

Management Report

DEAR SHAREHOLDERS

We hereby present the Management Report and the consolidated financial statements of Banco BTG Pactual S.A., related to years ended December 31, 2017 and 2016, 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 Group.

The Bank have units listing on B3 S.A. in São Paulo. Each unit issued, corresponds to 1 common share and 2 preferred shares, class A, of Bank.

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 the commodities business 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, 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 the Legal Counsel, concluded their investigation and released their final report. Based on its investigation, the Counsel found no basis to conclude that Mr. André Esteves, BTG Pactual or any of its personnel under investigation 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.

New unit programs

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

The Boards of Directors of the Companies approved, the automatic migration of all currently remaining BBTG11 unit holders to the segregated trading structure of each of the Companies, BPAC11 for Bank investors and PPLA 11 for BTGP investors. Each holder of a BBTG11 unit as of the end of the trading session on August 18, 2017, starting from the beginning of the trading session on 2 August 21, 2017, automatically hold one BPAC11 unit and one PPLA 11 unit for each BBTG11 unit previously held by such holder, without any other significant change to such holders.

Units buyback Program

On November 25, 2015 the Board of Directors announced its units' buyback program. Since the beginning of the program 109,419,830 units have been repurchased in the total amount of R\$1,535,450 and 104,192,230 units had been canceled, in the amount of R\$1,442,387. On December 31, 2017, 5,227,600 units are held in treasury.

BTG Pactual Group Results and Financial Condition

In the year ended December 31, 2017, total revenues as of the Group amounted R\$5,527 million and its net income, R\$2,384 million. Net income per unit and annualized return on average shareholders' equity (ROAE) of BTG Pactual were R\$0.84 and 16.0%, for the year ended on such date.

As of December 31, 2017, total assets for BTG Pactual were R\$126.6 billion, and the BIS capital ratio for Banco BTG Pactual was 18.0%.

Our costs continue to be under control. As a result, for the full year 2017, our cost to income ratio was 54.4%.

BTG Pactual Group Partnership

BTG Pactual is a public company run by a meritocratic partnership model, 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 is organized in the following business areas:

- Investment Banking: by means of its Investment Banking area, Group offers financial and capital markets consulting services;
- Corporate Lending: 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, Group 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, Group offers fund administration services from a wide investment product portfolio in several asset types to Latin American and foreign clients;
- Wealth Management: Group's Wealth Management area offers investment management and financial planning services, as well as investment products to high income individuals;
- Principal Investments: Group Principal Investments area involves investment activities in a proprietary position from a broad range of financial instruments, including investments in Merchant Banking, real estate investment Brazil and investments in a variety of financial instruments in the global market, bringing such investments mainly managed by Group Asset Management business area; and
- Banco Pan: an independent Brazilian Bank in which Group 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 offices spread across Latin America, United States and Europe. In December 2017, the Group shareholder's equity is R\$18.5 billion, with total assets of R\$126.6 billion, and AuM and AuA of R\$144.9, and R\$86.9 billion of Wealth under Management.

Bank Corporate events

On October 27, 2017, the Bank approved the merger of Thor Comercializadora de Energia S.A., a company whose main activity is the sale of energy, and BTG Pactual Serviços Energéticos Ltda, a company that provides financial administrative services involving the sale of energy. The completion of the transaction is subject to regulatory approvals. On January 2017, the shareholders of BTG Pactual approved without qualification, the merger of BTG Pactual Comercializadora de Energia Ltda by the Bank. On May 31, 2017, the BTG Comercializadora Ltda was merged by BTG Pactual.

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 Brazilian 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 is operating 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. Up to five years after the completion of the separation, Engelhart CTP have the option to acquire its remaining equity interest held by the Bank for its 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 the Bank 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, 2017, as part of the commodity trading activities separation process, Engelhart CTP acquired 10.62% (December 31, 2016 – 6.1%) of its own shares held by the Bank. The total consideration paid was US\$251 million (December 31, 2016 - US\$150 million) and the price was equivalent to Engelhart CTP's net asset accounting value. On December 31, 2017 the Group has a stake equivalent to 19.44% of Engelhart CTP.

