximum exposure of the investment entity portfolio by geographic region:

	3/31/2017			
	Brazil	United States	Others	Total
Assets				
Cash and cash equivalents	85,350	-	-	85,350
Investment entity portfolio (i)	2,265,963	-	46,907	2,312,870
Investments at fair value through other comprehensive income	53,439	1,708	(19,041)	36,106
Loans and receivables	18,357	476,686	473	495,516
Derivative financial instruments	-	-	3,652	3,652
Other assets	6,372	-	-	6,372
Liabilities (ii)	-	-	(2,332,150)	(2,332,150)
Total	2,429,481	478,394	(2,300,159)	607,716
	12/31/2016			
	Brazil	United States	Others	Total
Assets				
Cash and cash equivalents	107	-	-	107
Assets				
Cash and cash equivalents	2,269	-	-	2,269
Investment entity portfolio (i)	2,303,381	-	193,865	2,497,246
Investments at fair value through other comprehensive income	66,380	1,922	(17,875)	50,427
Loans and receivables	18,766	626,980	485	646,231
Other assets	2,643	-	-	2,643
Liabilities (ii)	-	-	(2,476,289)	(2,476,289)
Total	2,393,546	628,902	(2,299,814)	722,634

(i) The amount of R\$161,878 (2016 – R\$609,784) being presented as Others mainly relates to Funds based in the Cayman Islands (ARF II and GEMM) with global market investments strategy, as described in Note 6ii.

(ii) Includes financial liabilities contracted into by BTGI (BTGP is not a counterparty of such contracts).

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

The table below states the maximum exposures to credit risk of the investment entity portfolio, classified by the counterparties' economic activities:

	3/31/2017				
	Private institutions	Companies	Individuals	Others	Total
Assets					
Cash and cash equivalents	85,350	-	-	-	85,350
Investment entity portfolio	2,005,788	802,989	-	(495,907)	2,312,870
Investments at fair value through other comprehensive income	-	55,147	-	(19,041)	36,106
Loans and receivables	-	18,830	476,686	-	495,516
Derivative financial instruments	3,652	-	-	-	3,652
Other assets	-	-	-	6,372	6,372
Liabilities (i)	-	-	-	(2,332,150)	(2,332,150)
Total	2,094,790	876,966	476,686	(2,840,726)	607,716
	12/31/16				
	Private institutions	Companies	Individuals	Others	Total
Assets					
Cash and cash equivalents	107	-	-	-	107
Assets					
Cash and cash equivalents	2,269	-	-	-	2,269
Investment entity portfolio	2,198,778	642,276	-	(343,808)	2,497,246
Investments at fair value through other comprehensive income	-	68,302	-	(17,875)	50,427
Loans and receivables	-	19,250	626,981	-	646,231
Other assets	-	-	-	2,643	2,643
Liabilities (i)	-	-	-	(2,476,289)	(2,476,289)
Total	2,201,154	729,828	626,981	(2,835,329)	722,634

(i) Includes financial liabilities entered into by BTGI (BTGP is not a counterparty of such contracts)

c. Liquidity analysis and risk

As of December 31, 2016, the Company has R\$107 in cash and cash equivalents, as described in note 5, which has no maturity, and does not have any liabilities.

As of December 31, 2017, and December 31, 2016, there is no fixed maturity for the discounted cash flows for the investment entity portfolio of the Company. The following table shows the Investment entity portfolio's liquidity position as of December 31, 2017 and December 31, 2016:

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

	3/31/2017				Total
	Up to 90 days / No maturity	90 to 365 days	1 to 3 years	Over 3 years	
Assets					
Cash and cash equivalents	85,350	-	-	-	85,350
Investment entity portfolio	1,491,086	-	-	821,785	2,312,871
Investments at fair value through other comprehensive income	-	-	-	36,106	36,106
Loans and receivables	-	14,429	-	481,087	495,516
Derivative financial instruments	3,652	-	-	-	3,652
Other assets	-	6,372	-	-	6,372
Liabilities (i)	(133,895)	(1,541,043)	(444,733)	(212,480)	(2,332,151)
Total	1,446,193	(1,520,242)	(444,733)	1,126,498	607,716

