

Management Report/Performance Comments

DEAR SHAREHOLDERS

We hereby present the Management Report and the individual financial statements of Banco BTG Pactual S.A., related to years ended December 31, 2016 and 2015, prepared according to the accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil (BACEN), from the accounting guidelines issued by Laws No. 4,595/64 (Brazilian Financial System Law) and No. 6,404/76 (Brazilian Corporate Law), with the amendment issued by Laws No. 11,638/07 and No. 11,941/09, for the accounting of the operations, related to the rules and instructions of CMN, BACEN and the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM).

OPERATING CONTEXT

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

The transactions are conducted as part of a group of institutions fully participating in the financial market, and certain transactions are intermediated by other institutions of the BTG Pactual Group.

The Bank and BTGP (the "Companies") have units listing 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.

BTG Pactual concluded its strategic plan to improve liquidity and preserve capital; and it understands that the measures implemented as well as the ones planned, particularly the sale of BSI, spin-off of commodities as well as the cost reduction program, will bring it to levels of liquidity and capital better than its historical.

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.

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

Units 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.

Liability Repurchase

During the year ended December 31, 2016 and 2015 the Bank repurchased liabilities and early liquidated liabilities, including some of the outstanding balance of senior and subordinated non-cumulative perpetual notes (tier I), with no impact on our capital base.

The Bank board of directors understands that those measures are sufficient to fulfill the Group obligation's in both the short and medium terms, and strengthen its current liquidity. The cash level, measured by high quality liquid assets was higher than as at November 25, 2015. On December 31, 2016, short-term liquidity KPI is equivalent to 129% to the Bank.

The financial statements were approved by Bank's Management on February 14, 2017, 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.

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.

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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

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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.

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

RECENT EVENTS OF THE BANK

Corporate events

In 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. Further to the process of separation of its commodity trading activities, on October 13, 2016 the Bank informed its shareholders and the market in general that (i) 596,209,676 Class A shares of Engelhart CTP were delivered to the shareholders that elected to receive equity interest in Engelhart CTP against delivery to Banco of 596,209,676 Class C Preferred Shares ("PNCs") that were allocated to such alternative, and (ii) 59,457,673 additional BBTG11 units were added, as at October 14, 2016, to the book-entry position of those shareholders that did not elect to receive equity interests in Engelhart CTP, BTG Pactual is recognizing the remaining stake as an investment in an associate entity based on the equity method.

During the year ended December 31, 2016, as part of the commodity trading activities separation process, Engelhart CTP acquired 6.1% of its own shares held by Banco. The total consideration was US\$150 million and the price was equivalent to Engelhart CTP's net asset accounting value.

Acquisitions and disposals

On December, 2016, the bank repurchased one of its energy trading entity, which had been sold on October 2015. The completion of the repurchase is subject to regulatory approvals and both transactions did not impact BTG Pactual's results.

In November 2016, BTG Pactual, together with its joint-venture partner, has entered into definitive agreements to sell 100% of the equity interests in Maybrooke Holdings S.A. ("Maybrooke"), the holding company of Ariel Re, for an estimated cash consideration of US\$235 million. BTG Pactual does not expect any material gain or loss arising from the transaction. Additional information about the transaction is described on "Subsequent Events".

In November 2016, the Bank has entered into definitive agreements to acquire 70% of the shares of Enforce Gestão de Ativos S.A. ("Enforce"), which operates in the recovery of corporate loan portfolios. The completion of the transaction is subject to regulatory approvals.

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On November 1, 2016, BTG Pactual sale 100% of BSI to EFG International (“EFG”), a global private banking and asset management firm headquartered in Zurich, Switzerland. The final transaction consideration comprises (i) CHF575 million in cash, (ii) 86.2 million EFG shares (30% stake in EFG-BSI) and (iii) CHF31 million of bonds (Level 1 subordinated debt) issued by EFG, which generated a goodwill in the amount of CHF340 million. EFG’s stake were accounted for using the equity pick up method. BSI's purchase transaction and the subsequent sale are subject to price adjustments, or indemnity for non-compliance to the transaction, including the execution of the guarantees provided by EFG shares deposits of Bank property in related account. Obligations or rights will be recognized as their effects become quantifiable and probable. The bank expect’s to incur any material losses on the sale transaction, any liabilities with material risks related to the BSI sale, is related to rights from BSI purchase.