Acquisitions and disposals

On November 2017, Banco Pan S.A. approved a capital increase in the amount of R\$400 million. CaixaPar assigned to Banco its rights to subscribe the capital increase and has entered into call/put options over 50% of the capital increase. The Shareholders Agreement of Banco Pan S.A. will not be modified hence CaixaPar and BTG Pactual remain as co-controllers of Banco Pan S.A. The capital increase was concluded on January, 2018.

On October 31, 2017, BW Properties S.A., through its subsidiary BW1 Morumbi Empreendimento Imobiliário Ltda., concluded the sale of the remaining portion of the WT Morumbi project for a total amount of R\$ 231.8 million. No relevant effects are expected for the Bank as a result of such transaction.

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

On November 1, 2016, BTG Pactual sold 100% of BSI to 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 CHF390 million. EFG's stake were accounted for using the equity pickup method.

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

On December, 2016, the bank repurchased Thor Comercializadora de Energia S.A., which had been sold on October 30, 2015. The completion of the repurchase is subject to regulatory approvals and both transactions did not impact BTG Pactual's results.

On 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. On February 6, 2017, the sale transaction of Maybrooke equity interest was completed, and generated a loss in the amount of R\$35 million.

On 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, in the amount of R\$19 million. On December 19, 2016, the acquisition transaction of Enforce equity interest, was approved.

On February 2016, BSI sold its remaining equity interest, equivalent to 49%, in B-Source, a business process outsourcer (“BPO”), in the amount of CHF90 million.

Market Analysis and Economic Environment

Global growth surprised on the upside in Q4 2017, intensifying a trend initiated in the previous quarter. The main surprises were observed in developed economies, driven by vibrant manufacturing and evidence of rising investment, and have accompanied by upward revisions of consensus growth estimates for the coming years as well. Forecast revisions for the American economy were largely fueled by rising expectations of Congress approving an ambitious tax reform with a pro-growth bias, which in fact occurred mid-December. These developments have favored rising energy and industrial commodity prices and have supported risk appetite in global financial markets in general. The S&P500 index appreciated 6.1% and the Nikkei 225 index rose 11.8% in the quarter.

Early November, president Trump nominated Jerome Powell to replace Janet Yellen as Fed chair once her term expired (early February 2018). As a member of the FOMC since 2012, Mr. Powell has embraced a centrist view to monetary policy, supporting Janet Yellen’s approach of gradual policy normalization. The appointment was thus well received by financial markets. Meanwhile, US core CPI inflation continued to grind higher in the fourth quarter, further confirming that the low prints observed between March and July were a temporary phenomenon.

The mark up in US growth and inflation outlook favored a reassessment of market expectations for future Fed policy in favor of a tighter policy path, closing the gap vis-à-vis the FOMC median projections. The 2-year Treasury Bond yield ended the year at 1.89% pa, up from 1.49% pa at the closing of Q3. The longer term yields did not keep up with the short end of the curve, resulting in a flattening of the US yield curve. Short term government bond yields in other developed markets also decoupled from their US equivalent. Despite the resulting wider yield differentials between the US and other major economies in the short end, the Dollar Index (DXY) depreciated 1% in Q4, reflecting primarily a 1.6% appreciation of the EUR.

In Brazil, the government did not manage to make progress on the key item of its reform agenda – the pension reform bill. That said, the improved policy macro mix has continued to yield dividends, perhaps even more visible at the margin. So, inflation remained very low, interest rates were adjusted further down and there have been clearer signs of a stronger rebound of the economy. However, given the incomplete fiscal agenda, the electoral process will still be a major force in the coming quarters and uncertainty will probably last until the very end of the race.

On the economic activity front, we expect GDP to have advanced 0.2% q/q in 4Q17, leading to a 1% rise in 2017. Industry and services are expected to advance in 4Q, while agriculture/livestock – a bright spot in 2017 as a whole – should decline (q/q). Also, coincident indicators of consumption and investments indicate a good quarter for domestic demand, implying a benign composition for 4Q GDP. Looking forward, we see upside risks to our GDP growth expectation of 2.7% in 2018, as we keep seeing convincing signs that the economy is gradually recovering, supported by the lagged effects of the monetary easing cycle.