	12/31/2016				Total
	Up to 90 days / No maturity	90 to 365 days	1 to 3 years	Over 3 years	
Assets					
Investment entity portfolio	107	-	-	-	107
Assets					
Cash and cash equivalents	2,269	-	-	-	2,269
Investment entity portfolio	1,694,209	-	-	803,037	2,497,246
Investments at fair value through other comprehensive income	-	-	-	50,427	50,427
Loans and receivables	-	14,335	1,272	630,624	646,231
Other assets	-	2,643	-	-	2,643
Liabilities (i)	(1,741,996)	(39,270)	(490,679)	(204,344)	(2,476,289)
Total	(45,411)	(22,292)	(489,407)	1,279,744	722,634

(i) Includes financial liabilities entered into by BTGI (BTGP is not a counterparty of such contracts).

5. Cash and cash equivalents

Cash and cash equivalents comprises exclusively highly liquid bank deposits, in Banco BTG Pactual S.A. As at March 31, 2017 the Company do not hold bank deposits (December 31, 2016 – R\$107).

6. Investment entity portfolio

As at March 31, 2017, the investment entity portfolio measured at fair value through profit and loss is represented by the interest in BTG Holdco, a holding entity, in the amount of R\$607,716 (December 31, 2016 - R\$722,527).

On January 1, 2016, BTGI adopted IFRS 9, with prospective effects from that date onwards. For this matter, the figures disclosed below include impacts from the early adoption, as described in its financial statements.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

The relevant figures of the Company's investment portfolio, as of March 31, 2017 and December 31, 2016, are presented below:

	Note	3/31/2017 (1)	12/31/2016 (1)
Assets			
Cash and cash equivalents	(a)	298,365	7,747
Investment entity portfolio	(b)	8,085,269	8,527,913
Investments at fair value through other comprehensive income	(c)	126,220	172,204
Loans and receivables	(d)	1,732,212	2,206,832
Derivative financial instruments		12,766	-
Other assets		22,274	9,024
Total		10,277,107	10,923,720
Liabilities			
Derivatives		-	3,658
Financial liabilities at amortized cost	(e)	8,167,755	8,401,685
Other liabilities		3,955	61,128
Total		8,171,710	8,466,471
Shareholders' equity		2,105,397	2,457,249
Total liabilities and shareholders' equity		10,277,107	10,923,720
Investment entity portfolio reconciliation			
BTGI shareholder's equity		2,105,397	2,457,249
BTGP ownership (via BTG Holdco)		28.61%	29.28%
Subtotal		602,269	719,561
Fair value adjustment (2)		5,447	2,966
Total		607,716	722,527

(1) Balances as reported by BTGI as of March 31, 2017 and December 31, 2016.

(2) BTGI measures certain assets and liabilities at amortized cost in its financial statements, therefore a fair value adjustment is necessary upon adoption of investment entity by BTGP.

(a) Cash and cash equivalents

Cash and cash equivalents are comprised exclusively of highly liquid bank deposits.

(b) Investment entity portfolio

	As of March 31, 2017		As of December 31, 2016	
	Cost	Fair value	Cost	Fair value
Merchant Banking investments (i)	2,792,349	2,807,065	2,410,673	2,441,664
Private equity funds ("FIP")	300,507	273,921	300,507	331,498
Subsidiaries, associates and jointly controlled entities	2,491,842	2,533,144	2,110,166	2,110,166
Global markets investments (ii)	163,978	163,978	609,784	609,784
Corporate bonds (iii)	1,899,615	1,799,286	1,886,953	1,723,067
Loans (1)	5,048,518	5,048,518	5,175,817	5,175,817
Others (2)	(1,733,578)	(1,733,578)	(1,422,419)	(1,422,419)
Total	8,170,882	8,085,269	8,660,808	8,527,913

(1) Refers to loans granted by BTG Pactual Proprietary Feeder (1) Limited to BTGI. The amount is reflected as financial liabilities at amortized cost in Note 6e.