In February 2016, BSI sold its remaining equity interest, equivalent to 49%, in B-Source, a business process outsourcer (“BPO”).

On April 20, 2016, BTG Pactual informed its shareholders and the market in general that on this date purchase and sale agreements were entered into, whereby CNP Assurances S.A. undertook to acquire BTG Pactual’s entire interest in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. for the total amount R\$700 million, subject to certain adjustments in order to reflect the Companies’ performance until the date of completion of said transactions plus any dividends to be distributed to the their respective shareholders until said completion date, in accordance with the relevant agreements. Additional information about the transaction is described on “Subsequent Events”.

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.

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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.

BANCO BTG PACTUAL PERFORMANCE

Individual Financial Statements

The net income of the Bank decreased 39.4%, from R\$5,623.5 million as of the year ended December 31, 2015, to R\$3,408.6 million in the same period in 2016. Total assets balance of the Bank decreased 16.1%, from R\$163,943.4 million as of December 31, 2015, to R\$137,489.9 million as of December 31, 2016.

PROFIT DISTRIBUTION

As at February 25, 2015, the Bank has approved the distribution of dividends, in the amount of R\$106,130, equivalent to R\$0.04 per share, which refers to prior periods. The payment of such dividends, occurred on March 10, 2015.

As at August 05, 2015, the Bank has approved the distribution of dividends in the amount of R\$47,324, equivalent to R\$0.2 per share. The payment of such dividends, occurred on August 20, 2015.

As at June 30, 2015 the Bank has accrued R\$500,000 (June 30, 2015 - R\$422,000), relating to interest on equity, equivalent to R\$0.19 (June 30, 2015 - R\$0.16) per share, which generated R\$225,000 (June 30, 2015 - R\$168,800) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2015, and the payment occurred on March 5, 2015.

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As at December 31, 2016 the Bank has accrued R\$890,000 (December 31, 2015 - R\$492,754), relating to interest on equity, equivalent to R\$0.26 (December 31, 2015 - R\$0.18) per share, which generated R\$400,500 (December 31, 2015 - R\$197,102) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on December 29, 2016.

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 catalysts 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 (OSESP) 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, Alfasol and Instituto Reciclar.

INDEPENDENT AUDITORS

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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 Bank retained Ernst & Young Auditores Independentes S.S. (EY) to audit its financial statements for the year ended December 31, 2015. In the period of January to December, 2015, services not related to external audit were contract and performed and refers to: (i) advice for the preparation of legal forms for international authorities; (ii) revision of procedures for liquidity calculation for the compliance with Basel II and ICAAP requirements; and (iii) revision for procedures for transfer price. The above mentioned services amounted to R\$4.100 during the year, equivalent to 23% of audit fees.

Statement of Independent Auditors – EY

The execution of professional services not related to external audit, described above, does not affect the independence or objectivity in the conduct of the external audit examinations of Banco BTG Pactual SA, and its subsidiaries / affiliates. EY's policy in providing services not related to external audit to the Bank is based on principles that preserve the independence of the Independent Auditors, all observed in the execution of those services, including the pre-approval of the Bank's Audit Committee.

SUBSEQUENT EVENTS

On January 2017, the shareholders of BTG Pactual and BTG Pactual Comercializadora Ltda. approved, without qualification, the merger of BTG Comercializadora by the Bank. Completion of the merger is subject to regulatory approvals.

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, BTG Pactual and BTGP issued a material fact informing to the market the conclusion of the aforementioned intention.

On February 2, 2016, given that it is impossible to comply with some conditions precedent, the sale transactions of the interest entirely held by BTG Pactual in Pan Seguros S.A. and Panamericano Administração e Corretagem de Seguros e de Previdência Privada Ltda. to CNP Assurances S.A. will therefore not be concluded.

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On February 6, 2017, the sale transaction of Maybrooke equity interest, was settled.

ACKNOWLEDGEMENTS

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