With respect to inflation, consumer prices finished 2017 at 2.95% y/y, accelerating from the trough of the year in August (2.5%) but still symbolically below the lower bound of the inflation target tolerance band (3%). Against this backdrop, and in response to anchored inflation expectations and a sizable output gap, the Central Bank’s monetary policy committee (Copom) continued to cut the Selic benchmark interest rate, reaching 6.75% pa in early 2018. Going forward, inflation should accelerate this year, but convergence will probably be slow and the IPCA has high odds of finishing the year below 4%, still comfortably below the target (4.5%).

With respect to the external sector, the current account deficit improved a little further during the 4Q17. Such improvement continued to be explained by the increase of the 12-month trade surplus, which totaled US\$64bn in 4Q17 (US\$62bn in 3Q17). Looking at the main sources of financing, there was (i) an improvement in portfolio flows, with net outflows in the 3Q17 turning into net inflows in the 4Q17, (ii) a sizable contraction of direct investment and (iii) net issuance standing virtually flat. Finally, disbursements and amortizations stood flat in 4Q17, if compared to the negative contribution in 3Q17. In addition, the net outflows in all the remaining lines in the financial account increased from US\$46.5bn, on a 12-month window ending in 3Q17, to US\$49.5bn by the end of 4Q17. Looking ahead, a recovery of economic activity should lead imports to advance, causing a gradual weakening of the current account in the coming quarters.

Finally, on the fiscal front, the consolidated public-sector deficit finished 2017 at R\$111 billion (-1.7% of GDP). The result contrasted favorably versus the accumulated deficit in 2016 (-R\$156 billion; -2.6% do PIB). Despite the positive surprise, it is too early to celebrate the lower-than-expected deficit. Revenue performance last year benefited from strong non-recurring flows and key reforms to curb mandatory spending growth are yet to approved. So, the fiscal scenario remains challenging, with risks of not fulfilling fiscal rules in the medium term. That said, the ongoing economic recovery suggests that meeting 2018's target will be a more manageable task.

BANCO BTG PACTUAL

Performance Individual Financial Statements

The net income of the Bank decreased from R\$3,408.6 million as of the year ended December 31, 2016, to R\$2,066.1 million in the same period in 2017. Total assets balance of the Bank increase, from R\$137,489.8 million as of December 31, 2016, to R\$166,138.9 million as of December 31, 2017.

Profit Distribution

As at June 30, 2017 the Bank has accrued R\$630,000 (June 30, 2016 - R\$500,000), relating to interest on equity, equivalent to R\$0.23 (June 30, 2016 equivalent to R\$0.19) per share, which generated R\$283,500 (June 30, 2016 - R\$200,000) of tax benefit. These amounts were approved in the Special Shareholders' Meeting held on June 30, 2017, and the payment occurred on August 1, 2017.

As at December 31, 2017 the Bank has accrued R\$608,975 (December 31, 2016 – R\$890,000), relating to interest on equity, equivalent to R\$0.23 per share (December 31, 2016 - R\$0.32 per share), which generated R\$274,039 (December 29, 2016 - R\$400,500) of tax benefit.

CULTURAL AND SOCIAL RESPONSIBILITY

In 2017, 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. We also support the Orquestra Filarmônica de Minas Gerais.

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: TUCCA, Hospital do Câncer de Barretos, Fraternidade Irmã Clara, Projeto Felicidade, Fazenda História, Lar das Crianças, Instituto Esporte e Educação, Instituto Baccarelli, Fundação Ary Frauzino, Instituto Península and Hospital Pequeno Príncipe.

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 Bank retained Ernst & Young Auditores Independentes S.S. (EY) to audit its financial statements for the year ended December 31, 2017. In the period of January to December, 2017, services not related to external audit were contract and performed and refers to: (i) revision of offering memorandum; (ii) tax advice for the preparation of legal forms for international authorities; (iii) assistance in closing statements procedures under sale and purchase (BSI to EFG); and (iv) documentation of transfer pricing policies. The above mentioned services amounted to R\$3,706 during the year.

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 S.A., 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.

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.