(2) Includes financial assets and liabilities held by BTGI's subsidiaries (BTGP is not a counterparty of such contracts).

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

(i) Merchant Banking investments

Merchant Banking investments consist of investments, held directly or through investment vehicles (including funds that also include third party investors), in a diversified group of portfolio companies primarily located in Brazil. Merchant Banking investments are structured generally through privately negotiated transactions with a view to disinvest in four to ten years.

As a result of the IFRS 9 early adoption, part of the Merchant Banking investments from the investment entity portfolio was reclassified as investments at fair value through comprehensive income as described in note 6c.

As of March 31, 2017 and December 31, 2016, BTGI Merchant Banking investments corresponds to private equity and real estate investments, through FIP or other investment vehicles, as disclosed below:

Merchant Banking investments	Description/Segment activity	3/31/2017		12/31/2016	
		(%) (1)	Fair value	(%) (1)	Fair value
Through FIPs:					
B&A Mineração S.A.	Development and operation of mining assets	87.8%	133,545	87.8%	165,892
BrPec Agropecuária S.A.	Ranching	100.0%	140,377	100.0%	165,606
Through subsidiaries, associates and jointly controlled entities:					
Timber XI SPE S.A.	Biological assets	22.9%	8,208	22.9%	8,042
Timber IX Participações S.A.	Biological assets	22.9%	82,244	22.9%	55,721
BTG Pactual Santa Terezinha Holding S.A.	Biological assets	21.6%	30,331	21.6%	30,363
BTG Pactual SCFLOR & Fazenda Corisco Participações S.A.	Biological assets	22.4%	1,718	23.0%	26,514
Brasil Pharma S.A. (2)	Pharmaceutical retail company	-	-	94.5%	403,912
Loans - Merchant Banking investments (3)	Others		2,410,644		1,585,614
Total			<u>2,807,066</u>		<u>2,441,663</u>

(1) The equity interest disclosed in the table above refers to the Company indirect interest.

(2) During the quarter ended March 31, 2017, BTGI has measured at nil its equity investment in BR Pharma, recording a loss of approximately R\$404MM. During the year ended December 31, 2016, BTGI, through its subsidiary BTG Pactual Prop Feeder (1) S.a.r.l., undertook a capital increase of approximately R\$400,000 in Brasil Pharma S.A. The cash proceeds were used to pay back the loan that was previously shown as "Loans – Merchant Banking investments".

(3) Includes loans subsequent to the acquisition of a portion of Leader's liabilities, as described in Note 1, and loans granted to BR Pharma in the amount of approximately R\$765MM during the quarter ended March 31, 2017.

(ii) Global market investments

A hedge fund is an investment fund that typically undertakes a wider range of investment and asset trading than other funds, but which is only open for investment from particular types of investors specified by regulators.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

These funds have hybrid portfolios composed of a mix of fixed income, equities, currencies, foreign exchange, derivatives, bonds, commodities, mortgages and interest rates. These funds usually employ a wide variety of investment strategies, and make use of techniques such as short selling and leverage.

As of March 31, 2017 and December 31, 2016, BTGI had invested in BTG Pactual Absolute Return II Master Fund LP (“ARF”) in the amount of R\$163,978 (March 31, 2016: R\$609,784). the Net Asset Value (“NAV”) of Global markets investments approximates to its fair value, which is equivalent to its cost value on the referred date.

(iii) Investment in corporate bonds

Investment in corporate bonds comprises exchanged traded corporate bonds issued by Banco BTG Pactual S.A - Luxembourg Branch, maturing December 29, 2049 and by BTG Pactual S.A. – Cayman Branch, maturing on September 28, 2022.

(c) Investments at fair value through other comprehensive income

Subsequently to the IFRS 9 early adoption, BTGI now presents part of its investment entity portfolio as investments at fair value through other comprehensive income, as shown hereunder:

	As of March 31, 2017		As of December 31, 2016	
	Cost	Fair value	Cost	Fair value
Merchant Banking investments - FIP (i)	240,555	192,782	240,555	233,247
Others (1)	(66,562)	(66,562)	(61,043)	(61,043)
Total	173,993	126,220	179,512	172,204

(1) Includes payables for management fees or loans purposes.

(i) Merchant banking investments - FIP

As of March 31, 2017 and December 31, 2016, BTGI Merchant Banking investments corresponds to private equity and real estate investments, through FIP, as disclosed below:

Merchant Banking investments	03/31/2017		12/31/2016	
	(%) (1)	Fair Value	(%) (1)	Fair Value
Through FIPs:				
AlBodytech Participações S.A.	10.3%	18,163	10.6%	54,528
Brasil Brokers Participações S.A.	4.3%	14,851	4.5%	13,643
Deep Sea Group (2)	14.7%	5,972	14.7%	6,563
Brasil Pharma S.A.	0.2%	800	0.2%	800
Auto Adesivos Paraná S.A.	29.2%	22,276	30.1%	27,810
Estre Participações S.A.	9.6%	25,862	9.7%	30,581
UOL Universo on Line S.A.	2.2%	104,858	2.3%	99,322
Total		192,782		233,247

(1) The equity interest disclosed in the table above refers to the Company indirect interest.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

(2)

(3) During the year ended in December 31, 2016, Deep Sea Group had a corporate reorganization which lead to the roll-up of BTG's interest, through its subsidiary Principal DPC Serviços Óleo e Gás S.A.

(d) Loans and receivables

	<u>3/31/2017</u>	<u>12/31/2016</u>
Partners (i)	1,595,245	2,119,612
Others	136,967	87,220
Total	<u>1,732,212</u>	<u>2,206,832</u>

(i) Loans indexed to CDI or libor, and the maturity are in general higher than 1 year. Loans to partners are provided in connection to the acquisition of shares in BTG Pactual Group. Only members acting as Executive Officers are considered related parties and for the quarter ended March 31, 2017 and year ended December 31, 2016 were not counterparties to these loans.

As of March 31, 2017 and December 31, 2016, the fair value attributed to the Loans and receivables is similar to its amortized cost.

(e) Financial liabilities at amortized cost

	<u>Maturity</u>	<u>Index</u>	<u>3/31/2017</u>	
			<u>Cost</u>	<u>Fair value</u>
Loans with financial institutions	December-17 to August-20	Libor and 1.15% to 5.3% p.a.	5,791,242	5,864,572
Medium term notes	April-17 to June-19	0.8%p.a. to 100% CDI	2,376,513	2,284,144
Total			<u>8,167,755</u>	<u>8,148,716</u>

	<u>Maturity</u>	<u>Index</u>	<u>12/31/2016</u>	
			<u>Cost</u>	<u>Fair value</u>
Loans with financial institutions	February-16 to August-20	Libor and 1.15% to 5.3% p.a.	5,959,040	6,044,445
Medium term notes	January-16 to June-19	0.8%p.a. to 100% CDI	2,442,645	2,367,369
Total			<u>8,401,685</u>	<u>8,411,814</u>

Certain issuance of the loans and medium term notes are guaranteed by BTG Pactual Holding S.A., parent company of BTG Pactual.

(f) Fair value Hierarchy

BTGP classifies its investment entity portfolio as level 3. However, the underlying assets and liabilities of this portfolio have different classification which is presented as follows:

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

(i) Investment entity portfolio

	3/31/2017			Total
	Level 1	Level 2	Level 3	
Investment entity portfolio				
Merchant Banking investments				
Private equity funds	-	-	273,921	273,921
Subsidiaries, associates and jointly controlled entities	-	2,410,644	122,501	2,533,144
Global markets investments	-	163,978	-	163,978
Corporate bonds	-	1,799,285	-	1,799,285
Loans	-	5,048,518	-	5,048,518
Others	-	(1,733,578)	-	(1,733,578)
Total	-	7,688,848	396,422	8,085,269
	12/31/2016			Total
	Level 1	Level 2	Level 3	
Investment entity portfolio				
Merchant Banking investments				
Private equity funds	-	-	331,498	331,498
Subsidiaries, associates and jointly controlled entities	-	1,585,614	524,552	2,116,128
Global markets investments	-	609,784	-	609,784
Corporate bonds	-	1,723,067	-	1,723,067
Loans	-	5,175,817	-	5,175,817
Others	-	(1,428,381)	-	(1,428,381)
Total	-	7,665,901	856,050	8,527,913

Changes in level 3 for the period ended March 31, 2017 are as follows:

	Merchant Banking investments
Balances as of December 31, 2015	1,229,469
Acquisitions	245,711
Sales	(306,754)
Losses on fair value of investment entity portfolio	(312,376)
Balances as of December 31, 2016	856,050
Losses on fair value of investment entity portfolio	(459,628)
Balances as of March 31, 2017	396,422

(ii) Investments at fair value through other comprehensive income

The summary of assets and liabilities classified in accordance with the fair value hierarchy is as follows:

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

	3/31/2017			Total
	Level 1	Level 2	Level 3	
Investments at fair value through other comprehensive income				
Merchant Banking investments - FIP	20,823	-	171,959	192,782
Others	-	(66,562)	-	(66,562)
Total	20,823	(66,562)	163,397	126,220
	12/31/2016			Total
	Level 1	Level 2	Level 3	
Investments at fair value through other comprehensive income				
Merchant Banking investments - FIP	20,205	-	213,042	233,247
Others	-	(61,043)	-	(61,043)
Total	20,205	(61,043)	213,042	172,204

Changes in level 3 for the period ended March 31, 2017 are as follows:

	Merchant Banking investments
Balances at December 31, 2015	486,705
Acquisitions	(41,514)
Losses on fair value of investment entity portfolio	(232,149)
Balances at December 31, 2016	213,042
Sales	(4,282)
Losses on fair value of investment entity portfolio	(45,364)
Balances as of March 31, 2017	163,396

(iii) Loans and receivables

Loans and receivables are presented at fair value at BTGP's level using a pricing model in which the relevant parameters are based on observable active market data. Therefore, they fall in the Fair Value Level 2 category.

(iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost are presented at fair value at BTGP's level using a pricing model in which the relevant parameters are based on observable active market data. Therefore, they fall in the Fair Value Level 2 category.

(v) Derivatives

Derivatives are presented at fair value at BTGP's level using pricing models in which current market transactions or observable data are not available and require a high degree of judgment and estimation. Therefore, they were classified as a Level 3.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

(vi) Summary of valuation techniques

There were no changes from the valuation techniques disclosed in the financial statements for the year ended in December 31, 2016.

(vii) Reclassification between levels

During the year ended on December 31, 2016, Brasil Pharma S.A was reclassified from Level 1 to Level 3 of the fair value hierarchy. The investment's value used to be assessed from observable market data and is now assessed according to the value resulting from the capital increase that occurred during the year ended on December 31, 2016.

During the year ended on December 31, 2016, Deep Sea Group was reclassified from Level 3 to Level 1 of the fair value hierarchy. The investment's value is now assessed according to the price of Deep Sea Supply Plc.'s shares (due to the IPO of the company), a company listed on the Norwegian Stock Exchange.

7. Shareholders' equity

a. Capital

BTGP's Board of Directors held on October 5, 2016 approved the conversion of 17,722,662 BTGI's class D shares into BTGP's 5,907,554 class A and 11,815,108 class B shares, resulting into a capital increase of R\$15,940. In the meantime, 5,907,554 BTGP's class D shares were canceled. After the conversions, BTGP, through BTG Holdco, subscribed to 17,722,662 newly issued BTGI's class C shares.

BTGP's Board of Directors, held on September 29, 2016, approved the issuance of 46,200,273 Class A Shares and 92,400,546 Class B Shares, for R\$124,434, fully subscribed by Banco BTG Pactual S.A. The new issuance of shares is a consequence of the separation of the Bank's commodity trading, as described in Note 1.

BTGP's Board of Directors held on June 1, 2016 approved the conversion of 45,873,921 BTGI's class D shares into BTGP's 15,291,307 class A and 30,582,614 class B shares, resulting into a capital increase of R\$35,548. In the meantime, 15,291,307 BTGP's class D shares were canceled. After the conversions, BTGP, through BTG Holdco, subscribed to 45,873,921 newly issued BTGI's class C shares.

As of March 31, 2017 and December 31, 2016, the Company's capital was comprised by the following class of shares:

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

	3/31/2017				
	Authorized	Issued	Par value (R\$)	Voting rights	Vote per share
Class A (i)	5,000,000,000	260,751,855	-	Yes	1
Class B (i)	10,000,000,000	521,503,710	-	No	-
Class C	1	1	10	Yes	(*)
Class D	1,000,000,000	-	0,0000000001	Yes	1
Total	16,000,000,001	782,255,566			

	12/31/2016				
	Authorized	Issued	Par value (R\$)	Voting rights	Vote per share
Class A (i)	5,000,000,000	269,481,035	-	Yes	1
Class B (i)	10,000,000,000	538,962,070	-	No	-
Class C	1	1	10	Yes	(*)
Class D	1,000,000,000	-	0,0000000001	Yes	1
Total	16,000,000,001	808,443,106			

(*) Class C shareholders have voting rights equivalent to ten times the total number of issued and subscribed A and D Class shares at any moment.

(i) Only class A and class B shareholders are entitled to economic benefits.

b. Treasury shares

In January 2017, 8,729,180 *units*, equivalent to R\$130,066, were repurchased by BTG Pactual Group (BTGP Pro-rata share: R\$ 25,207).

During the year ended December 31, 2016, the Bank accomplished the buyback units cancellation, due to approved program, in the amount of R\$70,834, equivalent to 5,896,900 *untis*.

c. Dividends

The Company did not distribute dividends for the period ended on March 31, 2017 and December 31, 2016.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

8. Loss per share

	<u>3/31/2017</u>	<u>3/31/2016</u>
Loss attributed to controlling shareholders	(67,969)	(21,769)
Weighted average per thousand shares outstanding during the year (i)	795,349	665,741
Loss per share – Basic and Diluted (in Reais)	<u>(0.09)</u>	<u>(0.03)</u>

9. Loss from investment entity portfolio measured at fair value

The breakdown of this item for the periods ended March 31, 2017 and 2016 is as follows:

	<u>3/31/2017</u>	<u>3/31/2016</u>
Gain on investment entity portfolio	(66,860)	60,140
Fair value adjustment on loans issued and granted	(1,004)	(82,733)
Total	<u>(67,864)</u>	<u>(22,593)</u>

10. Administrative expenses

	<u>3/31/2017</u>	<u>3/31/2016</u>
Professional fees (i)	(105)	(183)
Total	<u>(105)</u>	<u>(183)</u>

(i) Mainly comprised of foreign exchange on cash transactions during the periods ended March 31, 2017 and 2016.

11. Other operating income

	<u>3/31/2017</u>	<u>3/31/2016</u>
Other operating income (i)	-	1,007
Total	<u>-</u>	<u>1,007</u>

(i) Mainly related to management and performance fees of ARF II.

12. Related Parties

As of March 31, 2017, the Company has no transaction with related parties. On December 31, 2016, BTGP presented R\$107 in cash and cash equivalents with Banco BTG Pactual S.A. The balances of related-party transactions are carried out at arm's length.

No management compensation was recorded during the period ended March 31, 2017 and the year December 31, 2016.

BTG Pactual Participations Ltd.

Notes to the interim condensed financial statements

As of March 31, 2017

(In thousands of reais)

13. Subsequent events

On April 6, 2017, BTGI entered into an agreement where it committed to dispose of, for a symbolic amount, 99.99% of its interest in Brasil Pharma S.A. Subsequently, also at the same date, Brasil Pharma S.A. issued debentures, non-convertible into shares, in the amount of R\$400,000. Among other terms and conditions described in the agreement of issuance of debentures, the debenture holders will be entitled to a portion of the future results of the company. The effective conclusion of the transaction is contingent upon certain precedent conditions, including obtaining the necessary regulatory approvals.